

Islamic Microfinance Model To Reduce Poverty: Pakistan's Case

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Abstract: *The most essential element for any Government is to become a welfare state and the constitution of Pakistan gives great importance to promote the social welfare projects in order to alleviate the poverty. The article 37 and 38 of constitution 1973, is the mother source of socio-economic and people welfare policies, explains that state should provide the basic necessities of life like food, clothing, shelter, education, medical relief, suitable job opportunities and reduce the disparities in the sources of earnings. In view of this, Pakistan government introduced different development programmes, schemes and plans for the provision of basic facilities to poor's. According to the State Bank report 2011, Microfinance has failed to make a major breakthrough in Pakistan in order to become a dynamic participant. The poverty rate in the country, increased from 23.9 to 37.5 percent according to planning Commission (2012). It was also reported that about sixty million people was living below absolute poverty line. The recent disaster of Thar and Chulsitan own speaks loud on the failure of Govt. development programmes and microfinance. As interest is prohibited as per belief of majority of the people, any interest based scheme is not suitable due to being exploitation. Now, there is a great need to bring a religiously acceptable model that will change baggers to donator hand. Islamic finance takes an impressive leap after ongoing economic and financial crises at the national and global levels and is increasingly gaining ground. The present study suggests a practical Islamic microfinance model that can be considered to be more fruitful and productive to alleviate poverty effectively; it explains seven years might be sufficient to reduce poverty from the society at large.*

Key words: Poverty, Islamic Finance and Microfinance JEL Classification: O16, P34, P43

Introduction

1.1 Microfinance and development:

Microfinance was started in 16th century and it is helpful to improve the living standard of the people who did not have enough energy to get the financial resources offered by the commercial banks and alleviate their hunger and poverty. Microcredit industry and the welfares is the critical debate in order to explain the aim of the industry. The abject side of microfinance is to alleviate poverty, hunger and need associated with luxury, boundless abundance. Microfinance involve in incorporation of social and economic development. The relationship between microfinance and development can evaluate through identification that how microfinance directs its concentration towards development? The main point of concern about microfinance and development is to reduce poverty through direct approach to client, providing basic necessities of life like, food, health, shelter, education and micro business development programmes for good life survival.

1.2 Poverty status of Islamic countries:

The poverty in the 56 OIC countries is the twice of the average of the poverty in developing countries as a whole. Based on the debt rule of faith and values, developed a range of financial products in Southeast Asia. The cumulative population of five large states of Muslims-Sudan, Indonesia, Pakistan, Bangladesh, and Nigeria has 690 million people out of which 250 million living below the absolute poverty line which is 36 percent. There is urgent need of assistance in the fifteen states whom 74 million out of 143 million living below poverty line which about 50 percent of the total population. Nine states did satisfactory efforts against poverty that has 55 million poor out of 113 million. Two states named Uzbekistan and Al-banyan have 8 million poor out of 30 million of total population which about 27 percent. In the Middle East fourteen countries including Malaysia and Brunei are relatively well off and have not serious problem.

1.3 Poverty status of Pakistan and Govt. Struggle to alleviate poverty:

In 2006, Government of Pakistan conducted a study about poverty evaluation and estimated that 25.7-28.3 percent of the total population living below poverty. The independent bodies estimated in 2007-2008 that

poverty fall up to 17.2 % of the total population. According to planning Commission of Pakistan (2012) that poverty rate increased from 23.9 to 37.5 percent.

The article 37 and 38 of 1973, is the mother source of socio-economic and people welfare policies of the country in order to increase the living standard, means of production and equal distribution of wealth and explains that Govt. should provide the basic necessities of life like food, clothing, shelter, education, medical relief, suitable job opportunities in order to reduce the disparities. The government of Pakistan always tried its level best to provide the basic necessities of life by introducing different rural, health, human, microfinance, social welfare, development programmes and other different schemes like land reforms, employment creation, income transfer, social security schemes in order to reduce poverty. In 1997, the Govt. of Pakistan introduced a non-profit private limited company named as Pakistan poverty alleviation Fund (PPAF) which approached to poor community through NGO's and Community based organization (CBO's), provided the conventional micro-credit. After a lot of struggle of more than 50 years, all these projects seem to be failed and non-productive due to lack of impressive model to alleviate poverty. Small farmers of an agricultural country Pakistan, having less than 5 acres land faced a serious problem of funds although they required few amount for inputs. In most of the areas, there is no medical facility, education shelter and they did not ready to take conventional financing due to religiously prohibition.

