

ISLAMIC APPRAISAL OF MICROFINANCE LOANS AMONG MUSLIM WOMEN IN LAFIA, NASARAWA STATE**MUHAMMAD TANKO ALIYU**mtankoaliyu@gmail.com**ZAYNAB AHMAD MOYI**zaynabahmadmoyi@gmail.com**YAKUB OLANREWAJU AYINLA**yakola45@yahoo.com**Abstract**

Living on Microfinance bank loans has become a normal way of life among Muslim women in Lafia, Nasarawa State. These loans are given to women as a form of assistance and empowerment and as a strategy for lifting their status and alleviation of poverty. However it has been observed that the succour that these loans ought to have brought to the borrowers is not forthcoming due to high interest rate and uncertainty involved. The paper critically examines contribution of these loans to attainment of sustainable development among Muslim women in Lafia town, the capital city of Nasarawa State. It employs qualitative and quantitative techniques for its analysis. It gathers its data through a review of existing literature, oral interviews, focus group and a random survey of beneficiaries of the loans in the study area. The findings reveal that Microfinance loans has not averagely achieved its goals of making positive impact on poverty alleviation, improved livelihood and general well-being of Muslim women in the study area. The study concludes by recommending the introduction of Islamic Microfinance loans by the Muslim Philanthropists, Islamic Organizations and the State Government for it is would be a viable instrument for sustainable development and perform better in the areas of poverty alleviation and women empowerment than the conventional loan scheme in the study area. It further recommends positive collaboration between policy makers in Islamic Banking and financial institutions, experts in Islamic Banking and Finance industry, Islamic Scholars and Organization, conventional microfinance institutions and Islamic Development Bank (IDB) to promote Islamic microfinance bank as a tool for sustainable development among Muslim women in Lafia town. Nigeria and across the globe.

Keywords: Islamic Appraisal, Microfinance Loan, Muslim Women, Lafia, Collaboration.

Introduction

Microfinance has gained significant recognition worldwide as a tool for poverty alleviation and women's economic empowerment. In Lafia city, Nasarawa state, many Muslim women have benefited from these microfinance loans provided by conventional banks which is in line with sustainable development goals particularly in developing countries. However, understanding the Islamic views of these loans and their compatibility or otherwise with Shari'ah law is essential.

This is necessary simply because the market women that have been assessing these loans have really been freed from the shackle of poverty, which primarily would have been the purpose of the loan. Instead, it is the same complaints of financial imbalance that is on their lips; hence, the appraisal of this nature. A critical look at the mechanisms of theses microfinance loan facilities exposed it conflict with Islamic financial principles such as interest charges on loan commonly known as *riba* in Islam, involvement of *Gharar* in their activities and many others which the work delved into. The article appraises, Islamically, the conventional microfinance loans among Muslim women in Lafia, Nasarawa State, Nigeria, and evaluates its impact on women's empowerment and poverty reduction.

Islam gives woman rights and privileges to acquire means of livelihood and seek for economic development. As such it is in support of loans for the development of one's business. However, Muslim women are cautioned against any unlawful act in transaction as their male counterpart. Islam prohibited interest/usury, and anything associated to it. Acquiring loans for the promotion of one's business or trade is equally allowed in Islam but should be done in accordance with Islamic teachings. The issue of microfinance loans had become widespread among Muslim women of Lafia town. Various micro finance banks have come with different policies of disbursing loans among these women, well known among them are LAPO micro loans, Grooming Micro Credit Center, Nasreen Micro Credit.

Little or no cognizance has been given to these women in order to sensitize them on the implication and consequences of these loans. The fact that many of these women are Muslims, they have little knowledge of the religion regarding rules governing Islamic finance and Islamic economy. They had found themselves in various fist due to these collections, some had contracted illnesses while some had run away due to anxiety, pressure and depression of paying back the loan.

It is in the light of the aforementioned situation that the work looks at overview of micro-finance bank, types and structures of its loan facilities among Lafia women, Alternative ways for Poverty Reduction and Islamic Micro finance Mechanism, Effects of Conventional Micro Loans Muslims, Conclusion and Recommendations.

