



THE IMPORTANCE OF ISLAMIC MICROFINANCE INSTITUTIONS IN POVERTY REDUCTION

Anvar Tursunov

PhD. Dean of Extramural education faculty of

The Banking and Finance Academy of Uzbekistan

ORCID: 0000-0001-9556-4332 Email: a.tursunov@bfa.uz

Abstract: *Poverty is one of the biggest challenges of the 21st century. More than three billion people in the world live in poverty. Muslim societies are far behind the rest of the world in tackling poverty. One of the main reasons for this is the limited access to financial services. In fact, the poor will not only need loans, but will also need a variety of banking services such as loans, savings, money transfers and insurance. As commercial banks specialize mainly in megacities, microfinance institutions come to the rescue. Microcredit organizations are also divided into two groups in terms of formation and operation. These are Traditional and Islamic microcredit organizations.*

The microcredit offered by traditional microfinance institutions contains an element of usury that is prohibited by Islamic Sharia, which prevents it from being used by the Muslim population and businesses in the country. This means that the establishment of Islamic microfinance institutions will play an important role in eradicating poverty in the country.

Microfinance can be viewed in a narrow and broad sense. In the narrow sense, microfinance refers to the provision of small loans and leasing services. In a broad sense, microfinance includes a wide range of financial services, in addition to microcredit and microleasing, such as microfinance, microinsurance, money transfers, and consulting services. The provision of these services in accordance with the rules of Islamic Sharia is called Islamic microfinance. Unlike commercial banks, microfinance institutions have been established and are developing as a financial mechanism to serve low-income people. This article presents the economic necessity and importance of Islamic microfinance, as well as scientifically based proposals and recommendations for the establishment of the Islamic Microfinance Organization in Uzbekistan.

600 million people worldwide live in extreme poverty. Under the United Nations definition of poverty indicators, extreme poverty is defined as including hunger, health, shelter and other basic human needs for survival. We can see that the demand for Islamic microfinance is very high. Muslim countries have 70% of the world's natural resources, including oil, natural gas, gold, copper, and more. Most of the Islamic countries have agriculture. Nevertheless, the large number of poor people among Muslims can indicate that the zakat system does not work well, and the share of Islamic microfinance is still 1% in the total capital of Islamic finance.

The main reason for the emergence of microfinance was to reduce the level of poverty, to create an opportunity for the population with low income to use financial services, but it was later redirected as a mechanism aimed at making a profit and was used for various

purposes [2]. Until now, it is actively used not to reduce poverty, but to make financial services available to the general public. It has been recognized internationally that Islamic microfinance is more effective in reducing poverty than traditional microfinance.

In 2020, the assets of Islamic microfinance institutions were estimated at USD 156.7 billion and this figure is projected to reach USD 304.3 billion by 2026, with an annual growth rate of 11.9% during the analysis period[3].

Microfinance organizations operating on the basis of Islamic Sharia rules are called Islamic microfinance organizations. Islamic Microfinance involves providing financial services to clients using Islamic principles such as brotherhood, solidarity and partnership. In addition, business is financed on the basis of partnership between institutions and clients [6].

Microcredit offered by traditional microfinance organizations contains an element of riba, which is forbidden by Islamic Sharia, which prevents Muslim entrepreneurs from using it. To answer the question of what is the demand for Islamic microfinance, below are the 20 countries with the largest Muslim population.

Table 1

20 countries with a large Muslim population.

No	Countries	2022 Population	Muslim population	% of Muslim population
		Percentage of Muslim population in	world	
1	Indonesia	279,134,505	229,000,000	87.20%
				12.70%
2	Pakistan	229,488,994	200,400,000	96.50%
				11.10%
3	India	1,406,631,776	195,000,000	14.20%
				10.90%
4	Bangladesh	167,885,689	153,700,000	90.40%
				9.20%
5	Nigeria	216,746,934	99,000,000	49.60%
				5.30%
6	Egypt	106,156,692	87,500,000	92.35%
				4.90%
7	Iran	86,022,837	82,500,000	99.40%
				4.60%
8	Turkey	85,561,976	79,850,000	99.20%
				4.60%
9	Algeria	45,350,148	41,240,913	99.00%
				2.70%
10	Sudan	45,992,020	39,585,777	97.00%
				1.90%
11	Iraq	42,164,965	38,465,864	95.70%
				1.90%