1.4 Reasons due to which existing model not working properly:

Following are the reasons due to which existing and conventional based models are not working properly and unable to break down the poverty.

1. The main reason is Riba as Quran said, "Allah destroys riba and nourishes charities" and according to hadith, "In any society, when Riba becomes common in it causes hunger and poverty in it".
2. Govt. system of riba based financing not supporting the real change in the life's.
3. Poor people do not use their loan for productive purposes. They use them for non-productive purposes like, health, customs and marriages etc.
4. There is no proper way-out to find out the exact level of poverty that results not fulfill the need properly as required.
5. There is no proper monitoring system for clients and usage of loans.
6. About all the microfinance banks and institution aim to earn profit not to change the lifes of the poor's. we can see their profit statements that shows huge profits

1.4 Riba Prohibition and Islamic Model for Poverty Alleviation:

The word "Riba" is an Islamic word which means excess, increase or addition, which correctly interpreted according to Shariah terminology, implies any excess compensation without consideration.

Quran says.

"O believers! Don't charge Riba on top of Riba and fear ALLAHA so that you may successful"

According to Hadith Prophet (S.A) said.

"In any society, when Riba becomes common in it causes hunger and poverty in it. In any society, when bribery becomes common it makes it depressed."

The qard is permissible in Islam but this is the last resort for life survival. Islam prefers hand working on gaining charity and unproductive loan in order to reduce disparity. In this context, Quran says "O children of Adam, look at your adornment for every place of worship, eat and drink but not waste by excess, for GOD loveth not to prodigals"

Islam presents its own model to reduce poverty which is according to shariah and famous in Islamic community. The following Hadith presents the process of poverty alleviation through economic empowerment strategy.

A man of Ansar community came to Prophet (peace be upon him) and begged. HE (Prophet, PBUH) asked: Have you anything in your house? The person replied: Yes, a piece of cloth that we used to wear, or which we spread (on the ground), and a wooden bowl which we used to drink water. Prophet (PBUH) said: Bring them to me for you. The (human) subjects brought him in and HE (the Prophet) took them in his hands and asked the Assembly: Who would buy? A man said: I shall buy them for one Dirham. HE (Peace be upon him) asked two

or three times: Who would be there to offer more than one dirham's? Another man said: I shall buy them for two dirham's.

MUHAMMAD (Peace be upon him) took that two dirham's and handed over to the man of Ansar and said: buy food for one of them for your family and buy the axe from the other and brought him to that. He then brought it to him. Muhammad (peace be upon him) appointed to handle with his own hand and said, Go, cut the wood, stored them and sold them. Do not let come here to see me for fortnight.

The man went away and gathers the fire wooden and sold it. When he earned ten dirham's and came back to Hazrat Muhammad (PBUH) and bought some garment from it and the food other of them.

Prophet (peace be upon him) said: This is better for you to show sow the spots of begging on the Day of Judgment. Begging is valid for only three people, one who is in grinding poverty, one who is seriously in debt, or who is responsible for compensation and find it difficult to pay.

1.5 Islamic products for Micro financing:

Islam presents the poverty evaluation methods and products to the needy people accordingly. Islam classified the microfinance instruments in two main categories.

Firstly non-profit making products like Zakat, Sadqa, Waqaf and Qard-e- Hassan which are useful to provide the basic food and consumption needs for life survival and initial stage to start the micro business. Secondly, the different Profit based mode of financing like Murabha, Salam, Istisna, Ijarah, Mushrakha, Diminshing Mushrakha and mudarbah to meet the capital requirements for growing business according to client's technical skill. These products are also related to different sectors for permanent financial strength.

