

Ethics Commitment in Microfinance and Shariah Microfinance Institution

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ABSTRACT

Commitment needed to maintain a balance between financial performance aspects of the operational aspects of social performance in microfinance institutions (MFI's). In this article the author conducted a literature study, by dividing the discussion of three main parts, namely: the solutions to the phenomenon of ethics violations by MFI's; Shariah principles on Islamic MFI's in accordance with ethics violations solutions; challenges to the implementation of Reviews These solutions. Based on this, the authors found the similarities of the MFI's commitment to the principles of sharia platform to implement ethical MFI's operations. In this article the author suggests four main pillars of ethical commitment as an indicator that the MFI's / MFI's sharia, implementing operational aspects equally between financial performance and social performance.

Keywords: Commitment, financial performance, social performance, Shariah principles, ethic.

JEL Classification: G02, G14, G21

INTRODUCTION

Microfinance institutions have an important role to reduce poverty in developing countries, because the majority of people in developing countries are low-income and poor communities (Karlan & Goldberg, 2011). In addition, microfinance institutions must have products to serve the poor (Armendariz & Labie, 2011). However, in reality, many irregularities, microfinance institutions (MFI's) do not carry out a social function or care for poverty alleviation. Some MFI's make the poor become trapped in the poverty. Issues of ethics violations by MFI's in providing financial services to their clients are as follows: the presence of social discrimination in providing services to their clients (Hudon, 2011), the lack of transparency in serving their clients MFI's (Karnani, 2011), the interest rate is too high (Lewis, 2008), the mission drift (Epstein & Yuthas, 2010; Armendariz & Szafarz, 2011), the amount of over-provisioning of events that led to the debt repayment microborrowers difficult to pay the installments in Karnataka, India (Krishnaswamy and Ponce, 2010), poor borrowers become trapped in poverty in Tamil Nadu, India (Guérin, et.al, 2011), and an over-debt crisis in Andhra Pradesh, India (Taylor, 2011).

On the other hand, in developing countries with a majority Muslim population, there is a microfinance institution based on the principles of sharia, which also can be used as an alternative for poverty alleviation. Sharia principles in MFI's can be considered as a choice of solutions to the phenomena of ethics violations in the operation of microfinance institutions to its clients. In this conceptual paper, the authors use the study of literature in a discussion, then to focus on the discussion of the problem, the authors also narrow topic of discussion is as follows:

- 1) The solutions to the phenomenon of ethics violations by MFI's.
- 2) Shariah principles on Islamic MFI's in accordance as the solutions of ethics violations.
- 3) Challenges to the implementation of these solutions.

THE SOLUTIONS TO THE PHENOMENON OF ETHICS VIOLATIONS BY MFI'S

First of all there is an important question in this discussion, whether microfinance institutions should not take advantage?. Microfinance services have different characteristics with other

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financial services. Differences microfinance services with other financial services is a micro-finance services have a dual purpose, which aims to improve the financial and social performance (Hudon, 2011⁴). Based on the characteristics of the MFI's, it would require a strong commitment from the stakeholders involved in the operations of MFI's to achieve the balances.

This commitment should be from among those who have an interest in the organization (Lapie and Mersland, 2011). Such as governments, investors, creditors, management and all the staff at the MFI's. This commitment is embodied in: the vision and the mission, vision and mission of the MFI's should explicitly social function; government regulations that require MFI's to implement social functioning; investors and creditors to make an agreement or MOU with the MFI's, which includes the MFI's of necessity, to perform its social function; and an understanding of the entire staff in the MFI's to carry out their duties, which not only profit-oriented organization, but also helps to improve the welfare of its clients.

Social discrimination in microfinance services is contrary to the concept of micro-financing, ie access to credit is a human right for all people (Hudon, 2009). Provision of micro services must reach all levels of society, there should not be restrictions on certain groups. Therefore, the necessary platform of MFI's towards social activities in order to improve the welfare of the whole society, not only just the products that are beneficial only to certain groups only. Nevertheless, these platforms need to be agreed by all stakeholders involved in MFI's operations.