An overview of Micro Finance Bank

The word microfinance is widely used in the vocabulary of development. It is made up of two-word micro and finance, which literally means small credit. Micro finance is a category of financial services targeting individuals and small businesses that lack access to conventional banking and related services. It includes microcredit, the provision of small loans to poor clients; savings and checking accounts; micro insurance; and payment systems, among other services Microfinance as a practice began in the 1960's and 1970 with organizations such as ACCION international, Opportunity International and Grameen bank. Microfinance, also called micro credit, is a type of banking service provided to low-income individuals or groups who otherwise wouldn't have access to financial services. They most often provide lending-microloans can range from as small as \$50 to \$50,000. with the microfinance pioneer Mohammad Yunus started to grant small loans (less than 100 USD) to micro entrepreneurs mostly women (Julia 23).

Microfinance banks have the following products:

1. Micro Savings
2. Micro Credits
3. Micro Enterprise Transfer

The micro-Credits: - is common microfinance that involves extremely small loans given to individuals to help them become self - employed or grow a small business. These borrowers found to be low – income individuals especially from less developed countries (LDCS) Modern micro – credits is typically attributed to Grameen Bank model, developed by Economist Muhammad *Yunus* (Julia 27).

The micro credit has the following features:

- 1-The amount is very small.
- 2-The borrowers are poor or very poor families particularly women.

3-Their goal is to help the borrowers put an end to a state of poverty by developing self – employment activities or entrepreneur project.

In order to obtain the credit, the borrowers must belong to a group (group lending).

- i. The Micro Credit programmed develops a distinctive credit selection and management methodology where the bank goes to the client.
- ii. Interest and capital are paid in regular instalment (every week or fort night and in public).
- iii. The credit is granted in continuous sequence.
- iv. The lending programme is complemented by compulsory or voluntary saving programme www.investopedia.com).

Types and Structures of Micro Loans in Lafia Town

Micro loans as given by microfinance are almost similar in every society and countries. Most of these loans are targeted at empowering women and poverty alleviation among poor families. The fact that, women are mostly those practicing small scale business as such the main focus of microfinance is targeted towards women empowerment according to Mayoux, (97) “providing access in microfinance for women is considered to be a precondition for poverty alleviations and women empowerment”

In Lafia town, the most common microfinance banks are:

Lift Above Poverty Organization (LAPO): This was the first and most famous Micro Credit organization in *Lafia* town. It is a Nigerian organization with a microfinance bank (MFB) dedicated to self-employment through microfinance and an NGO. The institution was founded as a nonprofit entity by Mr. Godwin Eligiamusoe. Lapo as the name implies is a pro-poor development institution committed to the empowerment of low-income Nigerian through the provision of responsive financial services and delivered on a sustainable basic. (www.wikipedia.com)

Grooming Centre: Grooming center is a non-governmental organization with the primary aim to address the near absence of financial services to the large population of people engaged in small trading and micro productive activities in many parts in Nigeria. (www.groomingCentre.org) Grooming microfinance Bank is an offshoot of grooming Centre, a pro- poor development institution committed to empowerment of economically active poor through tailored made financial services delivered to their doorsteps using proven and best methodology. The grooming micro finance bank is a central bank of Nigeria licensed state bank which began operations in July 2018 in Oyo state. Their range from saving products fixed deposit, micro loans, asset loans SME loans, salary advance etc (www.gmpost.com).

Nasreen Micro Credit Company: is another form of Micro Credit center operating in Lafia town. This micro credit center is brought by some people from Bauchi State with the intention of helping women with very small-scale businesses such as pure water dealer, Maggi, and palm oil pretty traders in their homes. Their own system is a bit different from that of the first two mentioned above (Uwa).

Method of Disbursement of Micro-Loans in Lafia Town

The loan is given to the vulnerable people particularly women. According to Asabe, a business woman, the issue of micro-loans has been in existence for over 10 years, and she had participated in all the three types mentioned above in Lafia. The first she engaged in was Lapo in which she was a leader for almost 8years. She ascertained that the managers are from eastern part of the country.

