

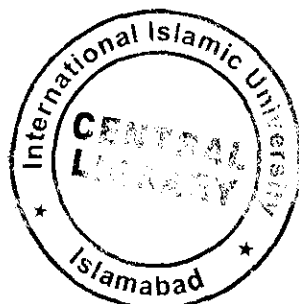
FEASIBILITY STUDY OF NEW MODEL FOR PRO POOR FINANCING



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FEASIBILITY STUDY OF NEW MODEL FOR PRO- POOR FINANCING

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Reg No: 63/FE/MS (EF-2)/F13

Submitted in partial fulfillment of the requirements for the
Master of Philosophy degree in Economics & Finance
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International Islamic University,
Islamabad.

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April, 2015



DEDICATION

Dedicated to my late father Badar-ud-din, loving husband Sajjad and to cute
son Abdul Hadi.

DECLARATION

I hereby declare that this thesis, neither as a whole nor as a part thereof, has been copied out from any source. It is further declared that I have carried out this research by myself and have completed this thesis on the basis of my personal efforts under the guidance and help of supervisor. No portion of this thesis has been submitted in support of any application for any other degree or qualification in International Islamic University or any other university.



Shazia Badar

APPROVAL SHEET

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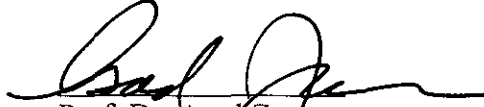
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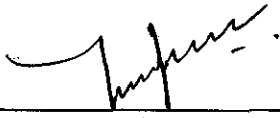
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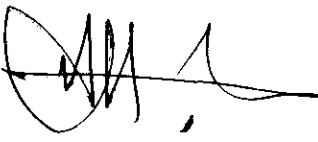

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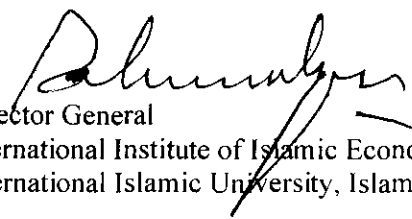
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ABSTRACT

Grameen Bank of Dr. Muhammad Yunus provided a radically new and different way of providing loans to the poor known as grameen innovation. There is no doubt of the financial success of Grameen microfinance, still there continues a debate about whether this is genuinely beneficial to the poor since Grameen innovation is credit based. This research work is focused on saving-based pro-poor financial system. The microfinance method developed by Yunus is interest based, and hence not Islamic. The goal of this research is to develop a new method for creating savings by the poor, and providing finance to the poor, which is in line with requisites of Islamic finance. Research method used is survey, and an analysis of existing data, to study the feasibility of new proposed model for savings and finance scheme for the poor.

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All the praises and thanks to ALLAH Subhana Wa Tala, the Lord of “Alamin”, Allah the Greatest. It is His boundless and infinite mercy that I am able to complete this thesis. I in woke peace for last prophet of Allah Muhammad (PBUH) who is no doubt a source of guidance for humanity as a whole.

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ABBRIATIONS

MFI'S	MICRO FINANCE INSITUATIONS
ROSCA	ROTATING SAVING AND CREDIT ASSOCIATION
ASCA	ACCUMULATED SAVING AND CREDIT ASSOCIATION
CU	CREDIT UNIONS
SHG'S	SELF HELP GROUPS
NGO'S	NON GOVERMENTAL ORGANIZATIONS
SBP	STATE BANK OF PAKISTAN
IMFB	ISLAMIC MICRO FINANCE BANK
IWFS	ISLAMIC WELFARE FINANCIAL SYSTEM
PRIFS	POVERTY REDUCTION ISLAMIC FINANCIAL SYSTEM

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CHAPTER 1

INTRODUCTION

Much has been written about the Grameen Bank, which provided a radically new and different way of providing loans to the poor known as Grameen Innovation. While there is no doubt about the financial success of this new model for microfinance, there continues to be a debate about whether this is genuinely beneficial to the poor, or whether it is just a new method to exploit the poor (Bateman & Chang, 2009). However, the microfinance method developed by Yunus is interest based and hence not Islamic. The goal of this research is to develop a new method for creating savings and providing finance to the poor that is in line with requisites of Islamic finance. Help will be taken from existing research to design a new scheme which provides the best incentives to save and removes many obstacles faced by the poor in generating savings and obtaining loans. Research methods used are a primary survey and an analysis of existing data to study the feasibility of the new proposed model for savings and finance scheme for the poor.

Initially, micro finance focused on providing credit but now it has been realized that the approach should be credit plus (Kabeer, 2001; Rahman, 1999). Microfinance institutions (MFIs) are in search of methods through which savings of clients are collected for two main purposes. Firstly, to utilize the savings productively for the benefit of clients. Secondly, to help MFIs become financially and operationally sustainable by reducing dependence on the donors' funds and expensive market borrowing. However, not being financial intermediaries, MF NGOs are restricted to recycle savings in most part of the world, and hence remain unsustainable. In a technical report "A Systematic Review of Evidence from Sub-Saharan Africa" (2010) it is concluded that micro savings are more important than micro credit, both theoretically and

practically. Rutherford (2000a) emphasizes that poor can be saved from real cost of borrowing if they know and is provided access to the savings products. This conclusion is also supported by Rodrik and Rosenzweig, (2009).

In Pakistan too, the MFIs face similar constraints as only microfinance banks that can collect savings by offering various deposit products. On the other hand, different proportions of Muslim population desist from conventional financial system and self-exclude owing to prohibition of riba. Therefore, there is a need to devise a framework catering to both saving and financing needs of the poor people through Islamic intermediation.

1.1 Islamic Microfinance in Pakistan

In Pakistan, very few initiatives have been undertaken with little coverage. The NGO's operating Islamic microfinance are represented by Akhuwat, Wasil Foundation, Farz Foundation, AZM Foundation, Islamic Relief Pakistan, Muslim Aid, and Helping Hand. Akhuwat, being the largest MF NGO, needs to be highlighted. Established in 2001 with the objective of providing interest free microfinance to the poor so as to enhance their standard of living, Akhuwat draws its strength from the principles of social justice and brotherhood (Saqib, 2012)¹. Akhuwat also strives to alleviate poverty by creating a system based on mutual support in the society. To date, Akhuwat has adopted microfinance as its operational strategy with the loans being offered in accordance with the doctrines of Qarz-e-Hasna. Akhuwat levies no interest on its loans, operates through religious places and seeks to inspire and harness the spirit of volunteerism in society. The mandate of Akhuwat extends beyond financial transactions as it makes every effort to guide, support and empower the poor. Akhuwat is further registered under the Societies Registration

¹Saqib, M. Amjad, "AkhuwatKa Safar", Mavra Books, Pakistan, 2012 akhuwat.org.pk/

Act of 1860. Few important financial figures from progress report of Akhwat, from its establishment in 2001 to February 29, 2012 are given in table 1.1.

Table 1.1 Progress Report of Akhwat upto February 29, 2012

PROGRESS INDICATOR	TOTAL
Total Benefiting Families	140,509
Loans Utilized by Males Entrepreneurs	94,718
Loans Utilized by Females Entrepreneurs	45,791
Amount Disbursed	PKR 1,805,710,242
Percentage Recovery	99.85%
Active Loans	48,688
Outstanding Loan Portfolio	PKR 519,501,470

However, none of previously mentioned institutions can operate savings of their clients, and are hence unsustainable. While no Islamic microfinance bank has been established in Pakistan, the self-excluded poor are denied access to savings products. Eventually, the poor are forced to save in kind and encounter liquidity problems, besides losing market return that could further enhance their capacity to save. Last, but not the least, microfinance clients also face life and other risks which need insurance cover (microtakaful), benefiting both the institution and the clients.

The proposed research therefore focuses on devising a sustainable financial system catering both to saving and financing products in Islamic framework for the poor segments of the country by using products to which they already are familiar.

1.2 Advantages of Savings to the Poor

The poor do not have much in the way of money, assets or incomes. It is not clear whether or not they can save or, if they do save, whether the cost of putting money aside now is worth the availability of savings at a later stage of life. The empirical work has established clearly that it is not only possible for the poor to save (Micro Banking Bulletin, 2003) but also that having access to savings is extremely beneficial to the poor (Rosenzweig, 2001; Vonderlack and Schreiner, 2001).

Benefits of savings and the possibility of saving by the poor are:

1. It has been observed that the poor frequently participate in informal savings schemes like ROSCAs (Collins et al. 2009; Rutherford 2000, Aportela 1999). This helps them to save and consider the saving beneficial later on.
2. Income streams are unpredictable and having savings allow the poor to smooth consumption streams (Rosenzweig, 2001).

3. Social benefits: By pooling savings, the poor can have access to funds in emergencies (Vonderlack and Schreiner, 2001) in return for providing the same service to others when they have need, and others have surplus.

1.3 Why Poor Do Not Save?

Given the huge benefits to the poor of savings, one would expect to see a lot more savings by the poor. However, there are a large number of genuine obstacles to savings, which must be removed in order to allow the poor to save more. A few of the relevant factors are the following.

1. Lack of a secure place to store money. The fear of theft and other social pressures prevent the poor from just storing the money under their bed or some such device (Dagnelie and LeMay, 2005). Banks do offer security but obstacles to use such form of formal banking are too great (Aportela, 1999).
2. Mental accounting: The needs of the moment are overwhelming, and the poor cannot visualize the future sufficiently to realize that the needs will be even greater some time later so that it is worth saving, even though the present needs exist (Dupasand Robinson, 2011;Rodrikand Rosenzweig,2009). Access to banking finance (savings and loans) is not more than 18% in Pakistan. This is even lower than 4% in case of female population (Access to Finance Study, SBP, 2009).
3. The poor do not have access to formal saving institutions, such as banks. (Micro Banking Bulletin, 2003). Moreover, even if they get access to banks, because of lack of trust (Schreiner, 2000), they are reluctant to avail bank services.

1.4 Objectives of the Research

The research attempts to achieve the following objectives:

1. Review the relevant literature on saving behavior of the poor people in view of productivity and sustainability.
2. Ascertain peoples' preferences for accessing Islamic saving and financing products.
3. Propose institutional framework for financial intermediation to primarily recycle micro-savings for the benefit of local communities.

1.5 Existing Financial Systems

In rich countries, if people have a choice they prefer formal financing instruments (Vonderlack, 2002). Lack of access to standard savings accounts forces households to save through informal networks (Aportela, 1999). Here, informal finance is defined as contracts or agreements which are conducted without reference or recourse to the legal system to exchange cash in the present for promises of cash in the future. Households in developing countries, however, tend to rely on much more informal arrangements (Collins et al. 2009; Rutherford, 2000). Actually putting money into the lock box itself requires an act of self-control, as discussed in Ashraf et al. (2006a) ; Banerjee and Duflo (2011). In informal finance, there are three most popular Self-Help Groups (SHGs) or networks, namely Rotating Saving and Credit Association (ROSCA), Accumulated Saving and Credit Association (ASCA), and Credit Unions (CU). These networks are very well known in both rural and urban areas.

1.6 ROSCA (Rotating Saving and Credit Association)

ROSCA is a group of individuals who come together and make regular cyclical contributions to a fund (called the "pot"), which is then given as a lump sum to one member in each cycle

(DupasandRobinson, 2011). When the last member has received the lump sum, the group may decide to start a new cycle. This way, ROSCA's serve both loan and savings needs. (Rim &Rouse, 2002)

1.6.1 Types of ROSCAS

There are three different types of ROSCA's;

- Random ROSCA
- Bidding ROSCA
- Decision ROSCA.

A random ROSCA is one where in the fixed contributions are contributed in a pot from which one of the members is given the lump sum amount each month. This is sometimes also called the basic ROSCA.

Another type of ROSCA is the decision ROSCA. In this type of ROSCA there is a governing body which decides who is to get the pot or the accumulated money at each meeting. The decision is taken by the governing body of the group which is imposed immediately. The members of the governing body are elected through voting (Farid,2012).

Bidding ROSCA is the third form of ROSCA. In this type of ROSCA, a member in need of the pot bids for the pot and the highest bidder earns the pot. After attaining the pot through successful bidding, a member cannot bid for the pot again and is obliged to make its fixed contribution throughout the ROSCA life.

The random and decision ROSCA's are fully halal according to Islamic Shariah and involve no interest.

1.7 ASCA (Accumulated Saving and Credit Association)

In an ASCA, the contributions collected at each meeting are accumulated, rather than redistributed at the end of each meeting as in a ROSCA. With this accumulating fund, the group can do many things. It can lend to its members free of interest or with interest and it can also decide to accept regular or irregular contributions of equal or unequal amounts from members to keep the fund with the group or in a bank account (Rim & Rouse, 2002).