The majority of MFI's clients are low-income or poor. One of the characteristics of the poor, is that they have limited access to education, so that they have a low knowledge. This opportunity is sometimes used by MFI's to apply for fixed rate in microcredit repayment, which resulting in the incompatibility of the money paid by the client with a fixed interest rate system (not transparent). In addition, the application of higher interest rates to their clients and the amount of non-performing loan provisioning by reason of the high risk of micro-lending to the poor. These things lead to the commercialization of the services MFI's, which resulted in MFI's do not lend to the poor, who is just starting a business, but MFI's serve micro entrepreneurs with a successful business and proven to provide benefits to the MFI's. MFI's in carrying out its activities should be oriented to the large number of customers, not on the high interest rates. That is because with increasing of the customer number, then the risk diversification will lead to low credit risk. These conditions should be a commitment from the parties concerned with MFI's operations, to run their business professionally and efficiently, which affect the MFI's is able to function in implementing sustainable development. Sustainable development is the overall strategy in order to attempt to meet the needs of the present without compromising the ability, and the welfare of the next generation, the logic underlying this strategy is to achieve stability and balance in the economic, social and environmental (seers, 1969). Based on the conditions, the commitment of stakeholders concerned in the MFI's is not just looking for temporary profit, which may impact on the loss of reputation of the MFI's. But they should have concern for sustainable development, which should be based on the MFI's operational going concern concept.

To address the phenomena of ethics violations by the MFI's, the MFI's must meet four requirements as the commitment of stakeholders to achieve ethical MFI's. These requirements include the four pillars of commitment: (1) MFI's qualify in describing the legal and formal organizational ethics; (2) the MFI's should be transparent, easily supervised and monitored by the community; (3) the MFI's should benefit both the community and for the survival of financial institutions themselves; and (4) the MFI's should be able to provide financial services that can reach the entire lining.

SHARIAH PRINCIPLES ON ISLAMIC MFI'S IN ACCORDANCE WITH ETHICS VIOLATIONS SOLUTIONS?

The development of sharia MFI's becomes a necessity in countries with a Muslim majority population number. The existence of MFI's sharia would be expected as an alternative for the people in accessing financial services. Furthermore, to determine whether the MFI's sharia as a viable alternative, it is necessary to study further the extent to which the principles of sharia (based on the principles of the Qur'an and hadith) on sharia MFI's have in common a commitment to implement ethics in business operations. Here are the basic principles of Islamic economics that have a correlation with the implementation of ethics in the business activities of MFI's sharia:

1) Principles Maslahah and Falah

In Islam the purpose of Islamic sharia is commonly referred to maqhasid sharia. Maqhasid sharia is the aim to achieve the benefit (welfare of the Ummah), in maslahah principle states that all activities should bring benefits and refusing all activities that harm nature, or bring damage. While Falah principle is related to the purpose of human life, there are two dimensions of human purpose, which is to achieve the survival of the human world free of poverty and ignorance, and achieve eternal survival and glorious in the hereafter. Based on this, the entire economic activity, including activity on sharia MFI's aims to provide benefits to the community not only for profit oriented, and reject all the activities that took damage (harm). Implementation of these objectives legally and formally listed on sharia MFI's.

2) Khalifah

Man was created by God to be a caliph (representative of God) on earth QS. Al An'am: 165; QS. Yunus: 14. The role of human Caliphate, is to manage the natural and prosperity of the earth according to God's commandments. In carrying out his duties as caliph, free and able to think and to reason to choose between right and wrong, fair and unfair, and change the conditions of life for the better (QS. Ar-Ra'd: 11). To carry out this task, human beings are endowed with all sense of completeness, spiritual, and material. The impact of the role of the Caliphate is all the activities we should be usefully (productive). As well as MFI's sharia, they should have the role of the welfare of the entire Ummah and contribute in a balanced way so that not only achieve temporary profit today, but also still ongoing and sustainable, in the future (going concern concept).

3) Justice

God sent down Islam as a system of life for all mankind, Islam emphasizes the importance of justice in every sector, whether economic, political or social. Corresponding QS. An Nahl: 90: "Surely the Lord tells you to be fair and do good, giving to relatives, and God forbid indecency, indecent behavior and hostility. With the principle of justice, then the purpose of socioeconomic justice and equitable distribution of income or welfare of the entire Ummah and the whole society, is considered as an integral part of the moral philosophy of Islam. Implementation of the principles of sharia in MFI's activity is not justified any discrimination in providing financial services to the public.