Objectives of the Study:

The broad objectives of the study are as follows:

1. More Productive and acceptable microfinance model to reduce poverty.
2. The Microfinance model which reduce poverty from roots of the society.
3. As existing microfinance model are unable to reduce poverty within their time period and Govt. failed to alleviate poverty even after a list of programmes from last 50 year. A model was required, gives suitable (6-10 years) time period which considered to be sufficient for poverty reduction.
4. Presentations of Islamic microfinance model of poverty reduction at different stages of poverty through one window operation.

Literature Review

(Ishrat Hussain 2007, Karen Wang 2007, Obaidullah 2008, Van nafizager 2006,) In Muslim societies, poverty is far worse performance than the rest of the world in terms of addressing the problems. About 1.2 billion people in the Islamic world are enormous, stretching from Senegal to the Philippines - comprising six regions: North Africa, sub-Saharan Africa, the Middle East, Central Asia, South Asia, and Southeast Asia. According to world benchmark, 40 % poor people of the whole world are living below absolute poverty line (below 1 US \$ per day) in the 31 counties of 56 members of OIC. I.e. 400 million people out of 1 billion are living in the Muslim's countries. In other word, the poverty in the 56 OIC counties is the twice of the average of the poverty of developing countries. The cumulative population of five large states of Muslims-Sudan, Indonesia, Pakistan, Bangladesh, and Nigeria has 690 million people out of which 250 million living below the absolute poverty line which is 36 percent. There is urgent need of assistance in the fifteen states of Muslim world whom 74 million out of 143 million living below poverty which about 50 percent of the total population. (Ahmed shafat, Mazher Iqbal 2008, M.Mazhar 2008) The word "Riba" is an Islamic word which means excess, increase or addition which is prohibited in Islam.

Quran says. "O believers! Don't charge Riba on top of Riba and fear ALLAHA so that you may successful. There are lots of financial formal and informal resources available for development in the Islamic countries which are totally interest based, not suitable and attractive for Muslims. Resources reported that about 72 percent people in the Muslim countries were not using formal resources due to interest based financing.

(Ehsan, Habib feroz 2008, Zahidzmir 2007) Islam is a complete code of life and its social, political, cultural and economic system guide human behavior in all areas of life. First time in the world, Islamic society provided

the social and economic justice to the people during the period of Kahalif-al Rashedin. The socio-economic justice and equal distribution of income and wealth are the philosophy of Islam. The most important step for socio-economic justice taken by Islam is the prohibition of Riba.

(Karim tarzai & Rellie 2008, Murtaza Chikaca 2007, Obaidullah 2008, Ausaf ahmed 2008, Umer chapra 2008, Ali asghari 2007, Yousa al-qardawi 1995, Dani Mutahta 2008, Waheed, Nadeem, Khurram 2009, Asming and Izaha Mohd 2012) The products like Zakat, Sadqa, Waqaf and Qard-e- Hassan which are useful to provide the basic food and consumption needs for life survival and initial stage to start the micro business. Rumah Zakat is one of the leading organizations in Indonesia of zakah. Since May 2004, Rumah Zakat Yogyakarta, develop a program which is known as Jaring Pengembang Ekonomi Rakyat.

Qard-e-Hassan means a good loan (a benevolent loan). This loan was given to other party without expecting any return. The return only expect from ALLAHA. In the last two, three decades many informal Iranian institutions operating a qard Hassan fund. It is estimated that about 3000 such informal funds are operating in the country and these funds divided into four categories, family qard Hassan fund, workplace qard Hassan fund, community or village based qard Hassan fund and large scale qard Hassan fund. In Pakistan, Akhwat is an Islamic micro finance, interest free institution, based on Islamic concept of qard Hassan, was established in 2001. Akhwat is dedicated to remove the poverty of the poorest, improve the standard of living that are financially abused and disregarded by the society.

