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ISLAMIC MICROFINANCE SYSTEM AND POVERTY ALLEVIATION

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ABSTRACT: *Islamic microfinance is a finance system that follows the teachings of Shariah laws; this is a financial system that does not attract interest and promotes the welfare of its members while following the ethical business practices. This is a concept that is fast gaining prominence as a means of alleviating poverty especially in developing countries. In this paper, it has been found out that Islamic finance plays an important role in social economic development of its members without charging interest on the members. Furthermore, Islamic finance offers different ethical instruments and schemes that can be used for the purposes of microfinance. In Islamic finance, investors are allowed to determine the nature of investments that are done using their money. This paper is therefore important in understanding the concept of Islamic finance in alleviating poverty. It can be very useful for banks and financial institutions who have Muslims as part of their client base.*

KEYWORDS: Islamic System, Microfinance, Poverty

INTRODUCTION

Poverty has always been a great problem facing various communities; it is a significant hindrance to sustainable human development efforts. Poverty can be best understood as a situation where people lack the basic needs for survival including food, shelter, water, education and healthcare (Onakoya and Onakoya, 2013). The scourge of poverty affects both developed and developing nations regardless of geographical location and cultural affiliation. This is because every nation has a considerable portion of citizens who lack financial stability which is the key to acquiring the three most basic needs of survival, which include water, shelter and food. Indeed, the fact that poverty alleviation is top in the list of the Millennium Development Goals (MDGs) shows that poverty is quite widespread across the globe. The 21st century is faced with the greatest moral obstacle of poverty. To be precise, the number of people across the world living in abject poverty is over three billion (Obaidullah, 2008). It is also worth noting that the Muslim societies are the most affected groups by poverty because of two reasons. First, the Muslim world comprises of more than 1.2 billion people thus putting pressure on resources and making poverty an inevitable issue. The other reason is that the Islam world is faced with the challenge of inequality. It is this inequality coupled with low productivity that makes poverty a grave issue in the Muslim world.

Poverty has always been a complex issue that plagues the human society. Despite the introduction of several economic policies for reducing poverty, the living conditions of most people continued to deteriorate; absolute poverty levels went up; unemployed rates increased and; income distribution deteriorated. This means that previous poverty reduction strategies improved the general economic conditions such as increasing the Gross Domestic Product (GDP) without improving the living standards of the common people. This, therefore, calls for a multidisciplinary approach to poverty alleviation. Financial stability is one of the most effective measures that are undertaken to address this issue. Relying on Onakoya and Onakoya

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(2013), a stable financial environment is essential in the economic development of a nation. In other words, financial stability is an enabling force in the development of a healthy financial system that is critical for national economic development. Microfinance is a section of a financial system whose main aim is to fight poverty. According to Onakoya and Onakoya (2013), microfinance is a poverty alleviation tool that is commonly used in developing countries.

Microfinance institutions focus on the poor and low-income earners which are two groups that are highly neglected by conventional banks. This is because conventional banking focuses on maximizing profits and, therefore, requires groups that have sufficient capital. On the other hand, microfinance offers credit to the poor thus empowering them to invest in development projects and in turn emancipate themselves from poverty. Microfinance institutions are characterized by low interest rates and sometimes offer loans to their customers with no strict restrictions on collateral. This is different from conventional banks that insist on assets like log books or title deeds to be used as collateral for loans in case of any default in payment. Through the low interest rates, micro finance institutions have been able to advance credit to their customers. Given that poverty is a pressing issue in Muslim societies, Muslims have come up with microfinance institutions that are based on Islamic teachings. It is worth mentioning that Islamic microfinance systems have revolutionized microfinance by giving it a spiritual, ethical and moral aspect.