4) Morals

Morals or manners are one of the core teachings of Islam. A number of good moral teachings found in the Quran much like charity, delivering trustworthy, patient, honest, humble, helping, compassion, shame, blessing and other Islamic Economics as part of the worship muamalah, therefore any activity based on the norms and ethics. Islamic Economics as part of the worship muamalah, therefore any activity based on the norms and ethics. One of the morals of economic activity is related to the prohibition of cheating, like in QS. Al-Muthaffifin: 1-3. " Woe to those who give less [than due], Who, when they take a measure from people, take in full, But if they give by measure or by weight to them, they cause a loss. This condition requires that the MFI's activities of sharia should be transparent, and can be monitored by the public or the government, if the MFI's sharia cheating, it may be subject to sanctions or penalties.

5) Brotherhood

All human beings are God's servants and the most beloved by his side are those who do good to all men and "The best of men are those that benefit others "(Hadith no. 1234). The implications of this principle in Islamic economy are mainly reflected in responsibility and joint efforts in poverty alleviation. As the concept of social security is the duty and responsibility of a group of people or countries. So with this principle, then there is a commitment from the sharia MFI's benefit society as well as the sharia MFI's

6) Al Amwal (Property)

Based on the concept of Islamic economics, God as the ultimate owner of the property (QS. Al Mu'minun: 33), while human ownership is relative, meaning that man is only as recipients of deposit, the trustee (the mandate holder) who must give an account to God. Consequently, the human

mastery of resources, factors of production and productive assets are merely a surrogate of God. Therefore the using of property shall be in accordance with the provisions of God, which is paying attention to how the property was acquired, lawful and illicit attention and use it for the benefit of the Ummah. Embodiment that the MFI's sharia is not permitted to seek maximum profit by fraudulent means, and damaging the environment, as well as the benefits that should be used as well as possible for the benefit of the Ummah

7) Ulil Amri (Government)

Din Islam, the state is responsible for maintaining the Islamic faith, and carry out the laws of God in the life of society, including economics. The state is responsible for the procurement needs of the community or the population lives, and the public must comply with the provisions of the leader as long as it does not conflict with the principles outlined in the Islamic religion. It is mentioned in the Qur'an. Annisa: 58 "Men who believe, obey Allah and obey the Messenger of Allah and all Amri among you. Then, if you differ on anything, then return it to Allah and the Messenger ". This principle led to the government as a stakeholder should have a strong commitment to the welfare of the community with an active role to regulate and supervise MFI's, in order to avoid violation of ethics in carrying out its business activities

8) Synergistic Cooperation (Networking)

The principle of cooperation is an important principle in Islamic economics. The importance of this cooperation we can also see from the incentives given by God to those who pray to double the reward to 27-fold. It should be realized in accordance with the shared commitment of all stakeholders to implement ethical MFI's, namely to improve the welfare of the community, not just for profit but also socially and environmentally.

A concrete example of ethical implementation in sharia MFI'S is: Two examples of the implementation of the social aspects in Sharia MFI's sharia are as follows:

- 1) Implementation Aqad Qardul Hasan, Qardul Hasan is devoted to the loan agreement of the measured property and is reimbursable as well as a mutual aid agreement and not a business transaction commercially. Qardul Hasan is sharia MFI's products for customers who need funds for urgent need (with certain criteria) and not for the purpose of consumption. Repayment of the loan is determined within a certain period and can be returned at once or in installments without additional on borrowed funds.
- 2) Compensation for Orphans and Mustahiq, one of the sharia MFI's commitment in performing its social responsibility is to provide compensation to orphans and mustahiq (8 categories of people eligible to receive zakat), one of the groups that include mustahik is poor and indigent.

Based on the principles of sharia and sharia MFI's real examples of ethical implementation from above, The MFI's sharia can be used as an alternative to achieve ethical values of MFI's. Furthermore, to avoid of customer abuse need of the ethics committee, and related to the sharia principles that implemented in the sharia MFI's, ethics commitment also in line with maqhasid sharia (Islamic law).

CHALLENGES TO THE IMPLEMENTATION OF THESE SOLUTIONS?

MFI's/MFI's sharia faces a major challenge to get cheaper funds. Expensive funding costs caused MFs difficult to provide financial services to the poor at interest or low prices. Under such conditions it would require a joint commitment of stakeholders, such as investors, creditors/lenders, donors, management and the government to provide financial services which is not just for profit, but there are values to be achieved, such as alleviating poverty, improve the level of health, combating ignorance and protect the environment. Mutual commitment of the stakeholders such as investors, creditors, donors, and government management.

Nevertheless commitment is also required from the MFI's management to carry out its activities efficiently and effectively, a mechanism of donor disincentives against MFI's that do not carry out operations efficiently is also one way to establish a shared commitment (Hudon and Sanberg, 2011).

CONCLUSION

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