Awaqf is also known as running charity (Sadqa jaria). The purpose of awaqf has to be mentioned and prohibited its transfer of ownership. Awaqf is "perpetuity" and its usufruct is as long as his life. India has huge investment in awaqf. In order to observe the economic and social condition of the Indian Muslims, Indian govt. hired Sacher committee. It was reported that the current market value of the awaqf assets in India was INR 1.2 trillion, equal to the ¼ th of Indian tax collection in 2006-07, situated in developing areas (Kachi abadia) and half of them were registered as awaqf. An ottoman cash awqaf was came into being by a generous person who endowed his charitable saving in form of cash that cash was further lent to borrowers, not exceeding 20 in numbers against their houses as collateral and allowed them to use their houses till the repayment. That brought economic empowerment, encouragement, supporters, often massive investments in education, health care and other social welfare projects.

(Ehsan Habib Feroz, 2008, Ahmed 2002, M.Obaidullah, 2008, Bank Negara of Malashya 2010, Shrbano, Eisar haider, 2012, Omer 2002) Grameen La-Riba model based on murabha and musharkha in which MFI purchase the required product from the vendor as per client demand and then sold it to him with agreed amount included profit for specific period of time. Murabha is an Islamic product which is used most of the banks or MFI in the world. Ijarah is a leasing or commission contract that involves an exchange of usufruct or benefits of an asset for rent or commission for a specified period of time. Ijarah contract is applicable on property, vehicle, project financing and personal financing. Istisna is a contract in which sale and purchase involve of manufacturing, construction and producing a specific asset in specific period of time with explained quality, quantity, standard, time of delivery and place of delivery. Mudarbah is agreement between investor and entrepreneur who is good in skill and management of the concern business and can be used in ISMFI, s. Bai Salam is an agriculture product in which purchase accrued against differed delivery.

(Amjad R and A.K Kamel 1997, Pakistan Microfinance review, 2011, Saba 2008, Ahmed Rafay 2009) The government of Pakistan introduced different projects and schemes in order to alleviate poverty and give high priority to social welfare and basic necessities of life in different points of times. About Two third of Pakistan population lived in rural areas of the country and have poor infrastructure, industries and agriculture resources. In view of this, government introduced many programmes and schemes like village aid programme (1952-61), Rural work programme (1963-72), Special development programme (1985-88), People's programme (1989-90), Tameer watan programme, Network of rural support programmes (National rural support programme NRSP, Agha khan rural support programmes AKRSP, Punjab rural support programme PRSP, Serhad rural support programme SRSP, Blochistan rural support programme BRSP. The government also focuses on urban areas of the country through different schemes and human development programmes like social action programme, utility stores corporation USC, yellow cab scheme, employees old age benefit scheme and other social security

schemes. From the last two decades, these schemes are working but could not cover more than 0.75 millions of workers. The medical availability and benefits under social security are very wide in different provinces. Social security institutions have no proper role in occupational safety and standards of health.

Methodology

Process of research, data collection, vocabulary terms, theoretical framework and reliability of data are discussed and defined in this part. The secondary data was used here and studied what has been research before in the same area. After studying the related articles, books and other related literature, literature review was made. At collection of desirable data of related field, the researcher finalized research area. The research was selected for education and practice to produce the results of the research. The sources of the literature review and research literature consist on the part of books, Articles, websites of the organizations, government schemes and other institutions who carried on their operation on Islamic microfinance spectrum. This research applies the theory, how to reduce poverty in the Islamic countries keeping in view of religiously acceptable model that should be more impressive and more productive as compared to existing development programs and conventional micro-credit.

After a literature review examination, there are two issues that was interesting to investigate the further. Firstly, what actions have been taken by the government of Pakistan to reduce poverty in 60 years? Secondly, what were the results of such actions (Programmes, schemes, organization and institutions)? Whether they achieve their targets?

