The Role of Microfinance in Combating Poverty in Rural Areas within the Framework of Islamic Finance

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***Abstract*—Poverty is primarily a rural problem. The majority of the world's poor population nearly 1 billion people live in rural areas since decades, 70 per cent of this population lives on less than $ 1.25 a day. Other statistics show that three out of four poor people in developing countries live in rural areas. This paper attempts to shed light on the problem of poverty in rural areas of Islamic countries and related issues, it also covers the role of microfinance within the framework of Islamic finance in reducing poverty within these countries. Areas, with b Jan highlighted the main obstacles to rural finance and ways to overcome them, pointing to successful international experiences in this regard..**

***Index Terms*— Poverty, Microfinance, Rural Areas, Islamic Microfinance.**

I. INTRODUCTION

Poverty is an inherent economic and social phenomenon for many economies and societies, which, despite their progress and their great progress in human life, have not been able to get rid of. The vast majority of the world's poor live in rural areas. The report issued by the International Fund for Agricultural Development Poverty remains a rural problem primarily, and the majority of the world's poor will remain in rural areas for many decades to come. Seventy per cent of the poor living on less than $ 1.25 a day, or nearly 1 billion people, live in the regions a To rural areas. Other statistics also show that three in four poor people in developing countries live in rural areas IFAD (2001).

Poor people and small businesses in rural areas, especially in Islamic countries, face many barriers to access the financial services, including the lack of financial services, the inability to provide official documentation when necessary, the prohibitively high cost and lack of traditional banking guarantees ... Etc. This has resulted in the lack of access to formal financial services by rural enterprises, the paucity of appropriate financial data and sound and sustainable Islamic financing institutions to provide these services, and this situation is exacerbated Due to increased and multiple risks in rural projects, particularly agriculture, without appropriate mechanisms to manage and reduce these risks.

In these circumstances, and in the context of the diverse and diverse rural landscape, microfinance under Islamic financial frameworks can provide new opportunities for millions of rural poor people to escape poverty through the adoption of sound policies of economic efficiency and the requirements of Islamic Shari'a, At the local, national and global levels. The importance of microfinance in poverty alleviation in rural areas and in achieving the Millennium Development Goals means that it remains a high priority for governments and donors, particularly in Islamic countries As well as for rural households. In countries where microcredit and retail credit institutions have been operating for a long time, they have been able to achieve significant integration into this sector and a marked trend towards more integrated services, where one-loan products and agricultural bank credit services are replaced only with savings options and corporate linkages Finance, leasing, speculative capital, etc., as well as competent and appropriate organizations such as NGOs and self-help groups to facilitate their expansion in rural areas.

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II. STATEMENT OF THE PROBLEM

Poverty and unemployment in developing countries including Arabian countries are among the main problems facing the countries especially in rural area. Microfinance institutions are one of the solutions for these problems; microfinance institutions in rural area are still underdeveloped and have dependency on external fund sources, which has led to a very slight impact on the society. Small projects that help the poor and unemployed segment of the society usually require limited amount of fund that can be supplied through microfinance institutions.

III. PURPOSE OF THE STUDY AND THESIS QUESTIONS

Poverty and unemployment are one of the major problems faced by developing countries, including the Arab countries, and these problems are exacerbated in rural areas. Microfinance is seen as one of the most effective solutions to eliminating these problems and has achieved tangible success in many countries. Microfinance in the Arab World faces many problems, especially in rural areas. This study highlights the most important problems, the proposed solutions and the role of microfinance in improving the standard of living and reducing unemployment in rural areas within the framework of Islamic microfinance.

It can be said that the study will answer the following questions

- RQ1: "What are the problems of microfinance in rural areas?"
- RQ2: "How to solve the problems of microfinance in the countryside?"
- RQ3: "What is the difference in Islamic finance and what are the problems and advantages?"

IV. Significance of the Study

The importance of the study is to shed light on the role of microfinance in solving the problems of unemployment and poverty in rural areas and the problems facing it, and offering suggestions that can address these problems and thus improve its performance which contributes to raising the standard of living and reducing unemployment in rural areas. The economy and the strengthening of the GDP and contribute to solving the problems of unemployment and poverty at the level of the Arab world.