LITERATURE REVIEW

Poverty

Poverty is as old as human existence itself. Scholars have come up with volumes of literature explaining the meaning of poverty and its indicators. It is, therefore, right to say that there is no ultimate definition of poverty, or an indicator for comparing poverty in different countries. Relying on previous development studies, it is clear that various indicators were used in defining poverty. At the start of the 20th century, poverty was measured using nutritional levels and food requirements. This continued until the 1960s when income level became the standard for measuring poverty. However, the advancement of the society has changed the definition of poverty to not only include the inability to reach minimum nutrition and income levels, but also the inability to match up to the living standards of any given society. As time progressed, this definition changed to include the inability to access essential services including healthcare and education. However, it is in the 1980s when a major change in the definition of poverty was seen. According to Yonis (2012), the view of poverty expanded to include non-monetary dimensions such as isolation, poor security and social ties; powerlessness; limited participation in society affairs and; vulnerability. From this angle, poverty was seen as the inability to achieve sustainable livelihood and environment as well as the lack of women rights and empowerment. As Yonis (2012) observes, this was the 1990s view of poverty which defined poverty as the inability to enjoy a long, healthy and creative life accompanied with freedom, self-esteem, dignity and respect. All of the aforementioned definitions of poverty indicate that poverty is a situation where people lack the basic needs for survival including food, shelter, water, education and healthcare.

Furthermore, poverty can be viewed from three major perspectives. These dimensions include extreme, overall and human poverty. To begin with, extreme poverty is viewed as the inability to raise the necessary income for satisfying basic food needs. On the other hand, overall poverty refers to the inability to raise the necessary income for acquiring both food and non-food items

including clothing, shelter and energy. Finally, human poverty is the inability to access income for sustainable living. The lack of sustainable livelihoods is characterized by malnutrition; poor maternal health; high illiteracy levels; poor sanitation; poor health due to contraction of preventable diseases; and limited access to essential goods and services including communication and basic infrastructural facilities that are crucial for sustaining human life.

Factors Contributing to Poverty

In the process of coming up with poverty mitigation strategies, the first step involves the identification of the major sources of this problem. One of the major factors causing poverty is unemployment. Most poor people do not have a stable source of income for satisfying their basic needs. Most of these people are self-employed or work for low wages that cannot sustain them. In other words, unemployed and underpaid people fit in the poverty bracket since they cannot access both the food and non-food goods and services that are essential for human survival. These people are also not accorded the respect and dignity of a human being by the rest of the society since they live in deplorable conditions which are unfit for human beings.

The other major factor causing and intensifying the poverty problem is poor governance and weak national policies. This is quite a broad category considering that governance and national policies are the basis on which most national decisions are made especially those dealing with the development and distribution of wealth. In addition, it is through governance and national policies that nations devise ways of solving the poverty issue. Poverty is, therefore, a product of both national and international socio-political systems. First of all, it is through poor governance and weak national policies that unequal distribution of national assets is practiced. This is particularly true of capitalist societies where the end justifies the means. This means that the powerful people in the society use all means to amass wealth even if it means taking from others what is rightfully theirs. This is also taken to mean that each individual looks after his own interests. This is the major reason as to why most politicians put in place national policies that promote unequal distribution of national economic resources such as industries and infrastructural facilities including healthcare and transport systems.

Secondly, poor governance leads to the drafting of national policies that do not promote adequate investment in technology, education and training, which are some of the most effective strategies of reducing poverty among citizens (Yonis, 2012). Additionally, weak national policies do not promote viable economic incentives such as micro-credit proms that are critical in poverty reduction. This, then, intensifies the problem of poverty among people.

Moreover, poor governance and weak national economic policies are intensifying the poverty issue since inappropriate poverty reduction policies are being put in place. As a result, the gap between the rich and the poor is increasing. Another aspect of poor governance is the implementation of economic policies that focus solely on economic growth. These policies do not lead to poverty reduction since they do not establish the right structures for individual empowerment. This, therefore, calls for the integration of economic growth policies with individual economic empowerment measures such as introduction of micro-credits in society.

Poverty alleviation approaches

Governments, non-governmental organizations (NGOs), international organizations and other interested parties such as religious organizations have come up with several ways of mitigating the poverty issue. Ismail and Possumah (2013) acknowledge that these parties use strategies such as infrastructural development (especially transport systems for promoting agricultural

activities in the rural areas); employment creation through the establishment of small scale industries and creation of markets for rural products and; promoting good governance and administration. Poverty can be addressed using a dual approach as per the World Development Report of 1990. According to this report, poverty can be reduced through implementation of labor-intensive growth strategies that include technological and institutional innovations; development of physical infrastructure and; use of market incentives. The other aspect of this dual approach is the provision of adequate social services such as basic healthcare services and accessible primary education.