1.8 Credit Unions

A credit union operates like an ASCA but serves a much larger membership (from a low of 100 to a high of several thousands) and offers a wider range of savings and credit services to its members. Credit unions are usually chartered under a cooperative or credit union law of the respective country. Credit union funds are also normally kept in a bank for safekeeping. It also provides services of member shares, individual savings accounts, and certificates of deposit. (Rim & Rouse, 2002)

Table 1.2 How Different Financial Institutions Work

ROSCA	ASCA	CREDIT UNIONS
1. Decide on what amount members can afford to contribute on a regular basis.	1. Decide on how often the group will meet .	1. Identify a group with some common bond.
2. How often will the group meet it is daily or weekly.	2. How much can each member contribute at every Meeting the same amount or different amounts?	2. Form an organizing committee .
3. How the collected funds will be distributed ? By taking turns in a set order, by chance draws, or by bidding for it.	3. Agree on a set of rules and regulations to ensure discipline and trust.	3. The group members vote on a set of rules to adopt .
4. Decide on who will organizethemeetings and where they	4. Decide on who will be the leaders and for how long. Leaders can consist of a	4. Members elect a board and other required committees.

will take place	chairperson, secretary, treasurer.	
5. Who will keep the records ?	5. Find a safe place to keep the money , either in a bank or in a cash box.	5. Each member must purchase a member share at a fixed price.
_____	6. Decide on how long the group will save before starting to give out loans.	6. Member loan requests are first reviewed by a credit union committee
_____	7. Decide on the conditions members must meet to receive loans and the terms of repayment.	7. When the loan is repaid , an additional interest charge is paid by the borrower to the credit union
_____	8. Close accounts periodically , and return the savings to the members helps ensure transparency and members trust.	_____

Source: (Rim & Rouse, 2002)

1.9 Why Poor Should Prefer Informal Finance System (ROSCA/ASCA)?

In the absence of alternative commitment saving strategies, people mindful of their time inconsistency problem, would turn to ROSCA's (Aliber, 2001 ; Gugerty, 2007). Many studies have found that the poor prefer ROSCA because it offers low transaction costs and the pressure to save regularly assists with deposit discipline (Ardener and Burman, 1995; Vonderlack and Schreiner, 2001). It also deals with self-control problems (Dagnelie and LeMay, 2009). Some people prefer ROSCA because of facing a fixed probability of theft and an increasing demand of money from relatives, so they can save better by joining a ROSCA at higher levels of income (Anderson et al. 2002).

CHAPTER 2

A NEW PROPOSAL

PRO-POOR ISLAMIC FINANCING MODEL

Based on the analysis of existing schemes, we propose the following new model for savings by the poor. It overcomes the obstacles to savings described earlier. The detailed discussion of the subject is in the following paragraphs.

2.1 Institutional Structure

A number of options have been considered for the institutional framework of microfinancing. The NGO's cannot collect savings, and hence cannot recycle them. Islamic banks are not inclined to operate microfinance or administer small savings and disburse finance owing to heavy cost of operation as compared to corporate financing. Only the cooperative societies registered under Cooperative Societies Act 1925, can collect savings but again cooperative societies have administrative problems where bureaucratic approach restricts independent growth, in addition to the dividend policy not being conducive to the investors. One option which could be considered is to establish a Mudarabah Company under Mudarabah Ordinance to be registered with and regulated by the Securities and Exchange Commission of Pakistan (SECP). However, Mudarabah companies cannot receive deposits on the basis of qarz which is the primary condition for ROSCA savings.

Alternatively, an Islamic Microfinance Bank (IMFB) can be established where Islamic banks would be required by the State Bank of Pakistan (SBP) to participate as shareholders as paid up capital of Rs. 1 billion would be contributed (Microfinance Institutions Ordinance 2001). In this

case, ROSCA model (random/decision) can work where deposit can be taken on the basis of qarz and the same amount would be returned to the depositor on his/her turn. Further, IMFB will have a number of advantages and can establish linkages with microfinance NGO's where their members' savings can be channelled to IMFB free of cost and mudarabah credit lines can be extended to them on profit-sharing basis. If the members contributing savings through ROSCA-like model are interested that their savings are productively invested, then they have to keep them on the basis of mudarabah and not qarz. The financing side would contain more than one Islamic modes, such as qarz, murabah, mudarabah, slam etc. The risk management tool with microfinance institutions is obvious and is part of group financing (peer pressure, peer support and joint liability bond). At the same time micro-takaful can be brought in as well.

2.2 Method of Action/Collection

This financing model is based on ROSCA (Committee system) in Pakistan, in which the depository system for members and business between members and organization on Islamic rules is included. In this financial model, relevant and useful features of interest free ROSCA, ASCA, and Credit unions (mudarabah, murabaha, musharka, istasna) are merged together.

The committees can be arranged periodically (daily, weekly, monthly, etc.). Savings can be increased by sending clients simple reminders to make deposits. Reminders can be successful in increasing savings' rates and helping clients meet savings' goals (Karlan et al. (2009a), by deposit collection services [Ashraf et. al (2006), Dupas and Robinson (2009)]. It will provide door-to-door services to people, too. Mark Schreiner (November 2000) also suggested in his study that access to services or low cost services make a big difference to the poor. IMFB can also collect committee installments, deposits, and donations (sadrkat, zakat) from the wealthy people, as Muslims are considered the most generous people among Britain's all religious groups

(Ruth Gledhill, July 20 2013). The amount for committee participation in this regard for household and student will be low and as per participant's willingness. It can be weekly or monthly and the range of participants can vary from 5 to 20, depending upon availability. Moreover, the amount of participation will be same and amount can range from Rs.100 to Rs.2000. The accounts for all mentioned options will be open and details of the accounts will be accessible to all participants in the same way as it is open and accessible for an organization. This will bring trust and accountability to the proposed system.

2.3 Method of Financing

Financing would be based on ROSCA installments and distribution. The three main ways of lending would include Qarz-e-Hasna, zakat, and donations. The committee member financing from group contribution funding and profit bearing modes for micro enterprises out of deposits, would be kept by the better off customers. Funds generated from Qarz-e-Hassan and zakat will be treated differently and will serve financing purposes as per the Islamic ijunctions.

People, who are very poor and cannot participate even in ROSCA, will be financed in phases. First, they will be given consumption grants to sustain their lives. In the second phase, their capacity can be built through enterprise training where their working capital will be financed through Qarz-e-Hasna. Finally, working capital will be provided through profit bearing modes. As their financial status gets improved, they would be encouraged to participate in the proposed system.

2.4 Coordination between Financier and Service Members

Proposed system will also provide coordination service to its members to join them in business activities. It will collect members' capability and resource data to facilitate them. By doing this,

it can coordinate to join in members who have any type of capital to invest with those members who have the ability of work. This service helps in running different investment projects on partnership or sharing basis of Mudarbah, Murabaha, Musharkah, Ijarah, and Istasna. These business projects can also run with the partnership of organization or directly between the members. If financier or service provider have trust deficit among them, they can also take organization (which will be established on particle implementation of proposed modle) as third partner for risk aversion.

2.4.1 Risk Management

For risk management following steps are suggested.

If borrower is reliable but cannot return within time because of some genuine reason, his/her repayment period can be extended. Time extension pertains to “lending by Committee” (Incorporated feature of ROSCA product in the proposed modle) and “lending by Deposits” and type of people can be categorized as reliable and unreliable. Reliable borrower is the one who is guaranteed, having good reputation and is trust worthy to return back the money. By their social contacts or with the help of their repute in their neighbors in residence or working place we will be able to find out the reliability of that person. A reliable borrower can be further categorized as affordable or not affordable.

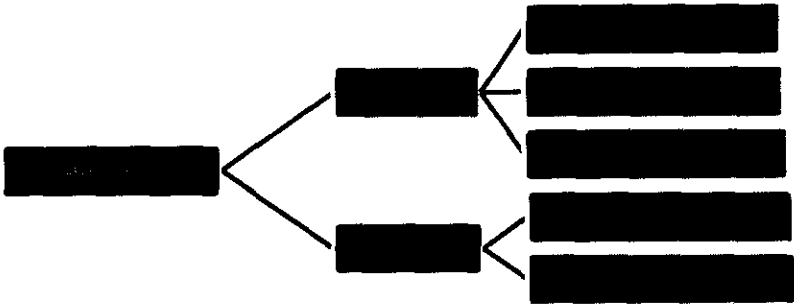


Fig 2.1 Chart for lending mechanism

Case I: Reliable Borrower. We can simply extend some time for the reliable borrower to return back the money.

Case II: Reliable but not Affordable Borrower. After complete inquiry and inspection, if somebody lies in this category, the organization will adjust the money into Qarz-i- Hasana. The amount approximating Rs.2000 comes under the case of Qarz-i- Hasana.

Case III: Unreliable Borrower*: In such a case if because of some problem and time shortage, the borrower cannot manage to return loan, they has to provide their services for that money at flexible terms such that their own routine does not get extremely disturbed. Those services can be adjusted according to the average job payment in the market as well. Time for working will be set as per the work requirement and the person's availability. Time will be few hours daily, a day or few days weekly, or some hours or days monthly to complete the given task and adjust the loan amount. Any act that can bring this action in traditional slavery system must be avoided.

Case IV: In-Committee (the one who is participating in proposed system via incorporated feature of ROSCA and in need of money before his/her turn), Reliable Person: In this case, if a participant cannot contribute in any terms of committee because of accidental need, such participant will get some time margin to submit his contribution or can take loan from organization's deposit. That loan needs to be paid at the next turn of payments or at their turn when they get their pool money from committee. Case V: In -Committee, Unreliable person. In this case, the risky, or not very reliable person, will get the returns of the saving from pool during the last few turns. There will be less chances of default by the participant.²

²In ROSCAs the early reception of the pot exposes the individual to the risk of a negative shock throughout the cycle which might prevent her from paying back her 'loan'. Moreover, considering that sanctions in case of default are more severe after pot

For some miscellaneous cases some suggested steps are as following.

Risky or not guaranteed. Such borrowers will adjust in committee system funding at condition of rewarding him/her in last turns. There will be little chance of risk their default as in starting terms they have to pay a maximum amount of their turn that they would get from committee.

Different communities with flexible size will interact with each being member of the Islamic microfinance bank, since only a financial intermediary can coordinate financial matters among them. In committee (incorporated feature of ROSCA), someone needs urgent delivery of money. due to some unforeseen reason. In such a case, if it is a large amount of money, then decision will be taken in a meeting of all group members and members can give favor to particular participant by rewarding him/her early. On the other hand, if a small amount is required, they can get the loan from committee deposits. On their turn when they get the committee, they will have to pay back that loan from the committee amount.

reception in ROSCA so receiving the pot at the end of a cycle provides in itself additional motivation to make payments and successfully complete a cycle. (Olivier Dagnelie and Philippe LeMay-Boucher *Paper No. 24, December 2009*)

CHAPTER 3

THE SUPREMACY OF PROPOSED MODEL OVER EXISTING SCHEMES

The greatest distinguishing feature of proposed model is that it is saving-based. Famous Grameen invention of Dr. Yunus is a group lending credit base with its main feature being group saving base. The proposed system combines the Islamic features of ROSCA, ASCA and CU in a form of formal financial institution. This system will bring poor, middle and high class individuals and groups, for welfare and investment. It will also accommodate the large number of members for group savings. Participants can invest either in the form of loans or savings or Qarz-e-Hassanor can provide services for poverty reduction projects. Being Riba free is the key feature of the system. The safety of funds is then guaranteed by the government's involvement. It will provide a broad base and act as a coin saver where even a million can participate. The establishment of this system will be at institutional level like that of IMFB.

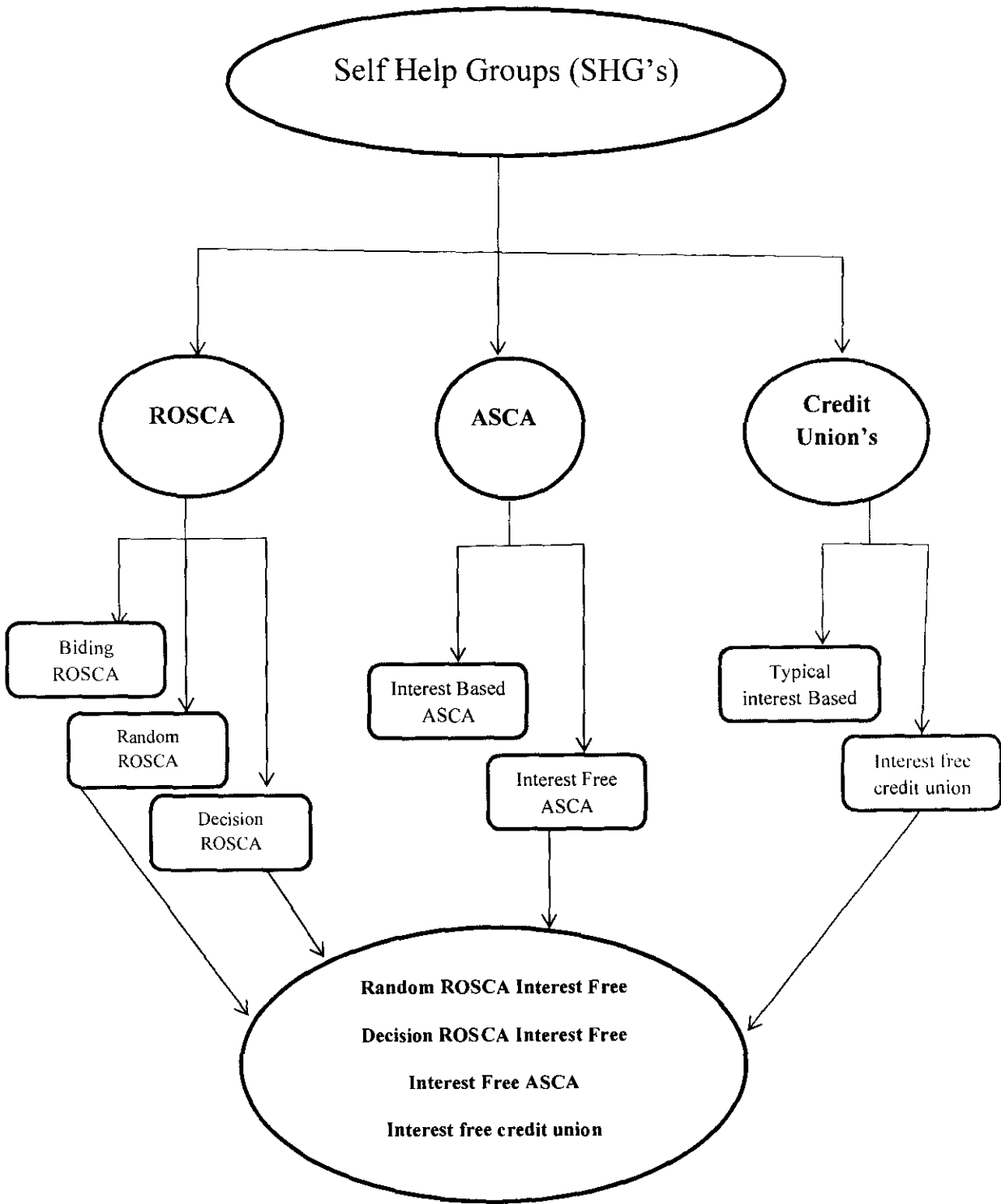


Fig 3.1 Incorporation of different SHG features in proposed model

The rules and procedures of the proposed system will be simple and easily understood with some of the rules derived from SHG's. The system will involve savings of both individuals and groups. Moreover, it will facilitate large number of members compared to those handled by the already practiced SHGs. Further, in currently practiced SHGs', savings remain in homes thus providing no productivity. But the proposed model, on the other hand, will bring savings to an organizational level which can be beneficial to more people, thus increasing its productivity. The proposed system will also attract maximum participation because it provides variety of means to involve people such as by savings or Qarz-e-Hassan or Zakat. Those not willing to participate financially have the option of providing their services either voluntarily or at least on the cost level. This system will provide maximum safety of funds as compared to other commonly practiced SHGs. Large participation base from three different classes of people i.e. poor, middle and rich class will help to overcome basic needs and will also bring a culture of savings and harmony into the society.

