



## Realizing sdgs 2030 by estimating poverty through islamic micro financial institutions

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### ABSTRACT

This paper reviews the evidence of the impact of Islamic microfinance on poverty alleviation and identifies the determinants that can influence microfinance borrowers to realize the SDGs 2030 through a literature review. This study also promotes Islamic microfinance and suggests it as one of the best poverty alleviation tools, especially among Muslim communities by reviewing some of the measures suggested by other researchers through systematic literature reviews. This paper is a literature survey of more than 40 articles related to microfinance that attempt to review and analyze the areas researched by researchers in microfinance. This survey consists not only of empirical analysis and comparative analysis but recommendations and suggestions with some theoretical work. So to achieve the SDGs 2030 goal, it would be very good if Islamic microfinance institutions were used as the main alternative tool to alleviate poverty. Because the program and implementation of Islamic microfinance are always based on *maslahah* for the community. [Click here and insert your abstract text.](#)

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### Introduction

The focus of the SDGs 2030 towards sustainable development goals is increasingly urgent, in order to keep environmental sustainability, economic growth, and the welfare of the people (Sachs. 2012: 2206). There is a change in conditions, push for sustainable development faster so that every community gets their respective rights (Mauliyah 2019:26). Achievement of SDGs 2030, by looking at the current condition of society, very much needed to meet human needs with activities that will guarantee the society and environment of future generations (Rashid, Uddin, and Mohd. Zobair 2018:67).

The problem of poverty is a topic of conversation and the challenges that all developing countries have to face from time to time (Ismail 2013a:136), especially with the current Covid 19 pandemic conditions. This is

a challenge and big responsibilities that need to be done. Moreover, poverty is always a major factor do economic imbalance and uneven growth (Ayu 2019:10). Society incapacity to meet staple food needs, and earn income below average expenditure is an aspect of concern on sustainable development programs. And this thing, felt more in the village community (Suri et al. 2011:507), which is caused by factors the lack of infrastructure, employment, low quality education, and limited use of basic necessities (Weber 2017:405). Therefore, no wonder if the problem of poverty becomes the first goal of the seventeen sustainable development goals or SDGs 2030 (Ayu 2019:11).

Islamic microfinance sector today take lots of attention to solve the problem of poverty in every Muslim country in the world (Rashid et al. 2018:67). Including Islamic microfinance institutions in Indonesia has been made one of the effective tools in alleviating poverty because limited access to financial services among the poor, which amounts to about 96 million people in Indonesia (Ginjar and Kassim 2020:78). The involvement of all Islamic banks with the form of microfinance has become a powerful strategy and tool in alleviating poverty and is rated to have goals that are in line with the achievement of the SDGs 2030 (Hurayra 2015:10). An indication of the SDGs 2030 statement, it will be very easily realized when referring to a general spiritual-based level, as the implementation of Islamic microfinance institutions which is always guided by the concept of *maslahah* (Abdullah 2018:160). *Maslahah* is used as a guide for life which is always related to justice, equality, and transparency (Yazid and Asmadi 2015:286). Public interest or *maslahah* always takes priority (Hurayra 2015:9). Therefore in this study requires a common concept for the goals of the SDGs 2030, yang kemudian mengarah which then leads to the adoption of the *maslahah* concept as an embodiment of the principles of microfinance institutions to achieve the minimum essentiality of life necessary for better survival (Ibnu Asyur 1957:80–83).

### **Research Method**

This paper reviews and discusses the impact of Islamic microfinance in alleviating poverty as a goal of SDGs 2030. Another main focus of this study is to identify the impact of Islamic microfinance institutions that are based on creating *maslahah* to realize the SDGs 2030 goals that are aligned in solving poverty and to identify determinants that can affect microfinance borrowers. This paper is a literature survey of more than 40 articles related to microfinance that attempt to review and analyze the areas researched by researchers in microfinance. This survey consists not only of empirical analysis and comparative analysis but also recommendations and suggestions with some theoretical works. However, in order to collect the most suitable set of articles, the following procedure is followed: the search starts with the broad prospect of the article, then proceeds to several steps where first assessing the content of the articles is taken and secondly refining the selection criteria (Raco. 2010:13). This procedure is detailed below. Five databases are used to collect articles: Emerald Management Premier, Springer Link e-journal, Science Direct, Jstore, Wiley Online Library and Google Scholar and add master's books on specific discussion points.