Bhuiyan et al., (2012) acknowledge that there are seven major approaches to poverty eradication. The neoclassical economics approach to poverty alleviation focuses on improving the general economic situation of a country with the belief that the benefits will trickle down to the common citizen. Resultantly, new jobs are created and more investments are made thus improving the conditions of the poor. The second approach is the culture of poverty perspective which recommends the establishment of institutions by the poor for the poor with the aim of improving their economic situation. The participatory approach is the third method used in reducing poverty. This approach advocates for the involvement of the poor in key decision making processes especially those dealing with economic development. This approach gives the poor an active role in economic development by improving access to credit services to be used for self-employment. The fourth approach is the political economy view which puts forth that the poor are not poor solely due to personal qualities, but also due to the establishment of socio-economic systems that promote unequal distribution of national assets. This approach focuses on changing these socio-political institutions to be pro poor. The Islamic approach to poverty alleviation is a strategy that uses religion and spirituality in assisting the poor. Relying on Bhuiyan et al 2012), this approach follows the teachings of Islam which advocate for doing good deeds through assisting others. It is worth noting that this approach has both a profit approach and a non-profit approach. The non profit approach to poverty alleviation revolves around charity. In Islam, charity is done through offering of Zakah, Sadaqa, Qard-hasan and Waqf (Bhuiyan et al., 2012). Finally, the profit approach to poverty alleviation in Islam encourages people to trade for profit without charging Riba (interest).

Microfinance

Microfinance can be defined as a method through which financial services are offered to those who cannot afford banking services. The microfinance field is quite young as it started in the 1970s in Latin America and South Asia where millions of poor people were granted small loans without conditions such as build up assets, collateral or buy insurance. Therefore, microfinance is on the idea of increasing the accessibility of credit to the poor who cannot afford bank credit services. In other words, microfinance focuses on maximizing social benefits unlike banking which focuses on making profits (Mirghani et al., 2011). Therefore, microfinance is one of the most effective and practical method of alleviating poverty in any society. This is because poverty is in most cases caused by economic marginalization. In fact, the UNDP in 2011 acknowledged that microfinance is the major tool of reducing poverty since through the provision of insurance, savings services and fund transfers it promotes employment, individual wellbeing, economic growth and development. Furthermore, Obaidullah (2008) observes that microfinance and Islamic finance are quite similar in several ways. Firstly, they focus on promoting the welfare of the entire society. Secondly, both encourage the poor to participate in entrepreneurship activities in order to improve their welfare. Thirdly, these two financial systems advocate for financial inclusion and participation of the poor in financial services. Finally, both are based on principles of ethics, morality and equality (Obaidullah, 2008). It is

also worth mentioning that Islamic microfinance is a combination of both microfinance and Islamic finance.

However, microfinance faces several challenges that question its role in poverty reduction. The effect of microcredit on poverty alleviation is not yet clear. Mirghani et al. (2011) also posit that the role of microfinance in poverty eradication is faced with the challenges of injustice, discrimination, exploitation, instability, high interest rates and counteractive effects on conventional financial systems. The biggest issue with the conventional microfinance system is that it is interest-based meaning that loanees have to pay back loans with interest irrespective of whether their businesses succeeded or failed. Indeed, this is where the largest difference between conventional microfinance and Islam microfinance lies; the latter advocates for interest-free financial services (Hossain, 2012).

Conventional micro-finance systems and Islamic micro-finance system

Microfinance as a term bears no solid definition. It has no single definition. However, microfinance is defined as a concept. It can be defined as a small financial service to the poverty stricken people whose access to banks is limited (Yonis, 2012). In other words, people who are served by microfinance institutions cannot get access to the established banks. Most microfinance institutions were created for the sole purpose of tackling poverty and empowering poverty stricken people in different parts of the world. Microfinance institutions provide poor people with funds to start or expand their small-scale businesses.

Microfinance is an ancient concept as exemplified by the traditional loan sharks who lend people and claim it back with interest. However, the term microfinance gained prominence in the 1970s when poor in Latin America and South Asia began their own local financial initiatives. This was in a bid to create a better and easy way of accessing loans. The idea spread like world fire and became widespread in other parts of the world, especially developing countries. One of the people known for their popularization of the microfinance programs is the Bangladeshi Nobel Laureate, Dr. Mohamed Yunus. He is credited with setting up various microfinance programs for Bangladeshi women in 1976. Dr. Yunus did this with the help of the University of Chittagong. Today, microfinance programs have enabled over 65 million poor people around the world to access business credit which require no collateral damage. Additionally, the same people have been able to build up assets and buy insurance through financial credit acquired from microfinance programs. The concept of microfinance has been utilized by various world bodies as way of combating poverty in various parts of the world. It is noteworthy that this concept has evolved into two distinct groups. These are conventional microfinance (which is similar to conventional banking) and Islamic microfinance (which resembles Islamic banking). These two concepts are share the same goals but operate slightly differently.