The features mentioned above verify the supremacy of the proposed system over the currently implemented systems. Comparative analysis between the existing methods and the proposed model is discussed now in the following table. Table 3.1 below highlights the best features of ROSCA, ASCA and CU and the incorporation of these features in the proposed model.

Table 3.1 Comparative Analysis of Existing Methods

Characteristic	ROSCA	ASCA	Credit Union	Pro-Poor Islamic Financing
Rules	Simplest rules	Complex rules than ROSCA	Complex procedure	It is welfare and Islamic shariah finance based
Participants	Its for individual interested to become groups	For the interest of both the individuals and groups.	For large groups	It will bring three classes of society (poor, middle, high) and their individual/groups for cooperation of welfare and investment under one roof.
Members count	Small number of members	Large number of members than ROSCA	Large number of members than ASCA	A large number of members without limit can come in this
Data Records	No need of record keeping skills	Require good skills of management and record keeping	Complex accounting system	A good record keeping system can be managed
Type of Saving	Small accumulation of savings	Accumulation of large amount of money than ROSCA	Voluntary savings	It will bring saving from un-utilized resources
Provision of Loans	No loans	Stretchy savings and loans comparative to ROSCA	Individualized savings and credit options for members	Savings, loans, and qarza-e-hasna for members and other needed
Interest on Loans	No money lender is involved	Interest can be earned	Interest earned on savings	Interest free for all. no extra amount or any percentage of borrowed amount can be charged to pay any party
Money Storage	No need of place for stowage money	Safe keeping of fund required	Require more secure storage for safe deposit facilities	Safety of funds can be created
Investment opportunities	Not easy to meet instant cash needs	Provide investment opportunities to members	Provide bigger investment opportunities to members than ASCA	It can help basic needs as well as investment projects
Risk	Risk of default of early receivers	Risk of default by borrowers	Risk of default is taken care of	Risk coverage rules management is at greater level
Participants Income	Participants' periodic or regular income	Periodic income	Periodic income	It can reach coin saver to milliner saver/investor
Establishment	It is established at local and very small levels	Establishment is at a bit bigger level than that of ROSCA	Establishment level is bigger than that of ROSCA and ASCA	Establishment can be at greater level than all before

CHAPTER 4

METHODOLOGY AND DATA SOURCES

The present study is survey-based. Primary data was collected through a well-structured questionnaire comprising a sample of 600 respondents, randomly selected from each of the category of users and non-users of ROSCA. The data was collected by approaching various colleges, universities, government organization, private organizations, shopkeepers, housewives, students and labor force in Rawalpindi and Wah Cantt. Students were requested to get the questionnaires filled by their parents. Moreover, those having some source of income were also invited to fill the questionnaire. A team of facilitators was trained to collect the information from uneducated and less-educated individuals. This team kept its focus on housewives, laborers and shopkeepers. The objective was to involve almost all segments of the society so as to attain a clear and realistic picture of the currently implemented SHG's.

After completion of survey samples, data entry was made in SPSS version 18 software so that descriptive study can be made to attain results. Results were interpreted using descriptive methods like bar chart, pie chart, mean, standard deviation, etc. The relation between responses to various research questions was tested for independence using statistical tests. Significance tests were then applied to attain the relevant detailed results (discussed in the next Chapter). Usually Chi-square and t-tests are used to attain the significance, however, in our case since the sample size was large, chi-square test was the best choice amongst the two as it gives accurate results for larger samples.

The new framework proposed kept in view the following factors:

1. Feasibility of collecting savings of the poor by offering Islamic products.
2. Addressing regulatory and sustainability concerns to protect the poor from the possible losses.
3. Application of prudential regulations relating to Microfinance banks and guidelines for Islamic microfinance issued by State Bank of Pakistan.
4. Ascertaining the possibility of introducing micro-takaful products in the proposed framework.
5. Devising financing products where the savings could be used most productively.
6. Ensuring low cost outreach through direct approach from the outlets of the institution or through linkages developed with Islamic MF NGOs.

CHAPTER 5

INTERPRETATION OF RESULTS

Certain novel models of pro-poor financing have been purposed in the preceding chapters with models that focused on credit. As the prime focus of the proposed model was on savings, a comprehensive questionnaire was designed to attain the pulse of people from different segments of society. The main objective for designing this survey was also to gather the desired information from all segments of the society. Division on the basis of gender, age, profession and education was thus taken care of. The survey was conducted in cities of Wah Cantt and Rawalpindi. Sample consisting of 600 respondents was chosen and descriptive analysis techniques (SPSS) used to elaborate the results. Results gathered from SPSS-vr 18 have been discussed as under:

5.1 Results Supporting Acceptability of the Proposed Model

The Questionnaire was designed in such a way that it gave options to survey respondents to express acceptance regarding their participation in the proposed system and results of participation were quiet encouraging leading to a conclusion that people would accept and participate in proposed model if implemented.

Results gathered from the survey depict that society is willing to accept and is ready to participate in the proposed model which offered two options viz. Islamic Welfare Financing System (IWFS) and Poverty Reduction (Qarz-i-Hasana) Islamic Financing System (PRIFS). Table 5.1 displays the acceptance level for both options of the proposed model. Statistics achieved were quiet promising, too. More than 80% participants agreed to participate in both

options of the proposed financing system. The results also identified target groups that were willing to actively participate in the proposed model. These target groups were from different professions, ages and education level. The details are discussed in following text.

Table 5.1 Acceptance Level of Proposed Model According to Survey

Acceptance Level	PRIFS (Qarz-i-Hasana) %	IWFS %
Strongly agree	21.93	24.61
Agree	61.58	57.31
Disagree	3.51	3.61
Strongly disagree	0.18	0.86
Neutral	12.81	13.60

The results support the proposed argument that there is a need to develop a model which can be beneficial in reduction of poverty by focusing on savings instead of credit. Outcome of the research also reveals that the society knows the importance of establishing an organized system to reduce poverty. Poverty is one of the biggest problems that Pakistan is facing and therefore, it is need of the time to introduce new workable ideas to overcome this menace.

Acceptance level of the proposed model among the participants was verified against gender, age, profession and education level using chi-square test. Significant relationship was achieved between acceptance level of IWFS with profession, $\chi^2 (20, N = 600) = 38.12, p = .01$. Using cross tabulations in Table 5.2 and graph of Figure 5.1 the significant relationship emerged.

Table 5.2 Chi-Square cross tabulation of acceptance level of IWFS with profession

		% profession agrees with establishing Islamic welfare financing					Total
		Agree	Disagree	Strongly Agree	Strongly Disagree	Neutral	
Profession	Student	48.0%	2.7%	32.0%		17.3%	100.0%
	House wife	50.0%	10.0%	20.0%		20.0%	100.0%
	Labour	57.9%	21.1%	15.8%		5.3%	100.0%
	Private job	60.2%	2.7%	28.5%	4%	8.2%	100.0%
	Own business	49.0%	3.9%	39.2%		7.8%	100.0%
	Govt employee	49.7%	3.1%	39.3%		8.0%	100.0%
Total		54.3%	3.8%	32.2%	2%	9.6%	100.0%

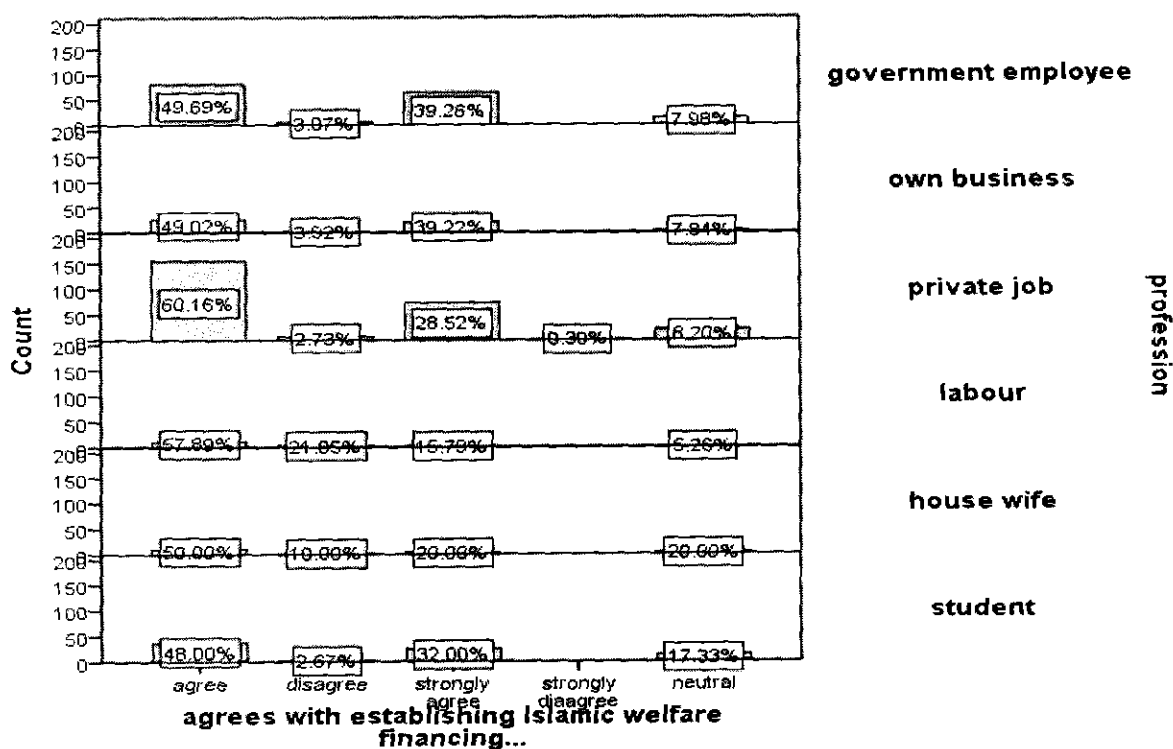


Fig 5.1 Response against "Do you agree with establishing Islamic welfare financing system" w.r.t profession

Hence a society with great variance in professions showed inconsistency in accepting IWFS, as shown in the graph above which supports the significance shown by chi-square test. A society with majority having jobs either in the government sector (89%), the private sector (88.7%) or ran their own business (88.2%) had acceptability for IWFS. So these became target groups for the proposed model. Focus on government employees, private job holders and business men was then considered important in establishment of proposed model.

Similarly, for acceptance of second option for the proposed model i.e. PRIFS, significant relationship between age and education against acceptance of establishment emerged, as shown by the chi-square scores, which are $\chi^2 (16, N = 600) = 28.73, p = .03$ for age and $\chi^2 (18, N = 600) = 38.06, p = .00$ for education. With the help of cross tabulation in Table 5.3 and Figure 5.2, the significant relationship is explained below in Table 5.3.

