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EDITORIAL

An Ethical Compass for the Digital Frontier: Sharīʿah Governance in Fintech Micro and Nano Financing

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The rapid integration of Fintech into the Islamic financial landscape, particularly in the realm of Micro and Nano Financing, presents a duality of opportunity and challenge. On one hand, technology promises enhanced reach, efficiency, and potentially easier mechanisms for adhering to Sharīʿah principles , thereby driving financial inclusion within Muslim communities. However, this digital evolution highlights a critical need for a robust, Sharīʿah-based governance framework to navigate the complex ethical issues inherent in these schemes. The role of Sharīʿah governance in Fintech-based Micro and Nano Financing services offered by Islamic Financial Institutions (IFIs) is not merely supplementary; it is absolutely critical for ensuring these services remain true to the spirit and letter of Islamic law and serve the broader interests of society.

Fintech solutions that leverage tools like mobile payments, digital platforms, and possibly more advanced technologies such as blockchain for smart contracts or digital currencies can facilitate access to financing for individuals and small businesses, often excluded by traditional banking (Ghafoor, 2023). However, the nature of these rapid, high-volume, and sometimes less personal transactions can amplify ethical risks if not properly governed. The historical parallels of Islamic law, or Sharīʿah, has long encompassed principles governing human transactions, including trade and commerce, fundamentally aiming to regulate the relationship between consumers and traders (Amin et al., 2014). For instance, the historical institution of hisbah served as a state institution tasked with promoting proper conduct, preventing misdeeds, and safeguarding societal welfare by monitoring market imperfections, ensuring honesty in trade, and addressing complaints. This historical precedent underscores the long-standing Islamic emphasis on external oversight for ethical commercial dealings.

In the contemporary context of Fintech Micro and Nano Financing, Sharīʿah governance plays several critical roles:

1. **Ensuring Authentic Sharīʿah Compliance:** Beyond merely avoiding explicit *Ribā* (interest), *gharar* (excessive uncertainty), or financing of prohibited activities, governance bodies like Sharīʿah Supervisory Boards (SSBs) and Sharīʿah Advisory Councils (SACs) must scrutinize the intricate details of digital financial products. This includes evaluating the underlying contracts and operational flows of Fintech applications to ensure they genuinely conform to divine principles. The integrity of the product's "Islamicity,"

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perceived as being free from elements like *Ribā*, *gharar*, and manipulation, is a significant factor in consumer acceptance. Effective governance ensures this perception is grounded in reality, adhering to established standards like those from AAOIFI.

2. **Upholding Ethical Standards and Consumer Protection:** Micro and Nano Financing customers can be particularly vulnerable. Sharīʿah governance is crucial for ensuring that Fintech-enabled services adhere to core Islamic ethical principles such as **fair treatment, transparency, and justice** for all stakeholders. This involves preventing exploitative practices like a lack of transparency regarding terms, relevant charges, or penalties, prohibiting aggressive marketing or unsolicited products, ensuring responsible lending that considers the borrower's capacity and discourages excessive debt, and mandating ethical debt collection practices. The historical *hisbah* also handled dispute resolution, offering quicker settlements than formal courts. Modern Sharīʿah governance must ensure robust redress mechanisms are accessible and effective within Fintech platforms.

3. **Promoting Value-Based Intermediation (VBI) and *maqāṣid al*-Sharīʿah:** Islamic finance is intrinsically linked to social and responsible finance, striving for human wellbeing, social justice, and connecting finance to the real economy (Ayub, 2021). If guided by strong Sharīʿah governance, Fintech-based Micro and Nano Financing can be a potent tool for achieving these higher objectives (*maqāṣid al*-Sharīʿah). This includes enhancing financial and social inclusion, promoting entrepreneurship at the micro level, utilizing social finance tools like *Zakat* and *Waqf* via technology, and directing finance towards beneficial sectors such as small housing, SMEs, agriculture, health, and education. The VBI framework aims to create positive social and environmental impact alongside financial returns.

4. **Requiring a Robust and Independent Governance Framework:** Effective oversight necessitates well-structured governance. This requires independent Sharīʿah boards or councils with clearly defined roles, responsibilities, and sufficient power. The competency and integrity of Sharīʿah scholars are paramount. Sources highlight concerns about potential conflicts of interest arising from the relationship between bankers and scholars, and the risk of "Fatwá shopping" – the practice of seeking out favorable rulings, which severely erodes consumer trust. Transparency and accountability in the Sharīʿah endorsement process are vital to maintain credibility. With its centralized SAC and legal backing for rulings, the Malaysian model can be presented as an example of a framework that minimizes Fatwá shopping and enhances trust (Oseni, 2017).

5. **Integration with Regulatory and Legal Frameworks:** For Sharīʿah governance to be effective in the digital age, it must be supported by clear regulation. This involves transforming Sharīʿah principles into enforceable legislation and ensuring regulatory bodies (like SBP and SECP in Pakistan's context) are equipped to monitor and enforce compliance, including the use of Regtech (Lee & Taylor, 2025). The need for a solid regulatory and institutional framework in Islamic consumer credit is important.

6. **Building and Sustaining Consumer Trust:** Trust is the bedrock of Islamic finance, heavily dependent on the assurance of genuine Sharīʿah compliance. Malignant practices, facilitated by weak governance, such as misleading marketing or questionable Sharīʿah endorsements (like instances where a scholar's name was used without their knowledge), destroy this trust (Hasan et al., 2020). Robust governance, transparency in the Sharīʿah process, and the perceived "Islamicity" of the product are key to building and maintaining consumer confidence.

In conclusion, while Fintech presents exciting opportunities for expanding Micro and Nano Financing grounded in Islamic principles, its potential can only be fully and ethically realized through rigorous and adaptive Sharīʿah governance. This governance must extend beyond mere formal compliance to embody the ethical foundation of Islamic finance, ensuring fair treatment, transparency, responsible practices, and the pursuit of social good. It necessitates independent, competent Sharīʿah oversight bodies, bolstered by clear regulations that prevent malpractices like Fatwá shopping and conflicts of interest. Without this essential ethical framework, the digital landscape of Islamic Micro and Nano Financing risks losing the trust of the Muslim community and failing to achieve the higher objectives of Sharīʿah it seeks to uphold.

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