Conventional micro-finance

Micro-finance institutions have been in existence for over thirty years now but they gained popularity at the turn of the twenty-first century (Hassan, 2010). Micro-finance has been evolving over all these years. Today, there are numerous micro-finance banks whose role in poverty eradication cannot be gainsaid. Conventional micro-finance is the most commonly known form of micro-finance. Here, the micro-financiers operate under the assumption that the borrower who comes to them has no form of collateral. It is, therefore, the duty of the micro-financier to look for ways in which the needs of the borrower can be met. The bottom is that the micro-finance institution will end up providing the poor with loans that require no collateral

(Hassan, 2010). This means that the micro-finance institution will not attach any property of the borrower to the loan provided. The aim of providing these loans at the aforementioned rates is to help the poor set up small/micro-businesses. It is through this form credit that many poor people have been brought out of the pool of poverty. This because the businesses they set up end up providing them with a source of income. This income is usually enough to make them finically independent.

Conventional micro-finance is characterized by several general features. Relying on the United Nations Development Program, UNDP (2012) there is charged on the loans given to borrowers under conventional micro-finance. This means that when repaying the loan, borrowers will have to part with a little bit more than they borrowed. However, the interest is usually lower than the one charged by commercial banks. The UNDP (2012) further reports that the borrowers at the conventional micro-finance institutions are usually the poorest in the society. However, it is important to note that poverty rates differ from one country to another. What one country defines as poverty might differ from the view of another country. Another prominent feature of the conventional micro-finance institutions is their source of funds. The major sources are foreign donors like grants from the International Monetary Fund and the World Bank. There are also multilateral and national agencies as well as governments and central banks. Another unique source of funds for conventional micro-finance institutions is savings from their clients. It is usual for micro-finance institutions to require their borrowers to be part of an organized group. These groups act as guarantors for the borrower. The UNDP (2012) reports that micro-finance institutions pursuit defaulters through their groups. These institutions put pressure on the group to prevail on the borrower to repay his loan otherwise they would have to do it on his behalf. Failure by the group to repay will result in their suspension from the micro-finance credit programs (Obaidullah, 2008). Unlike religious-based micro-finance institutions whose focus is religious groups, conventional micro-financiers target secular social programs. Additionally, micro-financiers deduct a small amount from the principle of the loan. This deduction is called service charge. An additional feature of the conventional micro-finance loans is that they are short-term in nature. Further, the borrowers are appraised. This means that their diligence in servicing their loans qualifies the borrower to access a different and high level financial credit. For example, if the borrower initially was loaned $200 and was supposed to repay the same in 3 months, and they meet this target, the micro-finance institutions will grant the borrower the opportunity to access loans of up to $600 and so forth. This is one way in which borrowers are motivated to repay their loans. That is, they are encouraged to repay their loans because timely repayment will qualify them to graduate into another high level of borrowing.

Obaidullah (2008) observes that micro-finance generally takes different models. The first model is known as the Grameen Bank model. This model was first started in Bangladesh by the founder of Grameen Bank and Nobel Laureate Dr. Mohamed Yunus. It targets the poor women and requires them to be organized in groups of a minimum of 5 members. It also requires that the bank staff be on the field to oversee and supervise the borrowers' projects. The second model is known as the Village Bank model (Obaidullah, 2008). It is popular in Latin America and Africa. It involves an implementing agency which sets up village banks. A village bank is usually made up of about 30-50 members. The village bank is provided with external funds (capital) by the implementing agency which it uses to provide loans to its individual members. The repayment of these loans is done in weekly intervals in a period of 4 months. At the end of the aforementioned period, the village bank returns the principal of the initial capital plus interest to the implementing agency. The successful repayment of loans by village banks qualifies them for an increased loan size. The subsequent repayments of loans by members of

the village banks help them accumulate savings which they also use to provide credit to members. With time, the village banks end up becoming autonomous micro-finance institutions which are independent from the implementing agency.