Table 5.3 Cross tabulation of participation in PRIFS against age

		Opt to participate in poverty reduction Islamic based financing					Total
		Agree	Disagree	Strongly Agree	Strongly Disagree	Neutral	
Age	18-25	65.9%	6.5%	16.5%	6%	10.6%	100.0%
	26-40	60.1%	1.8%	23.6%		14.4%	100.0%
	41-50	67.1%	1.2%	19.5%		12.2%	100.0%
	50-60	42.9%	2.9%	42.9%		11.4%	100.0%
	above 60	42.9%	14.3%	14.3%		28.6%	100.0%
	Total	61.6%	3.4%	21.9%	.2%	12.9%	100.0%

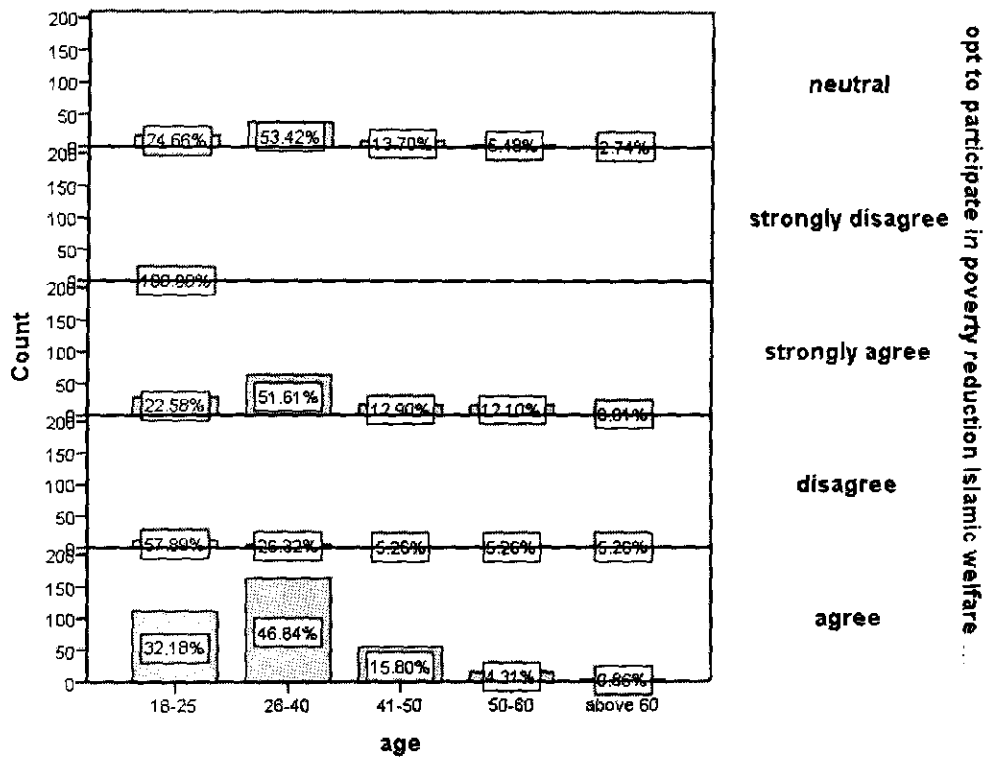


Fig 5.2: Distribution of Participants who Opt to Participate in PRIFS, w.r.t Different Age Groups
 As depicted in the Figure 5.2 above, the percentage results for the age-group 41-50 is 86.6%, 85.8% for the age-group 50-60 and 83.7% for the age group 26-40. The results are quiet encouraging and were in favour to establish PRIF. By taking into consideration PRIFS option of the model and keeping focus on highlighted age groups, the proposed model was found to be more productive.

Using cross tabulation in Table 5.4 and Figure 5.3, the relationship between education and acceptance in establishment of PRIFS is elaborated the following Table 5.4.

Table 5.4 Cross tabulation of participation in PRIFS against education
% within education

		Opt to participate in PRIFS				Total
		Agree	Disagree	Strongly Agree	Neutral	
Education	Primary	35.7%	14.3%	21.4%	28.6%	100.0%
	Metric	62.5%		21.9%	15.6%	100.0%
	Technical	68.4%			31.6%	100.0%
	Intermediate	62.5%	12.5%	12.5%	12.5%	100.0%
	Graduation	59.6%	2.0%	25.1%	13.3%	100.0%
	Masters	62.5%	2.3%	24.4%	10.8%	100.0%
	More than masters	66.3%	5.0%	20.0%	8.8%	100.0%
	Total	61.5%	3.4%	22.2%	12.9%	100.0%

Education level of society, or any particular geographical area, plays a key role in acceptance and participation of PRIFS. Educated society will behave differently to PRIFS as compared to a less educated society. The Figure 5.3 particularized that people with education level of bachelors or higher, had more acceptance level and high percentage of participation in IWFS compared to those having education less than bachelors. Also, young people were more willing to accept and participate in PRIFS.

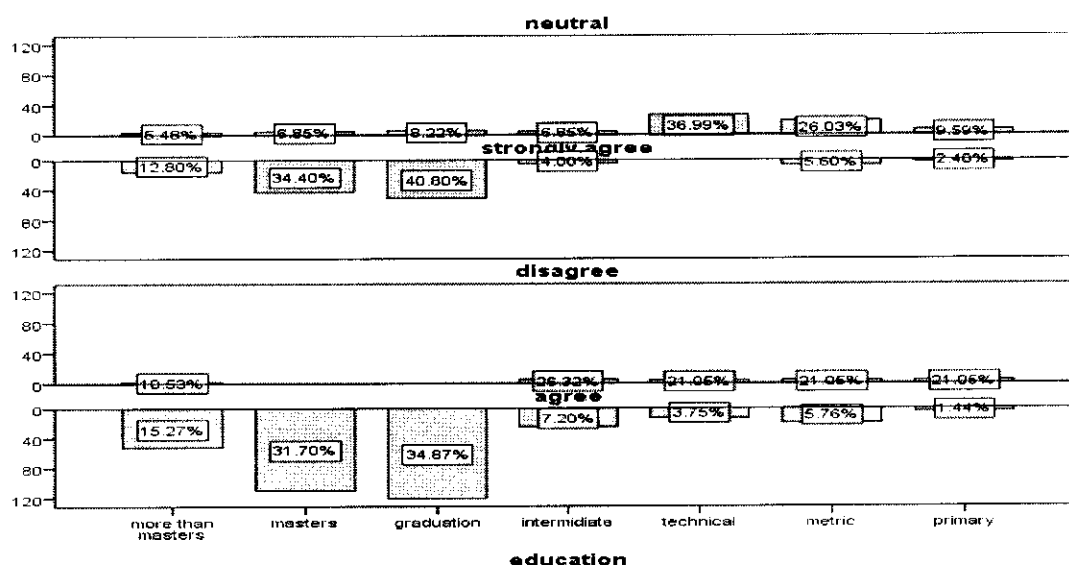


Fig 5.3 Distribution of Participants who Opt to Participate in PRIFS w.r.t Different Education Levels

Different research studies like (Valles, J. A, 2003) confirm that educated people accept change more positively and quickly than less educated ones. In Pakistan most of the people join practical life after attaining targeted education whereafter they factually encounter economic hardships and attempt to save. It is clear from the Figure 5.3 that high education level leads to higher level of acceptance for PRIFS. Among those who participated in the survey, 85% of the bachelor degree holders, 86% of the master degree holders and 86% of those who had higher education than master's degree are in favour of establishing PRIFS, thus becoming prospective target groups.

Chi-square test results show that there is an insignificant relationship between IWFS and gender ($\chi^2 (4, N = 600) = 3.051$; age $\chi^2 (16, N = 600) = 17.47$; and education $\chi^2 (24, N = 600) = 24.07$, $\rho = .46$). Similarly, for PRIFS, the chi-square results show an insignificant relationship between gender and profession against acceptance and establishment of PRIFS ($\chi^2 (4, N = 600) = 1.96$, $\rho = .74$; profession $\chi^2 (20, N = 600) = 30.52$, $\rho = .06$.)

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Modigliani (1963), developed the life-cycle theory. The life-cycle hypotheses assume that individuals attempt to maximize their utility or personal well-being by balancing a lifetime stream of earnings with a lifetime pattern of consumption. Empirical studies of the life-cycle hypothesis have generated a substantial amount of literature focusing saving behavior of the people.

The life-cycle hypothesis begins with the observation that consumption needs and income are often unequal at various stages in the life cycle. Younger people tend to have consumption needs mainly for housing and education, and therefore they have little savings. In middle age, earnings generally rise, enabling debts accumulated earlier in life to be paid off and savings to be accumulated. Finally, at retirement, incomes declines and individuals consume out of previously accumulated savings.

Therefore, we can conclude that results of acceptance level suggest that there is a need to establish an Islamic financial system that is welfare based and helpful in reducing poverty. The results also help us in identifying the target groups for both the options of the proposed model. Keeping a strict focus on identified target group's educated people, i.e. people belonging to the age-group 18-40, job holders (government or private) and business class, are expected to bring success to this proposed scheme. This emphasizes the fact that it would make it easier to establish a broader base of society for proposed model.

5.2 Results about Adequacy of Saving to Support IWFS

Everybody saves. Hence, there is a need to establish a system that is helpful in generating savings as all of the existing models are based on credit. The proposed model focuses on saving because the cost of savings is much less than the cost of credit.

Results attained from the conducted survey are very promising and support the suggested argument that a financial system which formalize and facilitate people to save would be beneficial to society. People want to save as they want to be credit worthy. It is clear from the survey's results that everyone attempts to save, so there would be adequate savings to support establishment of proposed model. These savings would then be utilized to give loans to the poor of society so that they could be able to meet their basic needs.

Moreover, people savings are purpose oriented and some of very common purpose of savings are listed in questionnaire. The outcome attained from the responses to the questions asked in the questionnaire illustrates that by introducing some certain specific purpose of savings in the proposed model, more participants would be attracted and the acceptability of model in the general public would be enhanced, the details of which are given in paragraphs to come.

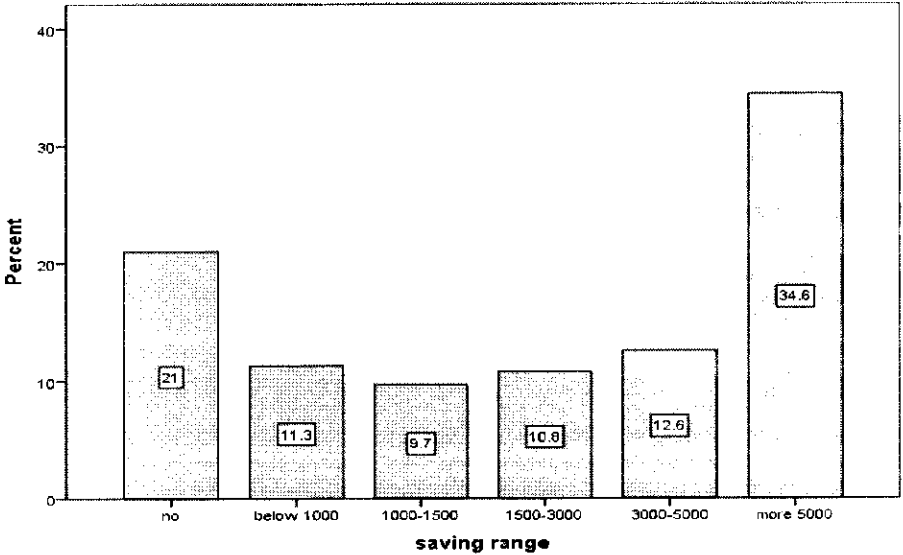


Fig 5.4 Saving range of survey participants on monthly basis

The Figure 5.4 shows that, in general, people save. People who do not have any savings are just 21% of the respondents. As people try to save individually, the range of more than Rs. 5000

saving which is 34.6% (range of savings for proposed model) is greater than existing saving level and Rs 3000-5000 (12.6%) were targetted. So if the focus is kept on these saving ranges in the proposed model, then it can be beneficial in practically launching and in the success of the proposed model.

Mostly savings are purpose-specific. Therefore, by looking at these purposes and identifying target group with reference to saving choices, special attention can be paid to those groups of people that otherwise get ignored. Participants were given five different choices to state their most preferred choice of savings, namely savings for household needs, savings for education, savings for marriage of children, savings for precautionary measures and savings for investment purposes.

The outcome tells that the most popular reason of saving amongst participants is education (30.2%) followed by precautionary measures (27.1%) and household needs (21.6%).

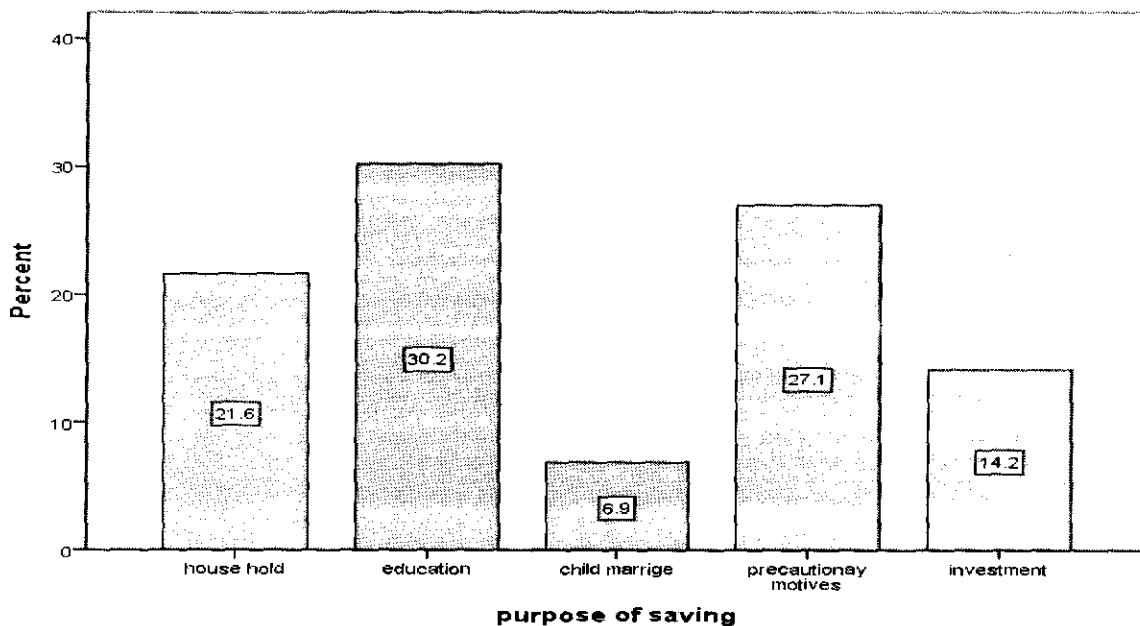


Fig 5.5: Purpose for Saving

Education, Precautionary measures and household needs are key reasons for savings. By focusing on these purposes, more people could be attracted to participate in the proposed model. To attain a much accurate and closer picture of savings by purposes, the significance of saving purposes is tested along with different variants such as age, education and profession. The results of the Chi-square test suggest that the relation of the purpose of savings is insignificant with gender. However, there is a significant relation between purpose of saving and age, profession, education and number of dependents.