They go from house to house with the intention of giving them loans to enhance their petty trade. The procedure for collection of the loans is as follows:

- i. There must be a group of at least 30 people.
- ii. They are charged ₦200 each for registration and ₦100, for identification card.
- iii. In Lapo, everyone is given ₦30,000.00 (thousand naira) in which he or she is expected to pay in 23 weeks at the rate of ₦ 2,000.00 x 23 = ₦ 46,000, 1500 for the payment of the loan while 500 for savings also known as insurance which amount to = ₦1,500 while the remaining as interest ₦4,500. She also stated that the loan increases along with one's commitment and ability to pay in agreed term. Many of these women had collected up to ₦100,000.

The agreement is that even if debtor is on sick bed, he must pay weekly. He must not use the money for luxuries. However, if one collected the money and he died the company had relieved him from paying.

According to her, at the initial stage they were pleased with the agreement but as time went by, some of them got crippled as a result of the pressure on them. Some went to the extent of boycotting their homes in fear of being caught. She lamented that as the leader, she had paid for many women being their guarantor and that led to her loss of interest in the process. She had to pray for Allah to see her through and give her the ability to stop involving in it because it has not brought the expected changes to their lives instead difficulties.

Similarly, regarding grooming micro loans, Fatimah was also involved for about 6 years, she lamented that she had been the group leader and her group is known as (*Bajayayya*) as they pay at the appropriate time. The loans are given in two-folds either weekly or monthly. The loan is ₦ 70,000 and one is expected to pay in 23 weeks at ₦ 4,000 weekly, ₦ 3,500 for the loan and ₦ 500 as insurance. The total of which is ₦92,000 -~~₦~~ 70,000 with the savings of ₦11,000 and ₦11,000 as interest. She also ascertained that they are enjoying it as it is the only source of acquiring capital for their business. However, she said that many of the managers are Yorubas who hardly understand their language and are very rigid when collecting the loans contribution but could be friendly if one pays as at when due. They can also be unfriendly and brutal when disappointed by the client. Some women have been locked up by them either in their offices or in the station for lack of compliance with the agreements. For those that are for ₦ 100,000 they are with the advance of ₦ 20,000 and ₦ 500 for form and ID card. They are expected to pay ₦ 4,500 for 12 months in which s ₦ 4,500 will be extracted and the rest as interest.

Moreover, Fatimah believed, many of those that are having liquidation are those that are not focused or those that collected more than what they can remit. However, there are some of them that will register all their households and collected on their behalf without any solid business to remit the money and they will end up falling into trouble.

According to Zainab, and Hauwa, some of them that use the money for the intention of business and paid back after acquiring their own capital were able to sustain themselves. While those that are not focused ended up running and left their families to pay on their behalf. Zainab also lamented that she was once raided by the managers of Lapo on behalf of her relative whom she stood for as a guarantor that was unable to pay at the stipulated time. They all ascertained that if at all they could get an alternative way of acquiring capital they will prefer it than the microfinance loans.

Effects of Conventional Micro-Finance Loans to Muslims

1. Indulgence in usury (*Riba*) since they are interest based Micro-Finance Loan. *Riba* is conclusively forbidden practice in Islam. It must be excluded from all transactions whether in cash or in kind, accomplished or suspended, and intended for investment or for consumption. (Hussain, 51). This is because the implication of it is that instead of alleviating poverty among them, it is rather bringing more hardship instead of solving their problems.

Islam permits increase in capital through trading Allah (SWT) says:

O you who believe! Eat not up your property among yourselves unjustly, except it be a trade amongst you, by mutual consent, Q4:29.

At the same time, Islam blocks the way for anyone who tries to increase his capital through lending on using or interest (*Riba*) whether it is at a low or a high rate. Allah says:

O you who believe! Be afraid of Allah and give up that remains (due to you) from *Riba* (from now onward), if you are (really) believers. And if you do not do it, then take a notice of war from Allah and His messengers, but if you repent you shall have your capital sums. Deal not unjustly (by asking more than your capital sums), and you shall not be dealt with unjustly (by receiving less than your capital sum) (Q2:278-279).

Al-Razi says in his Tafseer al- Qur'an explained the implication of consuming usury as follows:

- i. The taking of interest implies appropriating any person's property without giving him anything in exchange. A man's property is sacred as his blood. This means that taking it from him without giving him something in exchange is haram.
- ii. Dependence on interest prevents people from work to earn money, since the person with dirhams can earn an extra dirham through interest, either in advance or later.
- iii. Permitting the taking of interest discourages people from doing well to one another, as required by Islam.
- iv. The lenders are very likely to be wealthy and the borrowers became poor.