12Morocco	37,772,756	37,930,989	99.00%	2.00%
13Ethiopia	120,812,698	35,600,000	33.90%	1.80%
14Afghanistan	40,754,388	34,836,014	99.60%	1.80%
15Saudi Arabia	35,844,909	31,878,000	97.10%	1.60%
16China	1,448,471,400	28,127,500	1.73%	1.60%
17Yemen	31,154,867	27,784,498	99.10%	1.50%
18Uzbekistan	35,382,084	26,550,000	96.50%	1.70%
19Niger	26,083,660	21,101,926	98.30%	1.00%
20Russia	145,805,947	20,000,000	13.50%	1.00%

According to the table that more than 1.5 billion Muslims live in 20 countries. The number of Muslims in the whole world is more than 1.9 billion, that is, 24.7% of the world's population.[5]

Establishment of Islamic financial services remain an urgent issue for Uzbekistan, where the majority of the population is made up of Muslims. In Uzbekistan, only non-commercial form of Islamic microfinance organization "Waqf Charitable Public Fund" operates. In the future, it will be important to develop commercial forms.

Akhuwat Islamic microfinance organization was founded in Pakistan in 2001. By now, this organization has 800 branches, 301 educational institutions, and 4.8 million users.[7]

Establishment of Islamic microfinance organizations provides the following opportunities for the country:

1. Increasing the welfare of the society by providing financial services to the population with low income;
3. to reduce poverty by providing financial services to people who do not have a source of income; (by waqf and zakat funds)
2. development and diversification of financial services for the low-income population in the country;
3. create many new jobs places;
4. increase the activity of the population in the financial market by increasing the financial literacy of the population;
5. Coordinate and upgrade infrastructure in the country by establishing a new microfinance industry providing Islamic financial services;
6. contribute to the implementation of the state program to combat poverty;
7. creating a personnel training program in a new direction.



Islamic microfinance provides financial services based on Sharia principles. Its superiority over traditional microfinance is characterized by the prohibition of riba and gharar, as well as the fact that it includes services such as zakat and sadaqah, which are provided to the extremely poor population on the condition that they are not returned. Studies have shown that Islamic microfinance is more effective in reducing poverty and increasing the welfare of society than traditional microfinance. In the development of this system, the government needs to make a special decision and implement a plan.

In summary, Islamic microfinance organization has passed the stage of establishment and formation. It is proven that Islamic microfinance more effective than traditional s in fighting against poverty. The introduction of Islamic microfinance organizations primarily serves to combat poverty and create jobs. The establishment of an Islamic microfinance institution will be an important factor for the bright future of Uzbekistan, as well as a foundation for the establishment of an Islamic window and Islamic banks, as well as a development perspective. This mechanism helps in the implementation of the social protection function of the state.

REFERENCE:

1. Susan Johnson (2009). "Microfinance is dead! Long live microfinance. Critical reflections on two decades of microfinance policy and practice". Published in Centre for Development Studies, University of Bath, UK.
2. Islamic Finance Outlook 2022 Edition. spglobal.com/ratings
3. Seibel, Hans Dieter, Wahyu Dwi Agung. 2006. "Islamic Microfinance in Indonesia." Working Paper 2006 (2).Development Research Center, University of Cologne. <http://hdl.handle.net/10419/23656>.
4. Tursunov, A. S. (2022). Islomiy mikromoliyalashtirishning kambag'allikni qisqartirishda tutgan o'rnini. Пандемиядан кейинги иқтисодиёт: рисклар, муаммолар, ечимлар» мавзuidaги ўтказиладиган халқаро илмий-амалий конференцияси мақолалар тўплами (2022 йил 30 март). Т.:ҲТТТ, 2022
5. Sema Yılmaz Genç "Poverty in muslim countries: policy recommendations over the gulf cooperation council" International Congress of Islamic economy, finance and ethics proceedings book. 2019 y. Istanbul | Turkey.
6. www.worldbank.org
7. <https://akhuwatuk.org/>
8. "World population 2021 | Population clock live"