The assessable of resources is the major limitation of the secondary data. Although the author has been able to find the reliable sources for data but it was not possible for him to approach all such personnel's who considered being a more reliable source. In order to find out the practical information, author collected data through reliable sources from the following organization and programmes which carried on their operations on Islamic microfinance model in different Islamic countries, named as Akhwat, Rumah Zakat, Wasil Foundation (Formally CWCD), Naymat Foundation, Islamic Relief fund, Helping hands, ottoman cash awqaf. Five Pakistan based organizations named as Akhwat, Wasil Foundation (Formally CWCD), Naymat Foundation, Islamic Relief fund and helping hands were personally visited and collected the related data by interviewing. The author tried to relate existing practical model with the above hadith at page # 5, in order to make the researchable model more productive and effective. The main spirit of the model is to evaluate the client properly first and then came into solution which suits him according to his need.

Findings of the study:

It is the basic target of any government to become a welfare state and the constitution of Pakistan has serious focus on social welfare projects to reduce the poverty, increase the living standard of the community. It is the duty of the state to provide the basic necessities of life like food, clothing, shelter, education, medical relief, suitable job opportunities. The Govt. of Pakistan introduced non-profit programmes/ schemes through NGO and other devolvement organizations which approach to poor community and try their level best to provide basic necessities of life through conventional micro-credit projects in order to reduce poverty.

It has been observed that microfinance has failed to make a major breakthrough in Pakistan in order to become a dynamic participant. Poverty rate increased from 23.9 to 37.5 percent and more than sixty million people were living below absolute poverty line. In Pakistan an agricultural country, small formers with less than 5 acres land, faced a serious problem of funds, although they required a few amount for inputs. Most of the areas have no medical facility, education and shelter. The recent disaster of Thar and Chulsitan own speaks loud the failure of Govt. development programmes.

After world current economic crises, Islamic financing took a serious promotion globally and became famous with time. Some of the microfinance institutions in Pakistan, interested in Islamic micro financing, its promotion and offering Awaqf, Qard-e-Hassana, Zakat, murrabaha, musharkha, sala,m, Diminshing mushakha, Ijarah and Takaful. It has been observed that Islamic microfinance is very helpful to promote the client's awareness level, monthly income, living standard, profitability ethical values, infrastructure, employment in the

country, control the inflation and unequal distribution of wealth with a condition that there must be more concentration over production through proper monitoring and evaluation.

Recommendations:

Government should focus on Islamic financing, establish Islamic mutual funds to support the Islamic microfinance institutions in order to introduce the complete La-Riba model and should establish a controlling department for such institutions. Such controlling department should deeply monitor the proper operations of Islamic microfinance institutions. There should be shariah and field experts' board who look after the zakat, awaqf, sadqa, qarde- Hassan and other Islamic financial products, according to the requirement of the client. The committee (Board) should also follow the proper evaluation methods of clients as above mentioned hadith at page # 5 explained that how Rasool (PBUH) evaluate the need of his companion, recommend him the proper solution and further promotion for his business, to prevent him from begging in future. By relating this hadith with practical experience of different organizations and keeping in view the needs of poor people in Pakistan, author introduced his Islamic microfinance model for poverty reduction in Pakistan. This model may be considered as more productive and target oriented as compared to the above mentioned government development plans and explains that seven years might be sufficient to reduce poverty from the society at large. This model required a lot of concentration, firm control, proper evaluation and monitoring methods through a competent staff.