With this kind of Interest based micro-loan the rich will exploit the poor. The prophet (S.A.W)) is reported to have said:

Allah cursed the one who takes interest, the one who pays it, the one who writes the contract, and the one who witness the contract. (Muslim 9, 3881)

2) Stringent Repayment condition that led to high default rates: The system being used in repayment of the loan is too stringent and as such causes hardship to the borrowers, which leads to high default rate and embarrassment among the beneficiaries whereas Allah says.

And fulfil (every) covenant. Verily, the covenant will be questioned about (Q17:34)
Most hateful it is with Allah that you say that which you do not do (Q61:3)

3) Overzealous Group: The cooperation that exists among the beneficiaries is such that no consideration is given to those that run bankrupt rather everybody is after his own progress. However, through Islamic microfinance the cooperation could be based on A *hadith* by prophet (S.A.W) in which he reinforces the principles of cooperation and mutual assistance saying Believers are to other believers like parts of a structure that tightens and reinforce each other (Al-Bukhari)

Alternative ways for Poverty Reduction from Islamic Perspective and Islamic Micro finance Mechanisms

The conventional microfinance principles as elucidated above are not in compliance with the principles set forth in the Islamic finance law. However, it could be that many women that engage in it are not learned and are anxious to be empowered as such, they could not be able to understand the effects of these loans on their business and lives. It was realized that even those who stopped did it for the bankruptcy that befell them not because it is unlawful in Islam. Similarly, little has been done to make them do away from it as no alternative had been provided for them.

From the findings, it can therefore be asserted that the reasons of their indulgence in these loans are:

- i. Ignorance and or lack of proper Islamic awareness.
- ii. Lack of a better alternative for lending money i.e Islamic Microfinance Bank
- iii. Lack of proper monitoring of Zakat disbursement to reach the poor and the needy in the city.

Meanwhile there are a number of mechanisms proposed by Islam that can as well serve the purpose for which the market women are rushing to interest based microcredit loans. Thus, instituting and making the Islamic based microfinance banks available would encourage the Muslims to tap from the advantages of Sharia'h complaint loans and it is believed that by so doing, there would be prosperity and improvement in the lives of the masses in the society.

Islamic financial principles and microfinance are two major elements in the fast-growing Islamic finance industry. Islamic financial principles do not only relate to financial needs of the poor but also the social principles in caring for the less fortunate. It is believed that going by the following Islamic principles and mechanisms of Islamic Micro-finance would bring about poverty reduction and financial sustainability.

Some of the acceptable ways to reduce poverty, as well as, mechanisms of Islamic Micro-finance bank as alternative to the conventional micro-finance bank are, therefore, adumbrated as follows:

1. Equal Opportunity to both lender and borrowers: The Islamic approaches in distribution of income among the people emphasize on equability such as profit sharing and prohibiting riba. The distribution of income in Islam is based on ratio instead of nominal fixed interest among the stakeholder (Sadeeq 135).
2. Institution of Zakat: Zakat is one of the five pillars of Islam and being majority Muslims among the market women, it is a part of the well-off Muslims' responsibility to fulfil this obligation to the society in order to share and distribute a certain amount of zakat generated among the people especially the poor. It is mandatory and the foundation of Muslim lifestyle.

The Qur'an stated:

Zakah expenditures are only for the poor and for the needy and for those employed to collect [zakah] and for bringing hearts together [for Islam] and for freeing captives [or slaves] and for those in debt and for the cause of Allah and for the [stranded] traveler - an obligation [imposed] by Allah. And Allah is Knowing and Wise (Surah Al-Tawbah; 9:60).

3. Shariah compliant Finance: can be defined as financial activities and investments that comply with Islamic law and regulations which prohibit interest charges and involvement in any enterprise associates with any activities or products forbidden by Islamic law. Shari'ah compliant finance is a factor that differentiates conventional and Islamic financial institutions (Obaidullah & Khan, 28).