The Chi-square test also reveals that there is a significant relation between age and the purpose of saving ($\chi^2 (16, N = 600) = 88.49, p = .00$). The detailed results are given in following table.

Table 5.5 age * purpose of saving Cross tabulation

	purpose of saving					Total
	House Hold	Education	Child Marriage	Precautionary Motives	Investment	
Age 18-25	12.5%	51.3%	2.6%	20.4%	13.2%	100.0%
26-40	28.8%	19.8%	4.7%	30.4%	16.3%	100.0%
41-50	21.3%	27.5%	12.5%	30.0%	8.8%	100.0%
50-60	13.9%	22.2%	22.2%	25.0%	16.7%	100.0%
above 60	14.3%	14.3%	42.9%	28.6%		100.0%
Total	21.8%	30.1%	7.0%	27.1%	14.1%	100.0%

*% within age

People of different age groups think differently so their purposes to save are also different. Distribution of purpose of savings in different age groups is elaborated in the Figure 5.6. This figure elaborates that people below the age of 40 save most of their money for education purposes. People below 25 years of age hardly save anything for households needs as most of

them are unmarried and live with parents. They do not have a home to run therefore and therefore hardly save for the household needs. People from the age group of 40-50 save maximum money for precautionary measures, an obvious reason, because they have already spent the peak period of their life and now their health and energies are on a descend.

The survey results show that people from different age-groups save for different purpose. In the age-group 18-25, 51.3% of the respondents saved for education. For the age-groups 26-40, 40-50 and 50-60, precautionary measure was most valued choice with 30.4%, 30% and 25%, respectively. People in the age group of 60 and above, mostly saved for their children's marriages (42.9%).

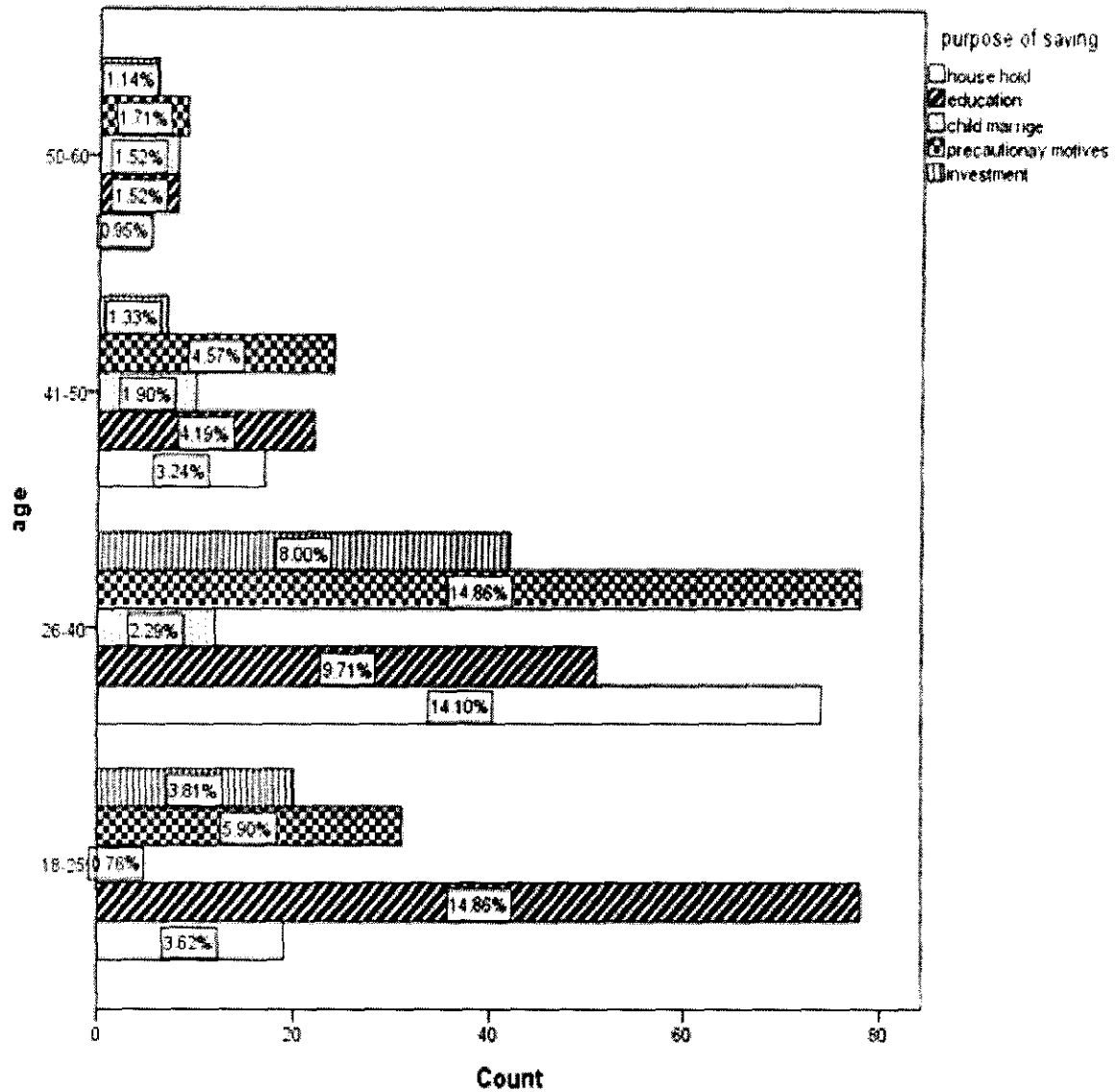


Fig 5.6 Purpose of saving w.r.t different age groups

Since people from different age-groups save for different purposes, as shown in Figure 5.6, therefore if proposed model facilitates various age-groups according to their most preferred saving choices, it will help to accumulate more savings.

In terms of relation between profession and the purpose of saving, the results of the Chi-square test shows that there is a significant relation between the two variables ($\chi^2 (20, N = 600) = 90.36, p = .00$). Table 5.6 below, shows the cross-tabulation details.

Table 5.6 Profession * purpose of saving Cross tabulation

		purpose of saving					Total
		House Hold	Education	Child Marriage	Precautionary Motives	Investment	
Profession	Student	5.2%	70.7%	3.4%	8.6%	12.1%	100.0%
	House wife	26.3%	15.8%	21.1%	26.3%	10.5%	100.0%
	Labour	47.1%	35.3%		17.6%		100.0%
	Private job	23.7%	28.0%	4.7%	29.7%	13.8%	100.0%
	Own Business	7.7%	26.9%	15.4%	23.1%	26.9%	100.0%
	Govt Employee	25.8%	21.3%	7.7%	32.3%	12.9%	100.0%
	Total	21.6%	30.4%	6.9%	27.0%	14.1%	100.0%

*% within profession

People from different professions do have different preferences and reasons to save money, it is obvious from survey results. For example, a business man will save money to further invest and expand the business (also reflected from survey result), whereas a young unmarried individual might save money to further their education. The primary purposes of savings, with respect to different professions according to the survey, are as following. 70% of student's primary choice for saving was education, 30% of the house wives were saving for the household needs and an equal percentage saved for the precautionary measures. The 47.1% of the labour saved for house hold, 26.9% of business men saved for investment, while 29.7% of the private job holders and

32.3% government job holders saved for precautionary measures. A breakdown of how different profession holders thought about purpose of saving is elaborated in the Figure 5.7.

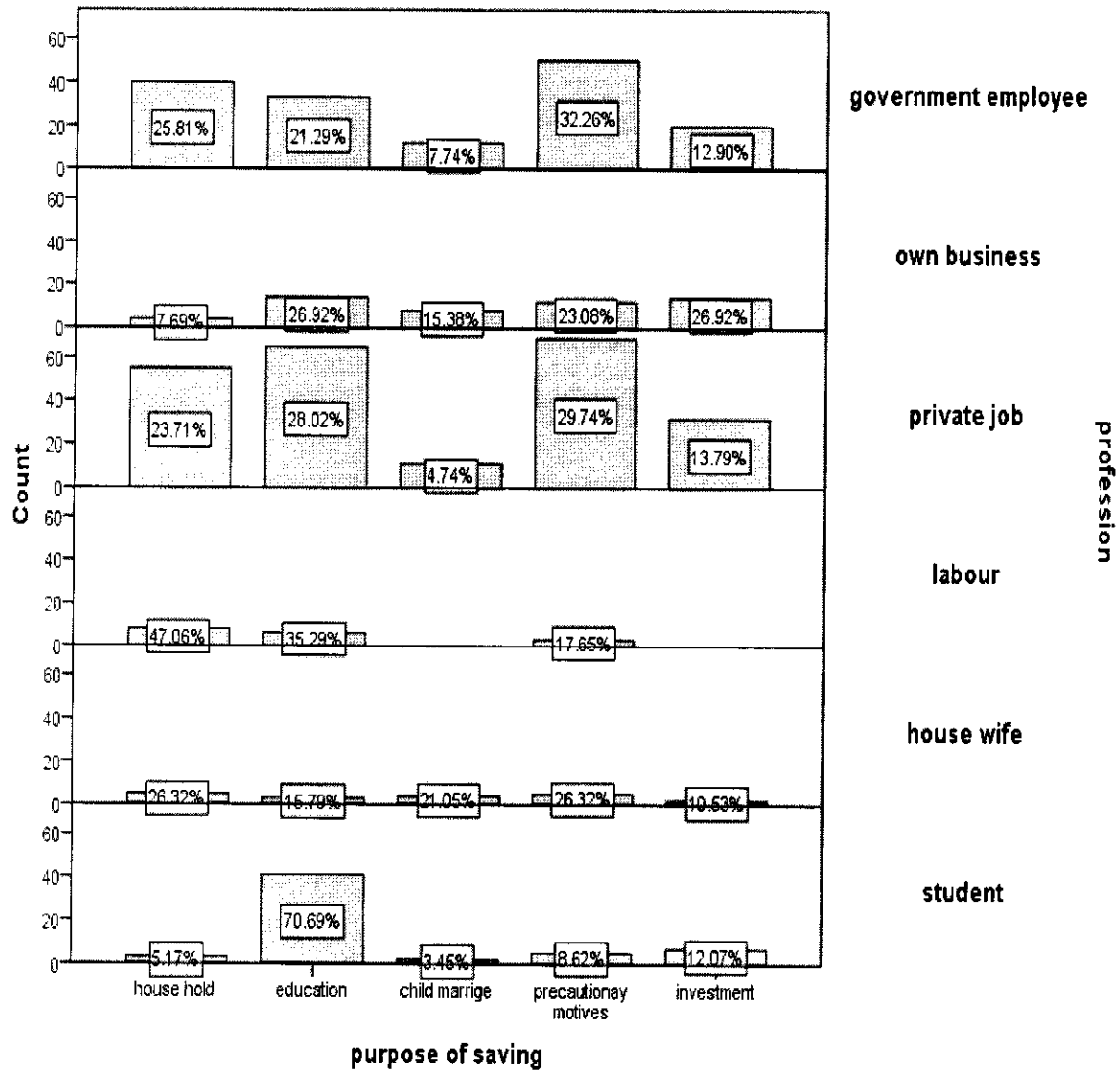


Fig 5.7 Purpose of saving w.r.t Profession

In order to create greater savings and keeping profession as a reference, the proposed model kept focus on students for education, house wife and labour for house hold purposes, business men for

investment purposes and job holders for precautionary measures. This approach resulted in higher savings.

The Chi-square test results show significant relation between education and purpose of saving ($\chi^2 (24, N = 600) = 58.49, p = .00$), the details of which are given in Table 5.7.

Table 5.7 education * purpose of saving Cross tabulation

		purpose of saving					Total
		House hold	Education	Child Marriage	Precautionary Measure	Investment	
Education	Primary	33.3%	33.3%	6.7%	20.0%	6.7%	100.0%
	Metric	51.9%	25.9%	7.4%	11.1%	3.7%	100.0%
	Technical	20.0%	30.0%	20.0%	30.0%		100.0%
	Intermediate	26.3%	47.4%	5.3%	10.5%	10.5%	100.0%
	Graduation	20.6%	34.9%	8.5%	20.6%	15.3%	100.0%
	Masters	18.8%	20.0%	4.8%	38.8%	17.6%	100.0%
	More than Masters	16.9%	31.2%	5.2%	32.5%	14.3%	100.0%
Total		21.8%	29.9%	7.0%	27.1%	14.1%	100.0%

% within education

Level of education directly influences thinking and this is also proven by the Chi-square test. Educated people are more cautious and have a calculated approach towards the future. The following figure 5.8 shows that people having education equivalent to graduation or above saved maximum money for education or for precautionary measures. People with education less than graduation saved more money for household needs rather than for education. Moreover, saving for precautionary measures also has lower preference for people having education less than

graduation. The Chi-square test results suggest no relation between gender and purpose of saving ($\chi^2 (4, N = 600) = 9.03, p = .06$).