V. Methodology

This section presents a brief summary of the most important concepts related to the subject of research and research questions. The first part of this item included key concepts related to poverty and its types and the concept of microfinance and related financial services such as savings, microcredit, collective financing, Islamic finance and its advantages

VI. Conceptual Framework

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A. Poverty

There are many concepts of poverty in the economic and social literature on the subject of poverty. Although most of them focus on their definition of the concept of poverty at the level of income or expenditure necessary to obtain the minimum basic needs for living, such as food, housing and clothing, and therefore a person whose income level or spending on minimum basic living is poor, A state for itself called the "national poverty line" and determined in local currency, if the individual falls under this line is poor. Journal of Agriculture and the Arab World (2011).

Many international institutions have contributed to the study of the phenomenon of poverty, its dimensions and the development of broad concepts to define them. Among these are:

Based on World Development Report 2000/2001, the World Bank defined the concept of poverty as the inability to achieve a minimum standard of living. For the purposes of comparison between the countries of the world and the World Bank set two levels of poverty: one dollar for the minimum and two dollars for the upper limit, according to the purchasing power equivalent to 1985, and in 2008 the poverty line is set in dollars and a quarter per day.

In World Summit on Social Development in Copenhagen, the United Nations defined poverty as: the lack of adequate physical and productive resources to ensure that the basic need to meet the demands of life is met, and hunger, malnutrition and deprivation are avoided.

According to the International Human Rights Organization, it is defined as: a humanitarian situation characterized by constant or chronic deprivation of resources, potentials, options, security and the ability to enjoy an adequate standard of living as well as other civil, cultural, economic, political and social rights [1].

B. Rural poverty

The concept of poverty has historically been associated with rural areas, so some categorize it as a rural phenomenon. The rural poor are the majority of the world's poor and depend on their livelihoods for agriculture, fishing, and related services and small industries. The main reasons for the high rates of poverty in rural areas are the poor rural people's productive assets such as quality agricultural land and sustainable and stable irrigation water supply their areas are vulnerable to drought, desertification and natural disasters, as well as lack of access to basic infrastructure and lack of access to credit and financial services.

In the Arab world, rural poverty has been associated with a history of social and class differentiation among rural people. The vast majority of the poor and small farmers cultivate small plots of land and rent part of their workforce to meet their living needs.

C. Microfinance

Segment through the provision of many financial services. These include microinsurance, micro savings, remittance services and financial advisory services. In addition, at present, microfinance is a term that attracts the attention of many governmental and non-governmental organizations and owners of capital and civil society organizations and banks and agricultural organizations and changes them. This is due to either the attraction of the lenders' desire to help the poor and support them to get rid of poverty. On the other hand, some lenders seek for profit.

At present, many developing countries, including Arabian countries, are trying to overcome the problems they face such as unemployment and poverty with microfinance. Governments and civil society institutions consider microfinance as one of the best solutions to overcome the problems the society faced. However, the interface of many trials failed in most cases because the target group of people is people who are financially unable and need a performance rate of 98%. In order to achieve this target, the state must repeatedly monitor the performance of each business process separately. In this case, the costs of monitoring may be higher than the desired benefit [2].

D. Microcredit

The beginnings of microfinance in 1970 by Professor Muhammad Yunus, who introduced the definition of microcredit service at the Bank of Carmen. Microfinance defines as a small credit given to the poor people, especially women, to create an income source during self-employment [3], and microfinance also defines as "Microfinance programs afford financial services such as credit, deposit, and savings services to the entrepreneurial poor that are tailored to their needs [4]. The importance of microcredit is to provide small loans without the need for financial records or the history of loans, unlike what regular financial loans requirements. These loans are much lower than loans given to other businesses or to people who have collateral to cover their loan. Microcredit considered as the major financial service for microfinance to help the poor segment. In other words, it is to give microloans to the poor people to establish micro businesses.

E. Microsaving

The concept of microaving is not different from the concept of ordinary savings only in terms of the amount of savings, the value of savings is few [5], in other words, that the concept of savings is the same as the ordinary savings, which refers to saving part of the income in order to benefit from it later [5]. The importance of savings is to maintain a portion of income for unexpected and unexpected circumstances. Thereby increasing risk-taking in projects. Moreover, to keep enough income to meet other needs. It can be said that the difference between the smaller savings and the normal saving is divided into two elements. The first element is the amount of savings. The second element is the ability to predict the size of the amount that will be saved [5].