4. Islamic Microfinance Products: There are numerous Islamic microfinance products that are highly benefited to the less privileged in the society and exploitive in nature that market women can engage in such as:

i. **Mudarabah** is a scheme in Islamic finance where the capital is provided by the Islamic financial institution or investor which is known as ‘rab-ul-maal’ to the small entrepreneur who is known as ‘mudarib’. The profit from the project is shared between the capital provider and the entrepreneur at an agreed predetermined ratio. However, the loss will be borne entirely by the capital provider because a mudarib invests the mudarabah into a project based on trust basis except in cases of misconduct or negligence by the mudarib (Rahman 285).

ii. **Mushakarah** is about partnership between the microfinance institution and the micro entrepreneur. They will also have profit sharing at a predetermined ratio but they also share the loss based on capital contribution ratio (Shaheen 5).

iii. **Murabahah** It is a type of Islamic finance transaction which is Shariah compliant. The financial institution would acquire and purchase an asset and then sell it to a micro entrepreneur at a fully disclosed profit. The financial institution will retain the ownership of the asset until the repayment is fully settled (Safari et al., 85).

iv. **Ijarah** meaning rent, lease or wage. It is a long-term lease contract which has specified conditions comply with the Shariah. Unlike conservative lease contract, the lessor (microfinance institution) not only owns the asset, the lessor also monitors its usage but, however, discharge the responsibility in the maintenance of the asset which is not caused by wear and tear. Prior to the execution of ijarah, the financial institution will have the possession of the asset and borne the risk associate with the asset.

iv. **Al-Qard Al-Hasan** or interest free loan is one of the most advanced and suitable tools for microfinance purposes. In principle, “Qard al-Hasan” is a kind of borrowing of money that lender does not have any expectation from borrower except the receiving the principal. This can be used as an instrument to provide fund for micro financing to support small business and start-ups as it is less expensive compared to other source of Islamic finance (Mirakhor & Iqbal, 19).

Recommendations

Based on the aforementioned discussions, some crucial steps are to be considered in correcting the act of the practices of these micro loans among Muslim women of Lafia town such as:

1. Muslim scholars should be organizing public awareness and sensitization lectures for women which should address empowerment through lawful means, the ill effect of interest and its methods as enshrined by Islam.

2. Introduction of Islamic microfinance institutions by Muslim philanthropists, or collaborations with micro finance institutions that are adherent to the principles of Sharia which could offer a viable alternative for Muslim women in the area. These institutions will provide microfinance services with profit-sharing and risk-sharing arrangements, avoiding interest-based transactions and promoting equity.

3. The Muslim communities i.e., Islamic organizations should monitor the processes of giving out *Zakat* and also encourage the use of waqf so as the two can be used as a strategy for alleviation of poverty at the grass root level.

4. The Muslim communities in Lafia should organize a charity and Islamic non-governmental organization (NGO) that could help in addressing the problem of poverty among women and families.
5. The government should monitor the activities of these Micro Finance Banks to control their in flock to the State and their exploitable acts.

Conclusion

This work discusses the high rate of Muslim women indulgence in the collection of micro finance loan in Lafia town, which can be attributed to lack of proper awareness of its effects in Islam and due to lack of standard Islamic Micro-finance bank. The work highlighted various types of Micro Finance loans and how they are disbursed in Lafia town. The fact that Islam allows women to be economically independent but there are certain trades, business that are prohibited to Muslims in general. More so, there are certain ways in which capital should not be earned such as through interest, exploitation, and gambling, gharar. The study exposed some certain measures that could be taken in correcting this practice such as the introduction of Islamic microfinance banks, proper utilization of *Zakat* and many others. There is no doubt, that empowering women nowadays would go a long way in alleviating poverty and promoting stability.

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- ## List of Interviewees
- H. Asabe Muhammad Unguwar Makama Lafia Age 50. Widow.22/2/2022.
- H. Fatimah Muhammad Unguwar Sangayya Abuja Street Lafia Age 55. Housewife 20/2/2022.
- H. Hauwa Dahiru Unguwar Ricemill Lafia Age 45. Civil Servant.25/2/2022
- H. Uwa Kyari. Unguwar Sarkin Fada Lafia Age 65. Housewife. 3/3/2022
- Zainab Muhammad Garejin B.A.D. Lafia Age 28. Housewife 20/3/2022.