### **Result and Discussion**

#### **1. Impact of Islamic Microfinance Institutions on Borrowing**

With microfinance it is useful to reduce poverty and improve the standard of living of the poor. To make sure of this, needs to be discussed in detail the impact of microfinance on income, expenditure, consumption, and welfare (Mohamed and Fauziyyah 2020:147).

#### **Impact on Income, Expenditure and Consumption**

The implementation provided by microfinance is in the form of loans, used as a solution to channel funds to people in need. Loans are granted for purposes to improve living standards by reaching poor households, and will succeed according to the requirements necessary for expenditure and income streams (Enjiang Cheng 2014:312). Efforts to improve the welfare of the poor has been pursued through increasing income, expenditure for consumption, and an increase in the overall standard of living (Lubis 2016: 113). As evidence that microfinance institutions can successfully improve the standard of living, such as examples of Hamdan's research results, etc. on the performance of microfinance institutions in Selangor, Malaysia, and four other microfinance institutions has increased participant's income after following the program after 3 years (Hamdan et al. 2012:93). Other examples such as the Amanah Ikhtiar Malaysian (AIM) Program also has an impact on increasing client income (Tammili, Mohamed, and Terano 2017:1).

The researchers found that the Islamic Microfinance Institution program can give of business opportunities and income distribution, train independence and increase the creativity of the poor (Sila 2010:4). As is the case with poverty alleviation in Indonesia, through BMT, it is stated that it can increase income and client expenditures, results from the simple regression method (Rokhman 2014:182). Another impact stated using the OLS method was found, BMT impacts social welfare and sociality's quality of life by increasing income (Quraisy, Hamzah, and Razak 2017). And it was also discovered that there is a financial program called *Association for Social Advancement* (ASA) in Bangladesh it has increased borrowers' income, expenditure and savings (Choudhury, Das, and Rahman 2017). So that overall the microfinance institution financing program can improve the standard of living of the poor (Lubis 2016:121).

### **Impact on Welfare**

The role of microfinance in poverty alleviation means efforts to make the welfare of society towards quality living standards. The results of the impact of Islamic microfinance institutions on society welfare are, for example, significant for BMTs in Indonesia. Through the results of the research, it was found that BMT in Indonesia had taken part and was involved in the society to help the poor get welfare (Quraisy et al. 2017:3). As with 13 BMTs in Demak, Central Java, it was stated that they were effective in help borrowers to improve access to education for children and the business progress of people who need its financing (Rokhman 2014:183).

The impact of microfinance institutions is not only felt in Indonesia, but developing countries by reaching rural areas. In India, through Islāmic Welfare Society (IWS), rural societies benefit from having lower costs to utilize local common resources (LCR) such as irrigation, water resources, grazing land, and forests (Hassan 2014:78). It was also disclosed that the farmers achieved better welfare after getting access to microcredit and use funds from the technology needed (Mariyono 2019:100). As with Choudhury, mentions with the program from AIM make a solution for the rural poor to improve their quality of life (Choudhury et al. 2017:41). In other words, microfinance has been designed and is expected to have a wider impact on the welfare of the borrower.

## **2. Islamic Microfinance Institutions as Tools for Alleviating Poverty**

The role of microfinance in reducing poverty efforts for the welfare of society towards a standard of quality of life. The results of the impact of Islamic microfinance institutions can to the welfare of society, by good financing arrangements, there is a need to give entrepreneurship training in running a

business and several business mechanism models that can be used to fund loans. In addition, Islamic microfinance is the main solution to alleviate poverty because it has eternal principles such as ethical, moral, and social criteria make it the best way to provide assistance to the poor to the poorest (Tamanni and Haji Besar 2019:262).