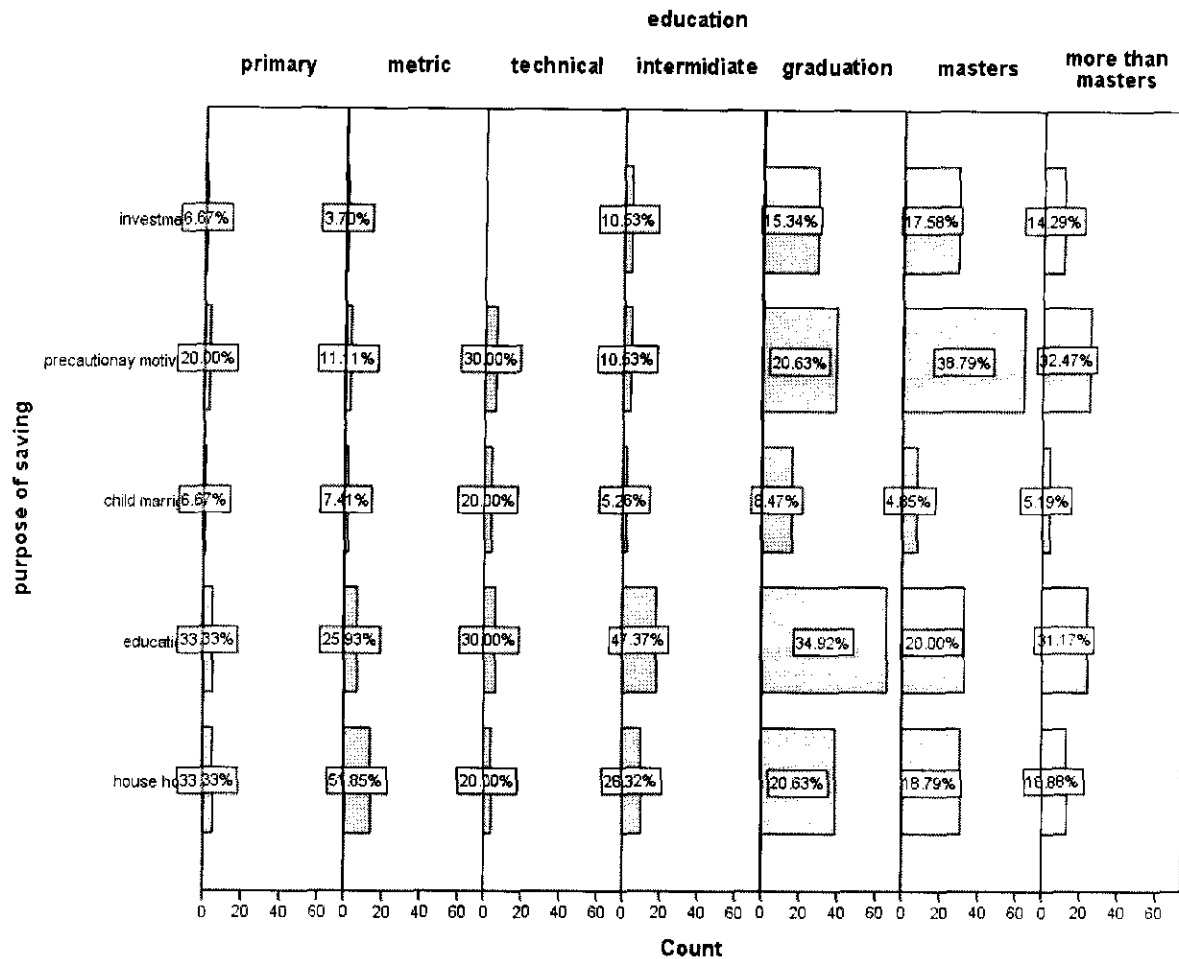


Fig 5.8 Purpose of saving w.r.t education

Thus, according to survey results, the proposed model focuses on clients according to their educational levels. People having education level of matric or below, may be attracted to savings for household needs, intermediate and graduates for educational purposes and masters and above for precautionary measures. The Chi-square test results show a significant relation

between gender and satisfaction level from savings ($\chi^2 (4, N = 600) = 10.95, \rho = .03$).

Satisfaction level from savings for males and females is described using table 5.8 and figure 5.9.

Table 5.8 Gender wise saving satisfaction level Cross tabulation

		saving satisfaction level					Total
		Strongly Satisfied	Satisfied	Neutral	Not Satisfied	Strongly Dissatisfied	
Gender	Male	6.5%	38.1%	19.5%	25.4%	10.5%	100.0%
	Female	3.4%	26.2%	27.5%	28.9%	14.1%	100.0%
Total		5.6%	34.6%	21.9%	26.4%	11.5%	100.0%

% within gender

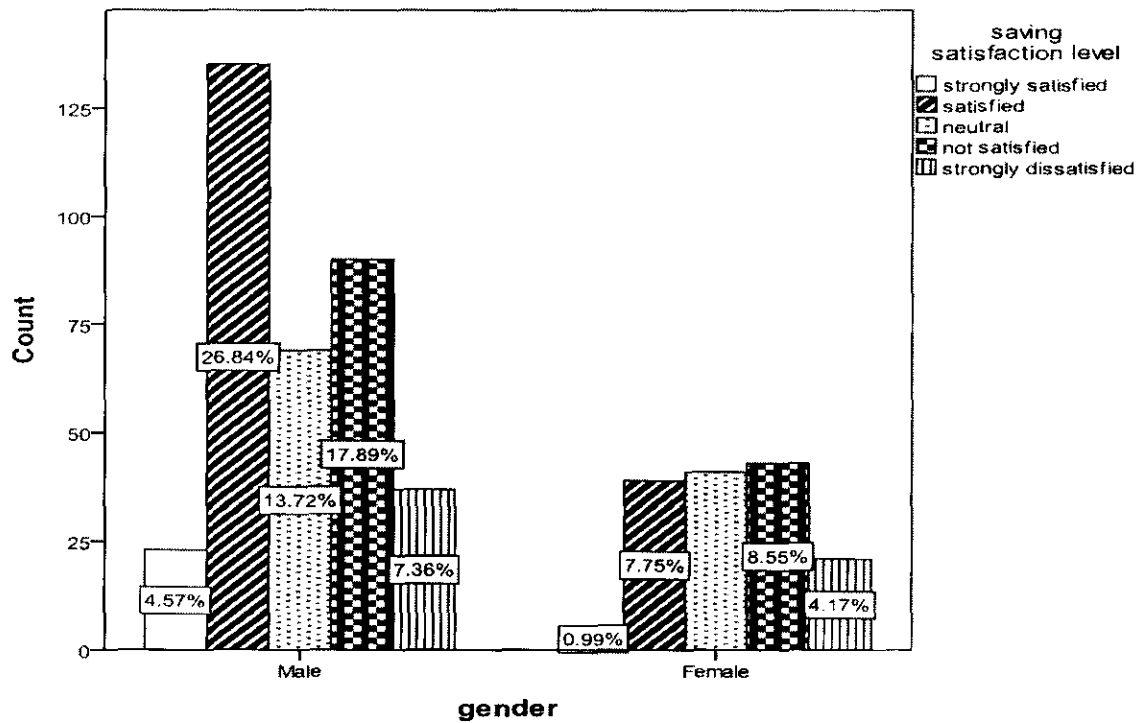


Fig 5.9 Saving satisfaction levels gender wise

According to the figure 5.9 and table 5.8, females compared to the males were less satisfied with their saving level. Therefore, to facilitate female for savings in the proposed model, they might be considered a good target group which could result in higher savings.

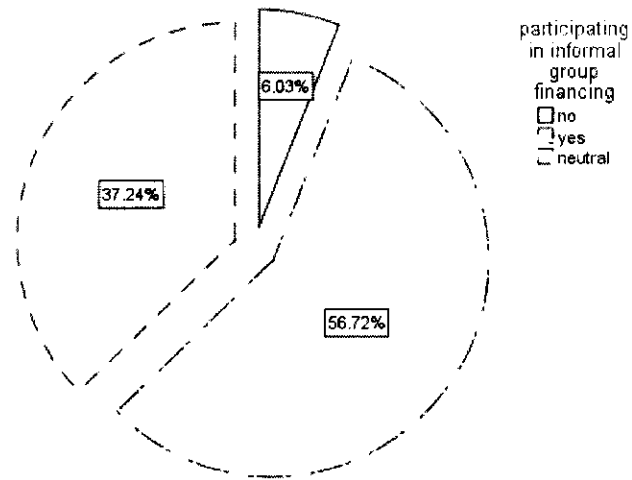
5.3 Further Empirical Evidence Supporting Current Model

The proposed model improved by combining ROSCA, ASCA and CU. It is recommended that the proposed model may be implemented with the government's participation because majority of the respondents are risk averse and do not participate due to risk of default. The government participation provides buffer against this default. Moreover, the proposed model incorporates the best features of both formal and informal financing system.

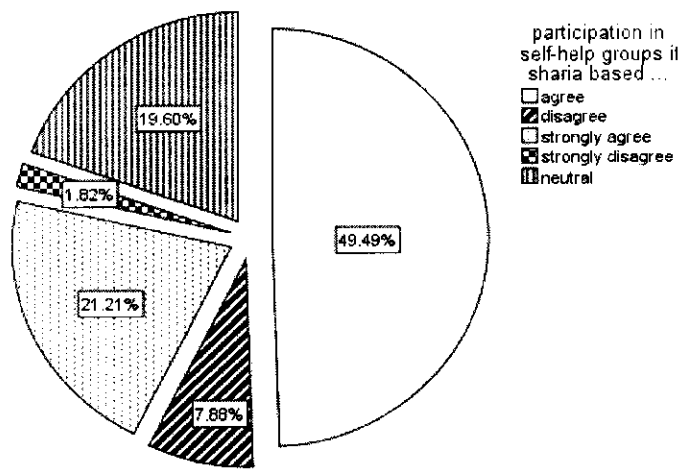
People want to access the services of informal institutions and enjoy the quality of formal. The proposed model can result in enhancement of saving and is helpful in poverty reduction because it not only incorporates the features of both formal and informal financing systems, but also involves Islamic means to bring financial equality in the society.

The feedback from surveyed participants was incredibly promising as well and was supporting the proposed model. Survey concluded a remarkable increase of participation by more than 15% in SHG's backed by shariah and government involvement, as proposed in the model.

Currently 56% people are participating in SHG's while involvement of shariah and government raises this figure to 71% as elaborated in the following figures, 5.10 (a) and (b).



(a)



(b)

Fig 5.10 (a) Current participation in SHG's (b) Participation after sharia and government involvement

To identify and segment the target groups for the proposed model, relevance against profession and city was found using chi-square test. For profession, $\chi^2 (20, N = 600) = 90.36, p = .00$. details are elaborated in table 5.9.

Table 5.9 Profession wise participating in informal group financing Crosstabulation

		participating in informal group financing			Total
		No	Yes	Neutral	
Profession	Student	16.9%	35.2%	47.9%	100.0%
	House wife	5.3%	68.4%	26.3%	100.0%
	Labor		57.9%	42.1%	100.0%
	Private job	7.0%	57.8%	35.3%	100.0%
	Own business	2.0%	66.7%	31.4%	100.0%
	Government employee	1.9%	60.0%	38.1%	100.0%
Total		6.1%	56.7%	37.2%	100.0%

The following figure 5.11 identifies the target groups for the proposed model. Majority of housewives (68.4%), private job holders (57.8%), government employees (60%) and business owners (66.7%) are already participating in informal finance. Taking in to account these target groups, we can increase the productivity of the proposed model. Further, specific details are stated in the Figure 5.11 below.