In order to get the fruitful results from Islamic micro financing, it is necessary to offer all given Islamic products from one window operation which leads us to reduce the poverty from roots of the society, considered to be helpful to move the clients from a hunger mouth to donator hand. There should be proper evaluations process of client and documented. After the evaluation of client need, product should be offer as per his need and skills. The reason is that if client has no food to eat, no shelter or seriously victim of any disease and we offer him trade, musharakah or mudarbah based financing which is not suitable for him. In that case, the institution was destroying its resources and client required zakat, Sadqa, charity (Khairat) or qarde-hassan products. After removing his hunger and disease, provide him trade, musharakh or mudarbah based financing according to his skill, in order to become independent in future and prevent him to become habitual of zakat and charity (Khairat). Therefore, firstly remove the hunger of the people by using products Zakat, Sadqa, awaqf and Khairat till the institution, through its evaluation process, feels that he become easy and can be involved in business related activities. Such zakat, charity (Khairat) and awaqf based product offered by jaring pengembang Ekonomi Rakyat programme of Rumah Zakat organization in indonesia to empower the community, Ottoman empire cash waqaf and waqaf property in India. However intuitions can offer zakat, sadaq, qarde- Hassan and others at same time if it feels that client has ability (Skill) to use both type of products (charity and trade based) at same time which can remove him from absolute poverty in very short period of time. This charitable facility offers normally, not more than two years because if someone unable to handle this position within two years then he may become the habitual of such products. Awaqf and Zakat (Charity) are the basic products which used to develop the infrastructure like hospital, school, masques, streets and clean water projects etc as per shariah rulings. The Microfinance institutions can create mutual awaqf fund in order to meet the liquidity requirements of the microfinance institutions. Such awaqf fund can also be used to give the takaful facility to poor's. Govt. controlling body can bound to financial intuitions (Banks, Insurance companies, mutual funds and other such type of institutions) to finance 5 % of their capital in Awaqf, Charity (Khairat) and qarde- Hassan products for social welfare. Govt controlling body under its supervision, can also give authority to selected microfinance institutions to collect zakat and charity form the people and then used them for productive purposes. Qard-e-Hassan should be offered with proper training and it considered being the initial step to learn about business which will be returned back the original amount, like Qarde Hassan model of Akhwat in Pakistan. The institutions should offer this facility maximum upto two year in order to involve the people in real economic activity as early as he can. After providing basic necessities for survival and skills, microfinance intuitions offer trade, rental or partnership financing in order to get life and business sustainability. At this stage, the financing should be paybacks with profit which considered being helpful to build the social and national responsibilities. The institutions should offer this facility no more than three years in order to bring the sense of