By research results, Abdul Samad explained that the results of the model have shown a good impact to help alleviate poverty (Samad 2014:210). Another result was found, BMT in Indonesia has provided several social programs to the society to help the poor become prosperous (Quraisy et al. 2017:3). As with 13 BMTs in Demak, Central Java, they were declared to have been effective in implementing their programs in help, borrowers to improve access to education for children and the advancement of the business of people in need by its financing (Rokhman 2014:183). It was also disclosed that the farmers achieved better welfare after getting access to microcredit and use funds from the technology needed (Hassan 2014:78). So in accordance with the results of the research Abul Hassan and Shamin Saleem explained Islamic microfinance is not a charity based organization but a business organization that targets the welfare of its members (Hassan and Saleem 2017:16). And according to Khaled Shukran and Farhana Rahman who explained, that loans are given to the poor untuk mengembangkan taraf hidup mereka dengan menghasilkan pendapatan (Shukran and Rahman 2011:47).

### 3. Achieve SDGs 2030 and Maslahah through Islamic Microfinance Institutions

In realizing the 2030 SDGs goals that are in line with *maslahah* aims to eradicate poverty. Many research results state that the best solution in solving poverty comes from the implementation of Islamic Microfinance Institutions. Islamic Microfinance Institution's efforts have become an effective tool for the purpose of alleviating poverty, by improving livelihoods, welfare and economic development of the poor (Mohamed and Fauziyyah 2020:151). From the research results, Abdul Ghofur stated, the impact of the implementation of Islamic Microfinance Institutions is very much in line with the goals of sustainable development in solving poverty (Ismail and Shaikh 2017). Another thing evidenced by the results of research Amanah Ikhtiar Malaysia (AIM) institution, that the borrower after joining the IMF program has been able to improve the borrower's social and economic situation (Samer et al. 2015:725).

Islamic microfinance is a sub-system of the Islamic financial system, which makes *maslahah* the biggest motivation. The concept of *maslahah* which is the guideline for Islamic microfinance stipulates that sharia is the rule of Allah untuk umat manusia dengan tujuan utamanya for mankind with its main purpose towards well-being (Hassan and Saleem 2017:17). And something else is explained in realizing the SDGs 2030, have goals that are in line with *maslahah*. Therefore Islamic Microfinance Institution program is needed to include *maslahah* elements so that targets for alleviating poverty can be realized and then there is no inequality. This agrees with the results of Oseni's research, in solving the problem of poverty, it needs to be addressed by presenting the role of Islamic Microfinance Institutions in which it is necessary to include *maslahah* values (Oseni 2015:377). Because basically, the concept of *maslahah* is a principle inherent in every activity especially in the Islamic Microfinance Institution program (Al-Mubarak 2016:217).

#### Closing

In developing countries, Microfinance has evolved as a development tool. The focus for the welfare of society is increasingly urgent, seeing more and more poor people and low-income people. This has caused the emergence of micro-enterprises in small areas or in low-income areas. In this study, seen from the literature review, it was found that microfinance had a positive impact in solving the problem of poverty,

especially for developing countries. Microfinance enterprises are seen as a powerful tool in poverty alleviation. But in fact, according to the researchers stated, Microfinance institutions have not been able to solve the problem of poverty, see much many poor societies who are neglected. Thus Islamic microfinance has an important position in solving the problem of poverty and the goal of increasing the standard of human life. Therefore, this study aims to prove the role of Islamic microfinance o alleviate poverty and realizing the goals of sustainable development or SDGs 2030 by literature review. From this research, researchers suggest to realize the 2030 SDGs goals, it is very good if Islamic microfinance institutions are used as the main alternative tool to alleviate poverty. Because basically every program and implementation of Islamic microfinance always based on benefits and maslahah for the society. Therefore much of the research reveals that in order to achieve the SDGs, Islamic finance can be a large potential contribution to make this happen. By Islamic microfinance, some of the SDGs can be achieved specifically to fight poverty, hunger, unemployment, lack of funds, and so on. Therefore, Islamic microfinance will be the measure that has an impact on many innovative products and instruments in achieving the SDGs.

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