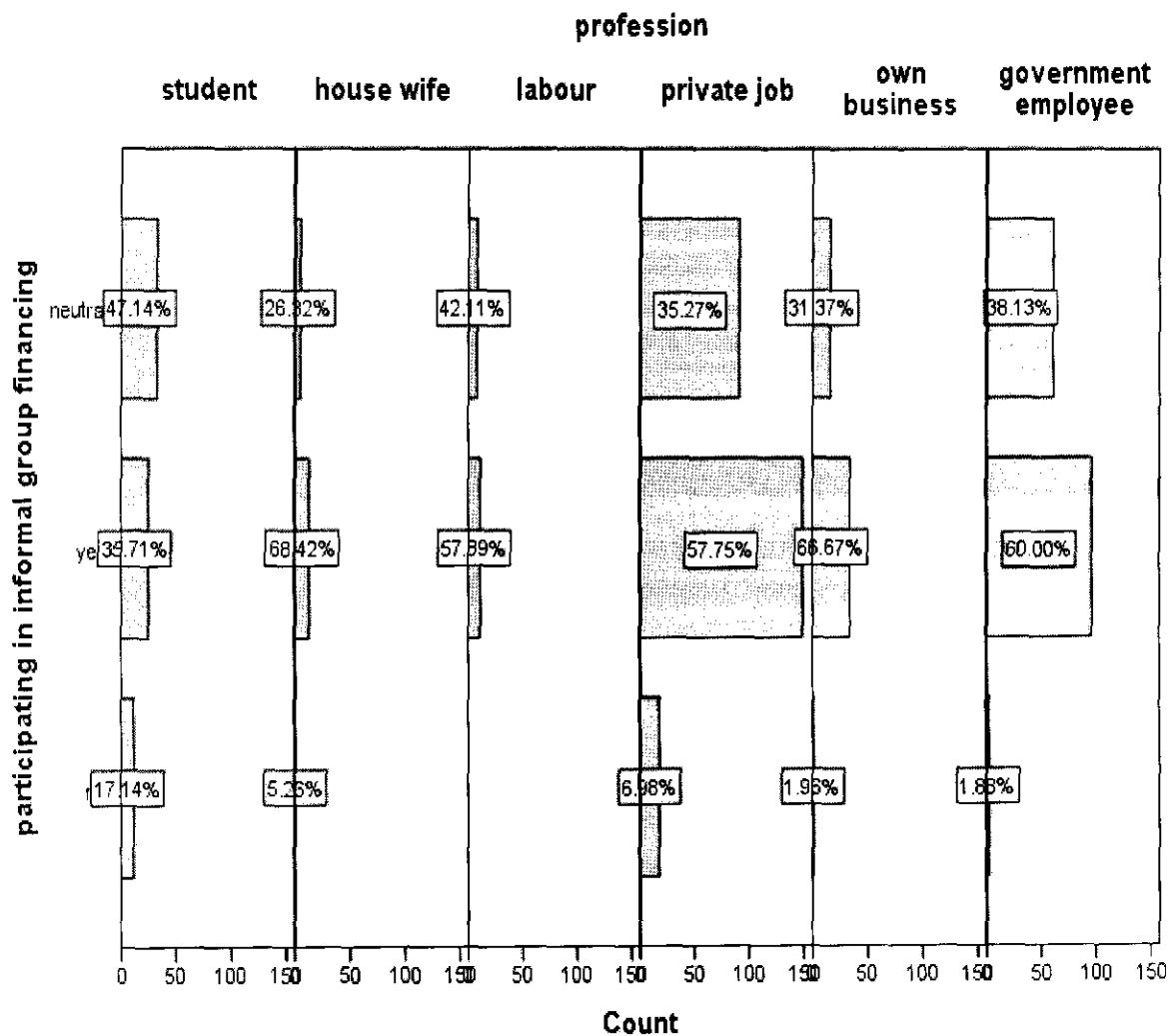


Fig 5.11 Distribution of participation in informal financing groups' w.r.t profession

Table 5.10 City wise participation in informal group financing on

		participating in informal group financing			Total
		No	Yes	Neutral	
City	Rawalpindi	8.4%	50.6%	41.0%	100.0%
	Wahcantt	2.8%	64.8%	32.4%	100.0%
	Total	6.0%	56.6%	37.3%	100.0%

The Chi-square test is performed resulting in significant relation between city and participation in informal group financing ($\chi^2 (2, N = 600) = 15.13, p = .00$). Details are given in the Table 5.10.

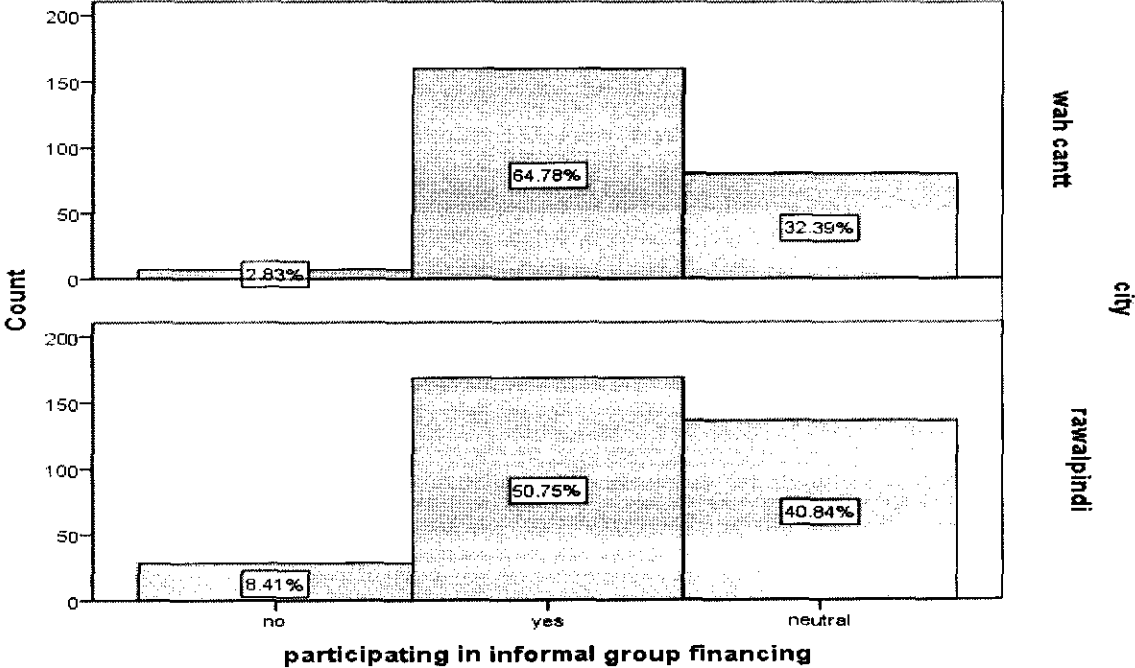


Fig 5.12 Distribution of participation in informal financing group's w.r.t city

The proposed model can be applied for experiment in the cities of Wah Cantt and Rawalpindi as the participation rate in informal finance is quite high in these cities. In Wah Cantt it is 50.6% and 64.8% in Rawalpindi.

As shown by the Figure 5.13, 35% of people who participated in the survey either did not the know details or had not heard about informal/SHG's finance. By implementing the suggested model and advertising its benefits, almost 1/3rd of the unattended society can be attracted to suggest financial model.

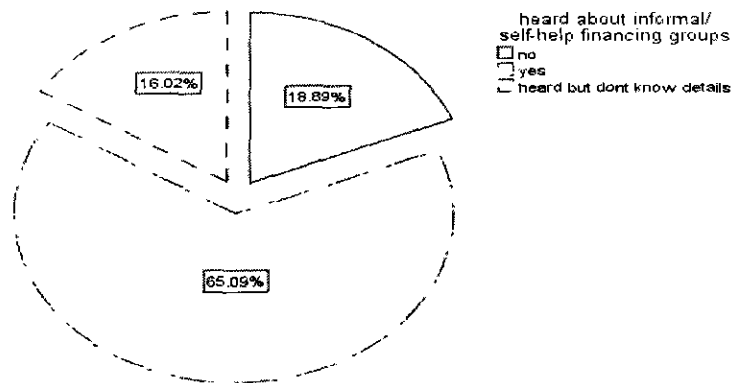


Fig 5.13 Response against “Have you heard about SHGs?”

The survey enlightened that 85% of participants (70% participated in interest free SHG's) were in the favour of interest free based SHG's system (details in Figure 5.14), while 70% of (Figure 5.15) participated in ROSCA systems. The proposed system is expected to render more formulized framework, effective surety, less possibility of default, and multiple options to save which will increase the participation percentage.

Pooling of money in ROSCA was mostly on monthly basis and prime purposes of participation in ROSCA were education (28%), household needs (22%) and investment (16%). Thus, in the proposed model, by incorporating the features for ROSCA implication, pooling of money will be targeted on monthly basis and people will be facilitated for the purpose of education, house hold and investment to participate in proposed model, resulting in greater increase in clients.

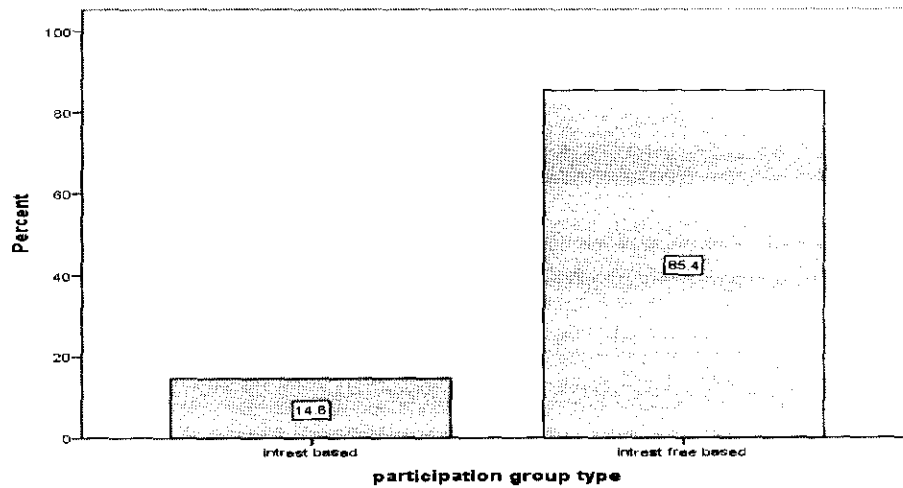


Fig 5.14 Participation in SHG's types

The data from the survey also shows that at the same time 65% of the participants were reluctant to participate in ROSCA based systems because of risk of default or no government involvement (details are given in Figure 5.15). Hence, according to the survey, if risk of default can be covered by government guarantee, participation in proposed model would greatly increase, which is also a key component of the suggested model.

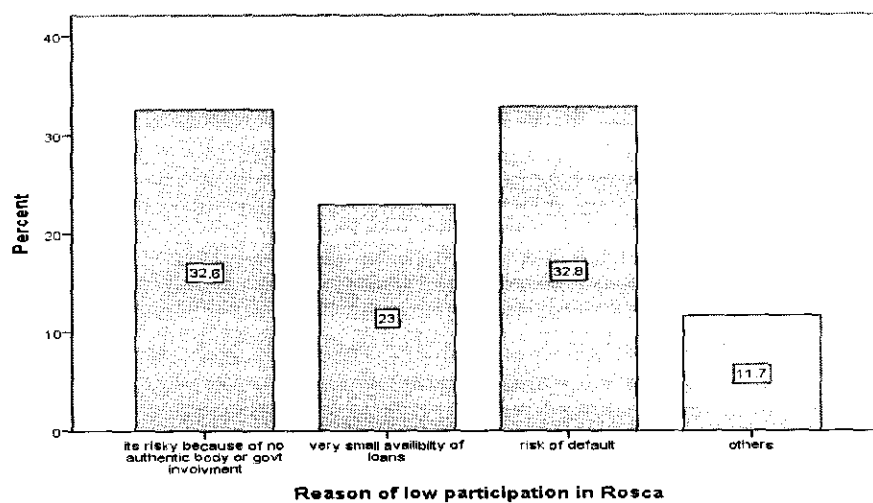


Fig 5.15 Response against "Reason of low participation in ROSCA"

Further, the proposed model is Riba free. The survey concluded that 85% (Figure 5.14) of people were already participating in Riba free informal financing system, thus the proposed system would attract greater number of people.

ROSCA is the one of the main features of the proposed model and it is informal financing type. To check its credibility by participation of people, the survey results about informal type participation needed to be probed. The percentage of participants taking part in informal type of financing is given in pie chart in the Figure 5.16. Almost 70% prefer ROSCA, which is the most popular type of informal financing system in Pakistan and almost 8% take part in credit unions. Our model incorporates best features of ROSCA and it will attract large number of customers.

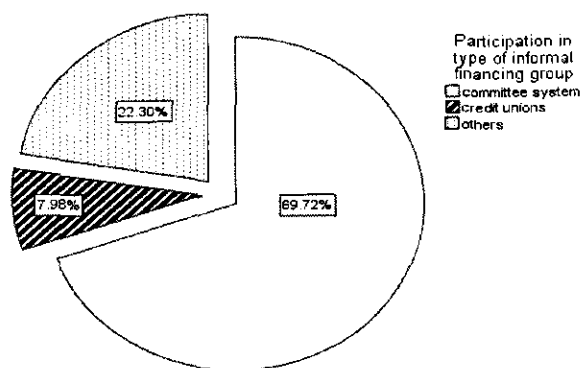


Fig 5.16: Percentage Division of Participation in Different Types of Informal Financing

To identify target groups for proposed model which incorporates ROSCA features, ROSCA's relation with gender, education and profession is analyzed, using Chi-square test. Significant relation was found between profession and participation in different types of informal financing ($\chi^2 (10, N = 600) = 42.41, p = .00$). Results are elaborated in the the Table 5.11 and Figure 5.17.