Credit unions (CUs) are the third model of micro-finance. These are usually non-profit financial cooperatives which are controlled by their members but are usually linked to another bigger body. The purpose of this body is to provide encourage the formation of more CUs while at the same time monitoring their financial performance and providing training the unions with training in necessary areas. CUs survive on savings from its members. CUs are popular in Asia especially in Sri Lanka and Indonesia. The final model of micro-finance is Self-Help Groups (SHGs). It is a model that is popular in India (Obaidullah, 2008). SHGs consist of 10-15 members who pool their savings together and use them to provide credit to its members. The terms of the SHG loans differ from group to group.

Islamic micro-finance

While conventional micro-finance institutions exist in Muslim countries, they barely conform to Islamic values on finance. Yonis (2012) reports Muslim have a collective identity which born out of the values articulated by the Quran. It is these values that have motivated Islamic scholars to works towards finding Shariah-based solutions to economic problems facing Muslims all over the world. As Yonis (23) puts it, Shariah-based solutions are meant to guard the "Muslim Ummah" from the dangers posed by western culture. This is what informed the creation of Islamic micro-finance which has become very popular in the Arab world and fast creeping into non-Arab Muslim countries.

Islamic micro-finance cannot be defined without examining the principles of Islamic finance. Onakoya and Onakoya (2013) list these principles as the absence of interest (Riba), prohibition from making profits as a result of speculation (Mayseer), presence of certainty in commercial transactions (Gharar), and the absence of illegal activities in business (Halal). These principle are derived from the Quran are supposed to guide commercial activities of all Muslims. Just like conventional micro-finance institutions, Islamic Micro-finance Institutions, IMFIs, provide credit/loans to the poor albeit under different terms. Onakoya and Onakoya (2013) report that IMFIs have no inbuilt discriminative features. Anyone, regardless of their religious creed, is welcome to apply for loans as long as they meet the conditions imposed. Since both MFIs and conventional IMFIs share a common goal, that of empowering the poor in society, their potential for confusing borrowers is very real. It is, therefore, imperative to clearly their distinctions.

One of the differences between IMFIs and conventional MFIs is their source of funds. While conventional MFIs rely on low or free interest foreign donations for their capital, IMFIs depend on religious contributions through the institution of Awqaf, Zakat and other charities (Hassan, 2010). IMFIs provide loans at no interest. This is informed by the Shariah law prohibition of *Riba* (interest). The absence of interests on IMFI loans paints an unfair picture especially on the part of the lender. This is because interests take care of inflation and administrative charges. However, this taken care of by the various instruments and models created within IMFIs (Hassan, 2010). These instruments and models are created to suits the needs different types of borrowers. Besides, IMFIs loans do not come in form of cash. They are provided in the form of goods or products (UNDP, 2010). Additionally, IMFIs do not deduct any amount from the principle unlike conventional MFIs which deduct a small amount from the principle as service charge. IMFIs guard against default by engaging the in which the lender belongs. Further, the

loan can be guaranteed by the spouse of the borrower. Furthermore, Islamic ethics demand that no one should default on his creditors and therefore this principle acts as a deterrent against any urge to default. The final and most unique distinction between IMFIs and conventional MFIs is that their products are targeted towards religious groups and social groups (UNDP, 2010). The meaning of this is that despite the absence of discrimination in IMFIs products, it is only Muslims who would feel comfortable borrowing from IMFIs since their products are created in accordance with Islamic practices and values.

IMFIs consist of several models tailored to meet the needs of various sections of the poor in the society. Onakoya and Onakoya (2013) list the major ones as Mudaraba, Musharaka, Mubaraha and Wakalah. The *Mudaraba* principle requires that the IMFIs provide the funds while the borrower (who in this case is an entrepreneur) acts as the manager of the project. The losses in this kind of a venture are bone by the financer (who in this case is the IMFI).

When it comes to the *Musharaka/Musharka* model, the IMFI and the entrepreneur enter into a joint venture arrangement in which they equally share in profits and losses (Hassan 274). In most cases the entrepreneur will provide skills for the project while the IMFI will avail the funds to be used by the project. The profits and losses are shared in equal proportion. The *Murabaha* model envisions a situation where the IMFI will purchase a particular good or asset and sell it to a customer at mark-up price (Onakoya and Onakoya, 2013). The payment can be made at future date or instalments.