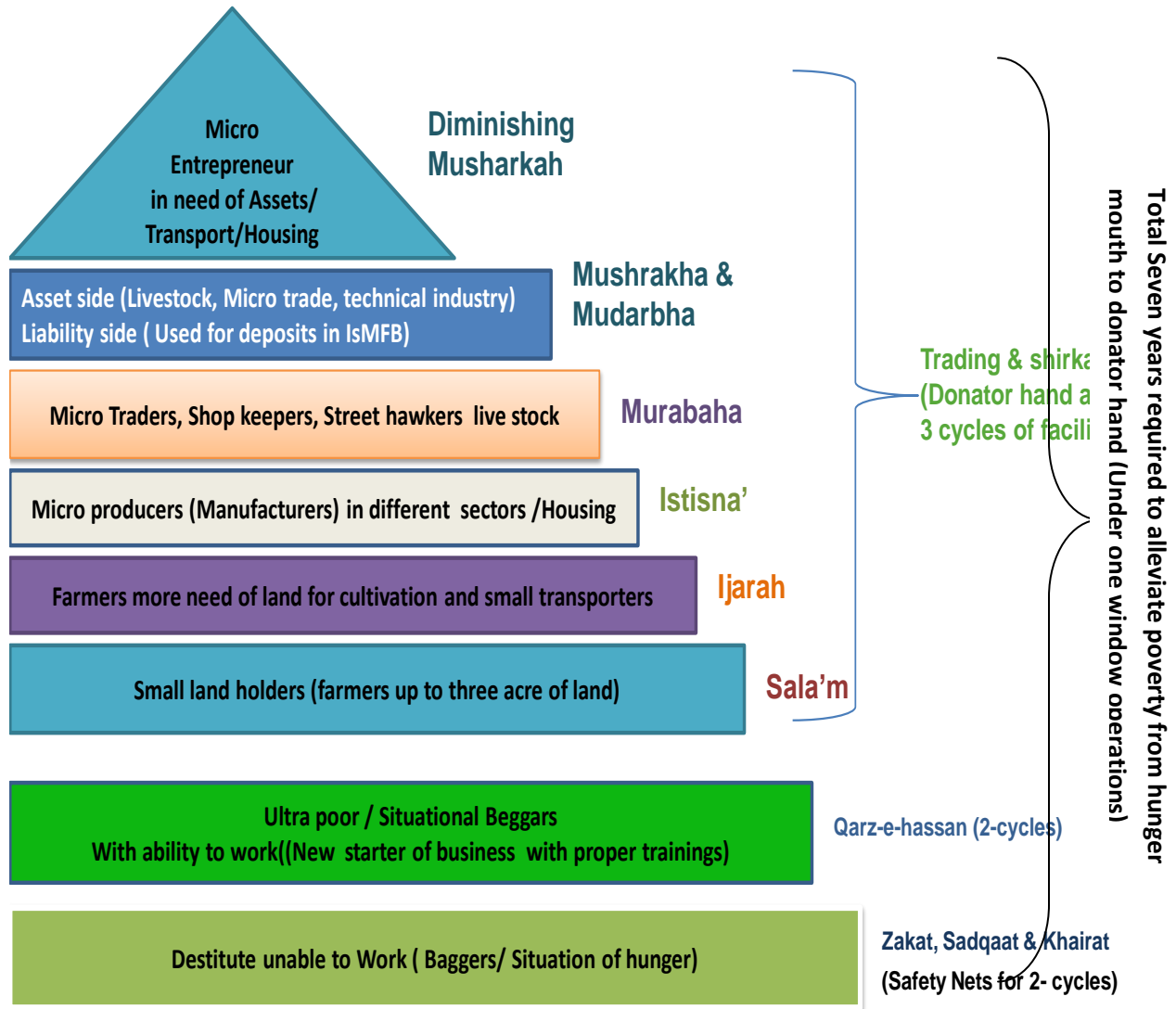
responsibility in the client. After three year client should remove from the poverty index and he will be contact with SME banks or commercial banks to become a responsible citizen and further contribution in the society at enterprise and commercial level. If the microfinance institutions fail to remove the client from poverty within this period then people become habitual of such institutions. Microfinance Institutions will stick with such type of clients like existing conventional institutions and cannot perform further.

In order to make the model more productive and fruitful, author divided the Islamic products into sectors which also helpful to promote different microfinance sectors and prevent the misuse of resources. Salam is purely for agriculture which is useful for agriculture based counties, like Pakistan and fulfills the inputs needs of small formers. Ijarah proved to be good for agriculture and transportation. Istisna proved to be useful for manufacturing and constructions. Murabha useful for micro trade, shop keeping, transportation, street hawkers and livestock. Diminshing musharkah can be used for micro entrepreneurs in forms of assets, transportation and construction. Musharkah proved to be useful for livestock, micro trade and transportation. Mudarbah is useful for all those business where technical skill involve like, agriculture, livestock, manufacturing, constructions, small technical industry etc. e.i the institutions hire land on ijarah and then make mudarbah contract, with provision of inputs, with a skillful farmer on agreed terms and conditions. At the time of harvesting, the grain will be divided according to terms and conditions decided between them. Such type of contracts also made in livestock, micro trade and micro- services industry. In order to promote the Islamic microfinance banks, mudrabah and mushrakha can be used on the liability side.

Because this model covers about all the development sectors which directly impact on poverty that's why, this prove to be more fruitful under one window operations as compare to other poverty alleviation programmes. Total seven years are considered to be sufficient to reduce the poverty from gross root level, however; this period can be decrease through the proper evaluations process of the intuitions. Author suggest that first evaluate the client and his need and then offer the product according to his need because it may be possible that client directly fall at the stage of trade base financing, required only two to three years to remove from poverty line and after this period he become eligible for SME or commercial level financing.

The model is given in below Fig.

Model of Poverty Alleviation:



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