F. Crowdfunding

Crowdfunding is one of the types of social solidarity and one of the financing alternatives [6]. The concept of crowdfunding means collecting small amounts of money from a large number of people to support the work of a particular project via the Internet, either in the form of donations or rewards or voting rights [7]. The most important element in crowdfunding is the exploitation of the masses in the funding of projects, which helps them in the development of the product and this is one form of social contribution [8].

The crowdfunding mechanisms divided into three classes: The most important element in social finance is the exploitation of the masses in the financing of projects, which helps them in the development of the product and this is one form of social contribution. The second type is through active solicitation, in which the financier decides the project or advises the person who is in charge of managing it. The third type is called the passive investor who provides the funding without trying to get into the project [9].

G. Islamic Microfinance

Islamic finance has been considered as an alternative to traditional finance. Resources are allocated towards Sharia-compliant projects using Islamic financing tools. Unlike modern finance, the principle of Islamic finance varies based on the major Islamic rule that severely prevents profits. From an Islamic point of view, money is not considered as a commodity to get profits from, based on this concept it is forbidden to make profit from a loan money (Siddiqui, 1983, Tayeb, Archery and Razak, 2008).

In recent years, Islamic finance has emerged from being an elite market to a fast-growing, flourishing industry worldwide. More than 500 Sharia-compliant institutions have been established over the last 30 years, spanning 75 countries with a market size of US $ 13 trillion and an annual growth of 15% the sector is attracting increasing interest from both Islamic and non-Islamic countries. The term Islamic finance, and more specifically Shari'a-compliant financing, refers to Shariah-compliant financial services [10].

Islamic microfinance principles can be summarized in the following [11]:

1) The financing process should include a risk ratio, whether funding for a project or a product
2) All material transactions must have a direct or indirect relationship with a realistic and real economic activity and this is the ultimate end
3) Both transactions and activities must be made clear to the lender and the loan applicant
4) The financing of forbidden activities in the Islamic religion is prohibited.
5) Interest is denied even at a small rate and some fees can be added to cover costs
6) It is not permissible to sell what is not yours

1) Products and Services of Islamic Microfinancial Institutions

Islamic microfinance takes several forms, the most common of which are:

1) Murabaha sale: a contract that is bound by the broader Shari'a law used to finance the commodities required as working capital, upon the request of a specific product by the customer.
2) Profit-sharing and loss-sharing contracts: Shariah scholars are most encouraged to participate and speculate;
3) Istisna'a (production): An exchange contract between a seller and a buyer to sell an asset and the sellers can either manufacture the products themselves or purchase them from a third party.
4) Perfect Load (Qard al-Hassan): A Profit-free loan that is used to bridge short-term financing gaps and repay the principal amount of the loan without interest, gross profit or business share, the only type of loans in Islamic finance [12].
5) Leasing (Ijarah): Leasing (Ijarah) is another commonly used structure and refers to leasing. The bank buys the asset and then rents it to customers under the installment payment system [10].
6) Zakat and Waqf: Zakat and waqf are also considered as new resources that serve to satisfy the immediate needs of the poor and to spend surplus in establishing projects that generate full return for the poor. This may be achieved through Zakat and Waqf groups according to Zakat and Waqf insurance, Zakat and Waqf investment, the training of the poor, the establishment of Zakat funds or institutions for lending, collective investment of Zakat and Waqf funds [13].

VII. MICROFINANCE PROBLEMS IN RURAL AREAS

In a CGAP study [14] entitled Financial Services for the Rural Poor, she explained that the main obstacles encountered by the providers of such services are

1) The fragmentation of demand for financial services due to low levels of economic activity and low population density.
2) High information and transaction costs associated with weak infrastructure (eg roads, telecommunications) and

lack of information for the client / customer (where there is no personal proof or records of the existing property).