Although Islamic principles prohibit default on loans but it is not a sufficient deterrent to delinquency on the part of the borrower. Therefore, IMFIs need not risk their institutions' funds by providing credit where there are clear signs of potential default. If they do this, they risk running into bankruptcy, a situation that will deny credit to others who are in dire need of it. This is the reason why there was devised another model of IMF. This is the *Wakalah* model in which the IMFIs act as agents. The funds would be provided from a Zakat fund or a Non-Governmental donor. Islamic banking has been slowing evolving. It is gradually moving the confines and control by political systems like those of Iran and Sudan into a global industry driven by market forces. It is has been noted to be growing at an annual rate of 15%. International development expert have been urging investors and international development agencies to turn to Islamic Micro-finance Institutions as way of poverty eradication. Further, these experts, like Jeffrey Sachs, have been urging those who are tired of the scandal-filled conventional banking system to adopt Islamic banking (Mirghani, 2011).

Islamic financial systems and poverty alleviation

Islamic financial systems have one feature that is unique and common to all of them: they operate in an interest-free environment. Over the past thirty years, Islamic banking has witnessed tremendous growth with reported annual growth rate of 15% (Hassan, 2010). Muslims also recognize the role played by Islamic financial institutions in the eradication of poverty. However, the concept of Islamic Micro-Finance Institutions, IMFIs, was not readily welcomed by the major Islamic banking institutions. It is the success of IMFIs such as the Grameen Bank in its efforts to eradicate poverty among the poor Muslims women of Bangladesh that has changed the view of many about the role of IMFIs poverty eradication. The urge to criticize Islamic banks for their initial view of IMFIs should be ignored since their fears are not completely unfounded. Afterall, they financial institutions faced with risks similar to those that bedevil conventional banks. Poverty is a global phenomenon and it is understood differently in different parts of the world. This is because what causes poverty in one area of

the world might be slightly different from other areas. Therefore, it is important to examine the Islamic view of poverty.

Islamic view of poverty
Richness and poverty are concepts that are well deliberated upon by Quran. Relying on Ismail and Possumah (2013), poverty does not only represent material deprivation but also spiritual want. However, it is impossible to quantify spiritual want or fulfilment. Therefore, the focus of the world is usually on the sense economic of poverty. Ismail and Possumah (2013) observe that Allah (SWT) did not intend for any human being or creature to lack materially.Neither has he forbidden any one from seeking their daily bread except when what he seeks is forbidden under Shariah. Allah has everything every human being needs. What, then, is the cause of poverty?

Islam contents that poverty is caused by various structural aspects. The first of these aspects is the sinfulness of men against nature. This is only so true in this age of global warming. There have been massive destructions of natural water towers and the droughts that have persisted over the years have occasioned by the wanton destruction of the environment. Famine and droughts is the reward men get for their cruelty to nature/environment (Ismail and Possumah, 2013). The second cause of poverty is the greed and stinginess of the rich. Those who have wealth seek to amass more of it and seek no means of sharing it with the poor. The effect is that the poor remain poor while the rich continue to prosper. In other words, the poor never come out of the poverty bracket. Furthermore, Islam posits that poverty is caused by the uneven distribution of economic and political power. Such a situation creates injustice and inequality among those who have no access to power. A good example is the story of the prophet Musa and the children of Egypt (Ismail and Possumah, 2013). This is the reason why there developed and underdeveloped regions in the same country. Finally, poverty is caused by natural calamities, and wars. Such calamities turn previously rich people into beggars. Disasters such as wars turn patriotic citizens into refugees in foreign lands.

Quranic teachings clearly spell the role of each person and the state in eradicating poverty. Individuals are charged with the responsibility of helping the needy who are in their proximity, while the government is mandated with the duty of helping those citizens living in extreme penury by way of setting aside funds towards this cause (Yonis, 2012).

Poverty alleviation approaches in Islam
Relying on Ismail and Possumah (2013), Islamic view on poverty eradication is based on several aspects described in the Quran. These include "supremacy of One Good; family empowerment; Shuratic role; humans as Khalifatullah fi al-ardh; spending money; charity and voluntary services; prohibition of interest; distribution of inheritance and; Zakat" (Ismail and Possumah, 2013). Hassan (2010) goes ahead to split these aspects in the three broad categories of positive; preventive and; corrective measures to poverty eradication.