3) Poor institutional capacity of rural finance providers associated with the limited number of educated individuals trained in small rural communities.
4) Negative impact of subsidized or directed credit from state-owned banks or donor projects.
5) 5. Seasonality of many agricultural activities and long maturities of many of them, which means fluctuating demand for savings, credit, and flow and the existence of long periods between issuing loans and repayments.
6) Risks associated with agriculture, such as variable rainfall, pests and diseases, price fluctuations, and weak extension services for small farmers and their inability to obtain agricultural inputs and access to markets.
7) Lack of effective security due to lack of clear ownership limits, length and complexity of contract registration procedures, and poor judicial systems.

VIII. Donors Challenges in Supporting Financial Services for Rural Poor

CGAP (Consultative Group to Assist the Poor) study [14] also highlighted the major challenges facing donors in supporting financial services for the rural poor

1) The assumption that credit is a hindrance. Traditionally, rural finance has equated rural finance with agricultural credit, seen as part of the necessary inputs to achieve agricultural production objectives or other objectives of the project. Thus, credit is offered on a supply basis. Demand is only superficially analyzed and credit is often provided at subsidized rates through Unsustainable agricultural banks or project implementation units.
2) Lack of intersectoral cooperation. Where donors do not have sufficient incentives (such as management guidance and incentives) for financial professionals and rural specialists to work together, agrarian finance projects or rural development projects that contain funding components are often designed, implemented and pursued without financial sector expertise.
3) Insufficient choices. Donors are frustrated by the lack of alternative models of the cheap credit model provided by agricultural development banks and other failed agricultural credit systems. New microfinance technologies do not offer solutions to all challenges in rural areas, and as a result, agricultural finance is neglected in many bodies.

IX. Proposals to Improve Access to Financial Services for the Poor in Rural Areas

In this section, we propose some suggestions for improving the access of the poor in rural areas to financial services

1) Building staff capacity. Donors should encourage interaction between financial and rural development staff to ensure that the experience of the financial sector is used in any rural project with a funding component. For example, the World Bank now encourages linkages between financial and rural sector staff, such as the recent joint review process in Central Asia.
2) Help improve the environment. (A) Ending government support for agricultural lending rates; (B) Eliminate negative discrimination against the agricultural sector, such as the identification of agricultural subsidies, (C) investment in communications, infrastructure and services such as health and education.
3) Develop the existing institutional structure. Rather than creating new and expensive delivery mechanisms that may not be sustainable. Because pro-poor financial services can be provided through existing agricultural development bank that meet basic conditions (such as the Agricultural Bank of Mongolia, Nordic Bank of Brazil), the Postal Savings System or even the retail stores.
4) Determine the appropriate role of support. Instead of supporting interest rates for customers, donors must use grants to build institutional capacity and encourage innovation, and donors must resist political pressure to make targeted or subsidized credit part of agricultural projects.
5) Exploring technology possibilities. Donors with experience in technical innovations can help reduce labor costs in rural areas and improve services to rural customers by introducing new technology. Examples include ATMs associated with smart cards. However, in any case, the cost and benefit analysis of any technology must be carried out, and the information systems of the institutions must be evaluated before any commitment is made.
6) Financing innovation in service and product delivery mechanisms. Donors should provide flexible funding resources in the form of grants to financial institutions seeking to modify their products introduce new financial products or reduce transaction costs. There is a need to devise income-appropriate solutions and the investment cycle for agricultural activities. For example, remittances locally and internationally are important non-credit financial services that help reduce the impact of seasonal income flows, as well as deposit services that can be used in times of low income and increased spending. Donors should also explore ways to help financial institutions rely on customer / customer information and provide more diversified and transparent financial services to farmers.

X. Conclusion

Despite the various constraints that hinder the mobility of the microfinance system in accordance with the Islamic financial frameworks in the fight against poverty, especially in rural areas, it has become one of the most effective alternatives in achieving the goals of comprehensive development. Microfinance institutions have introduced innovations in each region both urban and rural. In many countries, these innovations have been very successful in eradicating poverty and unemployment. Small-scale capital loans, agricultural production, artisanal and small businesses, particularly those in rural areas. The future of rural poverty alleviation lies in investing in all aspects of rural development, not only in agriculture. The increase in rural areas generates the economic incentive to improve infrastructure, which increases the competitiveness of production. This will be achieved only through the integration of rural areas into the economic development plan, through an enabling operating environment and appropriate financial products and services.

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