Positive measures
Islam advocates for upholding of moral and ethical standards in the areas of income growth; wealth distribution and; provision of opportunities. According to Hassan (2010), Islam discourages greed in wealth creation by advocating for controlled individual consumption behaviour that will benefit both the individual and the entire economy. The Quran stresses the need to earn an honest living. Moreover, Hassan (2010) puts forth that in the process of creating wealth, Islamic teachings guide that governments and institutions should ensure equitable

distribution of economic opportunities. Additionally, the Quran teaches that every person has a right to equal access to opportunities. In 16:19 of the Quran, Allah commands His people to practice justice and benevolence in all that they do (Hassan, 2010).

Preventive measures
Islam puts forward preventive measures whose aim is to avoid the concentration of wealth in one section of society. It seeks to have an even distribution of wealth. Towards this end, two preventive measures are put forward. The first of these measures is *Control over Ownership.* It is Muslims' belief that Allah possesses ownership of all things. What Allah did was to put man in charge of the earth's resources (Hassan, 2010). This means that man holds everything in trust. Islamic economies forbid private ownership of resources that are supposed to be used by the public. The state is charged with responsibility of holding public property and providing access to all citizens.

The second preventive measure is the Prevention of Malpractice. Islam prohibits corrupt practices such as gambling, bribery, hoarding, cheating and imposition of interests on loans. Today, these practices are seen in the various cases of corporate fraud and other white collar crimes. Prohibition of such malpractices ensures that social inequality is prevented (Hassan, 2010).

Corrective measures
Corrective measures to poverty eradication in Islam advocate for wealth transfers so as to ensure that the gap between the rich and the poor does not widen (Hassan, 2010). In other words, these measures advocate for sharing of wealth. These measures include compulsory transfers such as Zakat; recommended transfers such as charity and; government transfers like provision of basic needs (Hassan, 2010).

Zakat
The Quran requires all Muslims to contribute Zakat for helping the poor and the disadvantaged in society. In fact, Zakat is one of the five pillars of Islam. Ismail and Possumah (2013) posit that Zakat is a way of worshipping Allah. Those who are entitled to receive Zakat are the economically disadvantaged Muslims (Ismail and Possumah, 2013).

Charity
In addition to compulsory transfers, the Quran advocates for voluntary transfers such as Awqaf (Perpetual). The Quran's provision that "… in your wealth, are obligations beyond Zakat" means that Muslims should show acts of charity and benevolence to their fellow disadvantaged Muslims.

Government responsibility
Islam requires the state to provide basic services to its citizens. This means that the government has a responsibility of establishing a conducive environment for supporting genuine economic activities (Hassan, 2010). In addition, the state has a responsibility of protecting its people from any form of malpractice. Moreover, the government should ensure that the institution of Zakat is well established. Furthermore, the state has a duty to offer equal opportunities to all its citizens.

CONCLUSION

Poverty has been a persistent problem in human society. This is why it has been considered to be as old as humankind itself. Poverty affects people from all over the world including those from developed and developing countries. The major factors that cause poverty are unemployment, poor governance and weak national policies. Various organizations including governments, religious institutions, NGOs and international development organizations have come up with several methods of alleviating poverty. The most common method of poverty eradication is microfinance which involves the provision of credit services to the poor. Generally, microfinance facilitates the accessibility of financial services to the poor who cannot afford banking services. microfinance does not only offer economic benefits to the poor, but also social benefits that offer long term empowerment to those who use these services. Moreover, the above discussion clearly indicates that microfinance shares similar principles with Islamic microfinance in that they are governed by standards of ethics, morals and equality. Furthermore, Islamic microfinance systems have proved to be effective in poverty eradication. Islamic microfinance addresses the issue of poverty using three types of measures namely; positive, preventive and corrective methods. All of these three measures follow the teachings of the Quran which teaches about equality among all human beings and discourages economic malpractices. These measures also state the responsibility of each Muslim in eradicating poverty. Some of these include not participating in dishonest economic activities such as corruption and greed; contribution of Zakat and Awqaf and other acts of charity and; protection of the poor from abuse. Generally, the Islamic view on poverty advocates for the establishment of microfinance systems based on the teachings of the Quran.

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