Table 5.11 Profession Wise Participation in Type of Informal Financing Group Crosstabulation

		Participation in type of informal financing group			Total
		ROSCA	Credit Unions	Others	
Profession	Student	39.6%	6.3%	54.2%	100.0%
	House wife	66.7%	5.6%	27.8%	100.0%
	Labour	66.7%	13.3%	20.0%	100.0%
	Private job	72.8%	8.4%	18.8%	100.0%
	Own business	71.1%	18.4%	10.5%	100.0%
	Government employee	78.1%	4.4%	17.5%	100.0%
Total		69.8%	8.0%	22.2%	100.0%

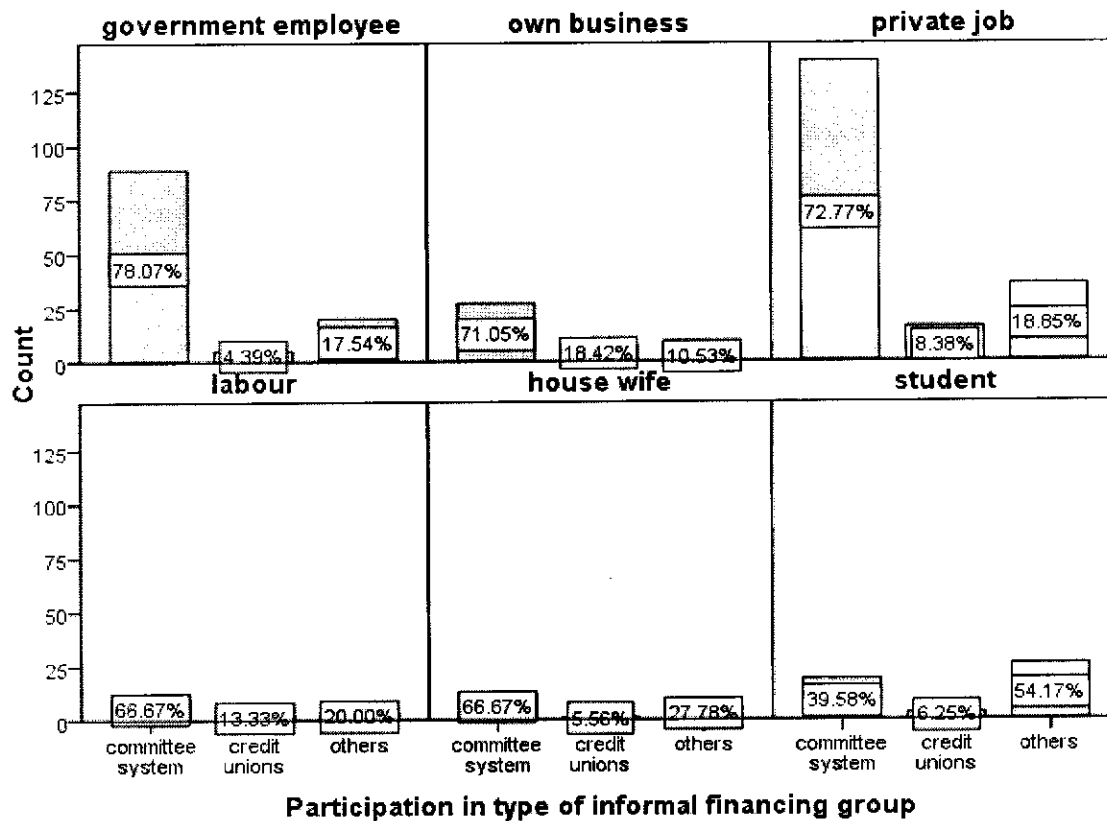


Figure 5.17: Percentage Division of Participation in Informal Financing w.r.t Profession

By analyzing the relations between participation in informal finance and profession in the Table 5.17, it is found that government employees (78.1%), private job holders (72.8%), businessmen (71.1%) and housewives (66.7%), are the main groups actively participating in ROSCA. Our proposed model incorporates the best features of ROSCA, and thus by focusing on these groups may lead to greater participation, in proposed model.

ROSCA cycle can be daily, weekly or monthly. A dominant majority (more than 83%) participated in a ROSCA in which the collection and distribution was on a monthly basis. Around more than 8% participated in both daily and weekly collection. Figure 5.18 shows distribution of people based on payment-cycle.

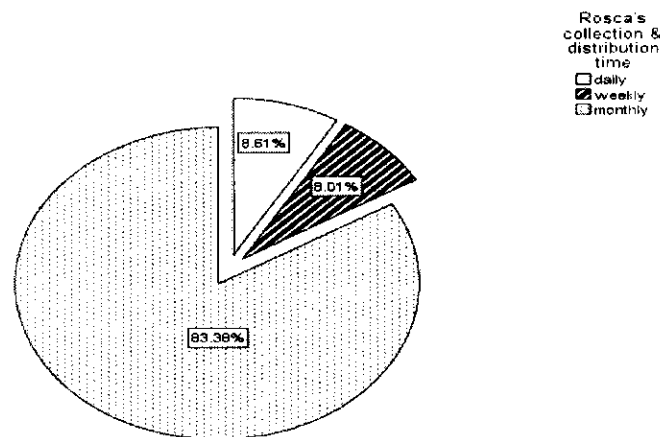


Fig 5.18: Percentage Distribution in Rosca Collection and Distribution Cycle

Therefore, in the light of results derived from the survey (Figure 5.18), the monthly cycle was found to be more appropriate choice in working for proposed model to attract maximum participants.

The number of participants in a ROSCA usually vary, and a detailed distribution is elaborated in Figure 5.19. More than 64% participated in ROSCA, with 64.13% in the 10-20 participant range, and just 1.52% participated in the forty and above participant range.

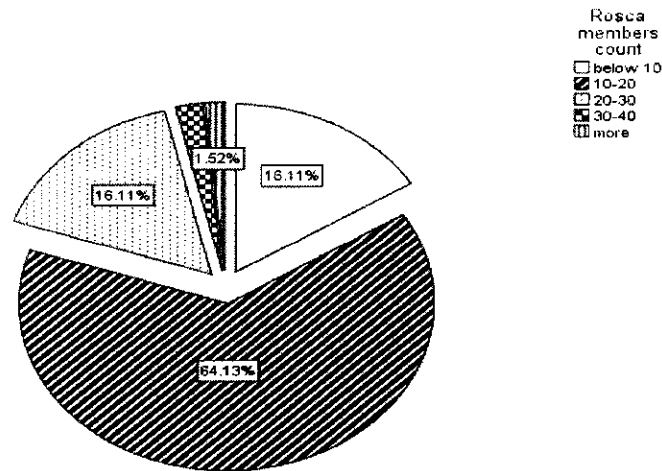


Fig 5.19:Rosca Members' Quantity in Different Cycle Lengths

Using results presented in Figure 5.19, we can take appropriate / optimal members in the proposed model to be 10-20 (also highlighted by survey results).

Figure 5.20 elaborates the reasons behind the investment made in ROSCA. Majority, i.e. more than 27%, invest for the purpose of education, followed by household needs, which is almost 22%. The proposed model can target ROSCA customers which incorporates IFS. Further details are given in Figure 5.20.

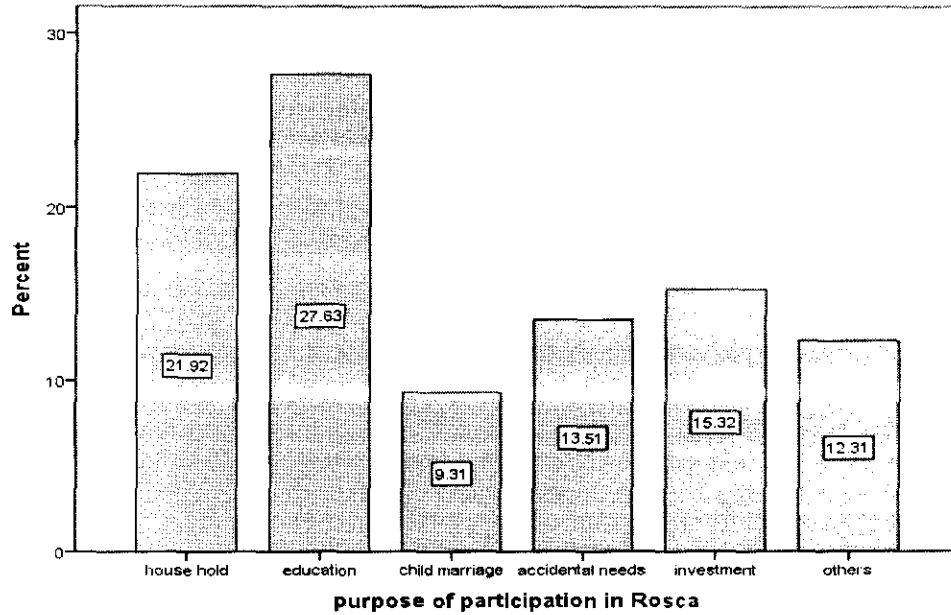


Fig 5.20: Purpose to Invest in ROSCA System

Range of money installments in ROSCA is directly related to the amount of savings made and the amount of income. Participants were asked about the range of money with different ranges given in choices. The results attained are given in the figure 5.21 with more than 25% having ranges of more than Rs. 5000 and 21% between Rs. 3000 to Rs. 5000, respectively. Less than 10% of the respondents participated in the Rs. 500 – Rs. 1000 range.

The target range for proposed model is more than Rs. 5000. However, to facilitate higher participation and to achieve better acceptability, it is kept between 3000 and 5000Rs.

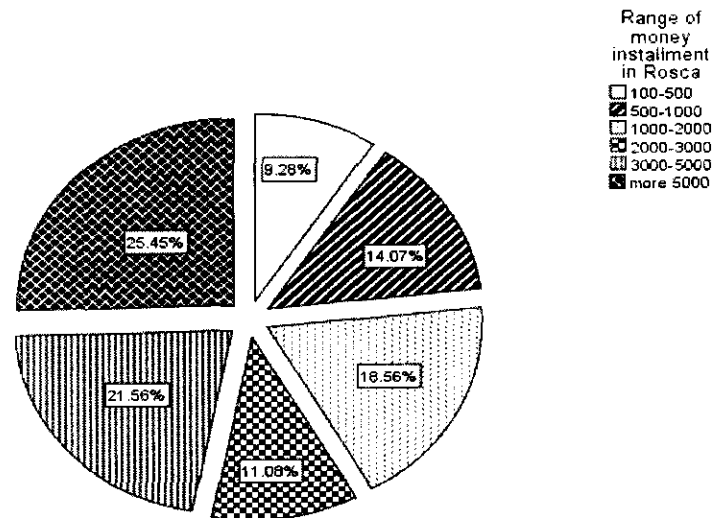


Fig 5.21 Division of Range of Money Installments in ROSCA

Those participants who were taking part in ROSCA were asked about why they preferred this informal type of financing over a well known formal type, namely bank. People were given seven different choices and their reply against every choice is presented in Figure 5.22. More than 38% who were participating in a ROSCA were avoiding banks because of the concept of halal. Similarly, more than 16% opted because it could be arranged for every small purpose (amount). Almost 13% invested because they wanted to avoid the complexities of bank system while more than 8% wanted to avoid transaction cost. The pertaining details are given in Figure 5.22.

The reasons for participating in ROSCA instead of banks actually supports the proposed model because of its interest free features or interest free type of ROSCA (Random ROSCA, Decision ROSCA). 38% participants' reason for participation in ROSCA was of it being religiously halal. The second most frequent choice (16.4%) was that it could be adjusted or arranged for small amount. More details are given in figure 5.22.

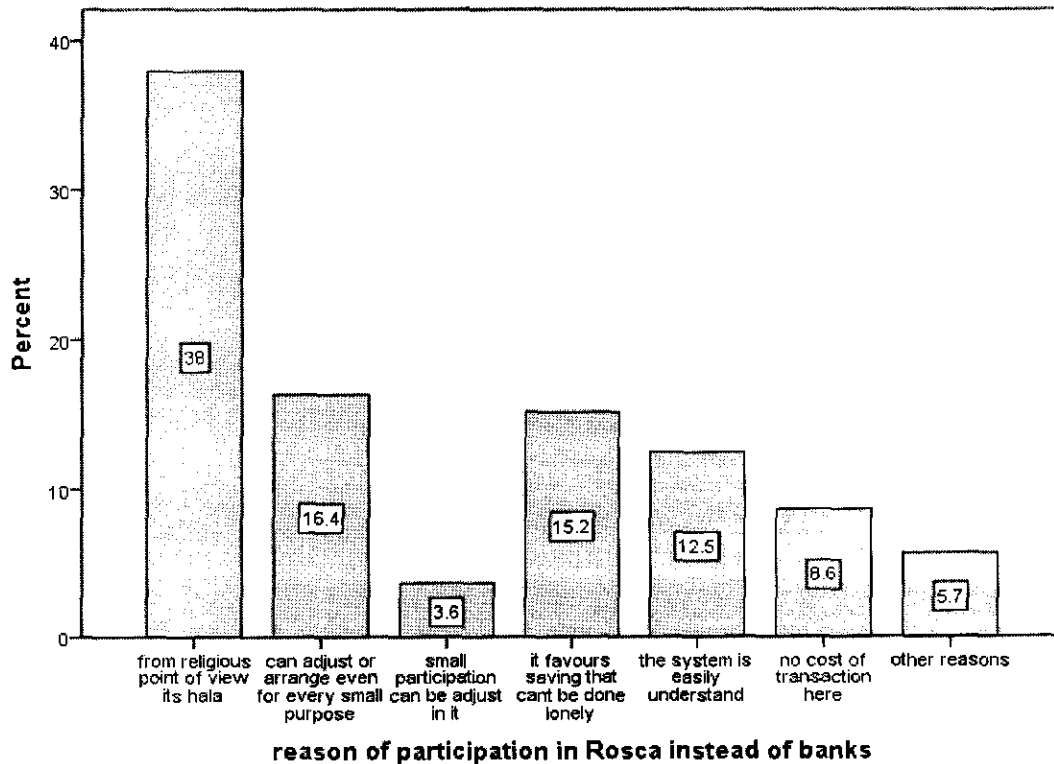


Fig 5.22: Participants Response Against “Reason for Participation in Rosca Instead of Banks”

Participants were also asked about low participation in the ROSCA system and almost 32% gave the risk of default as the main reason, with equal gave the reason of absence of any authentic body’s involvement (details are given in the Figure 5.23). The participants were also asked about how ROSCA system could be improved or what could be done to increase the participation of people in the ROSCA system. 25% opted for the of availability of greater funds as the main step that needs to be taken to increase the participation, while 24% suggested formalization of the system by government guarantees, and almost 20% choose the condition of default risk being covered by government to help people participate more in ROSCA system (further details are given in Figure 5.23). In the proposed model, government involvement is buffer against the risk of default, hereby confirming increased participation.

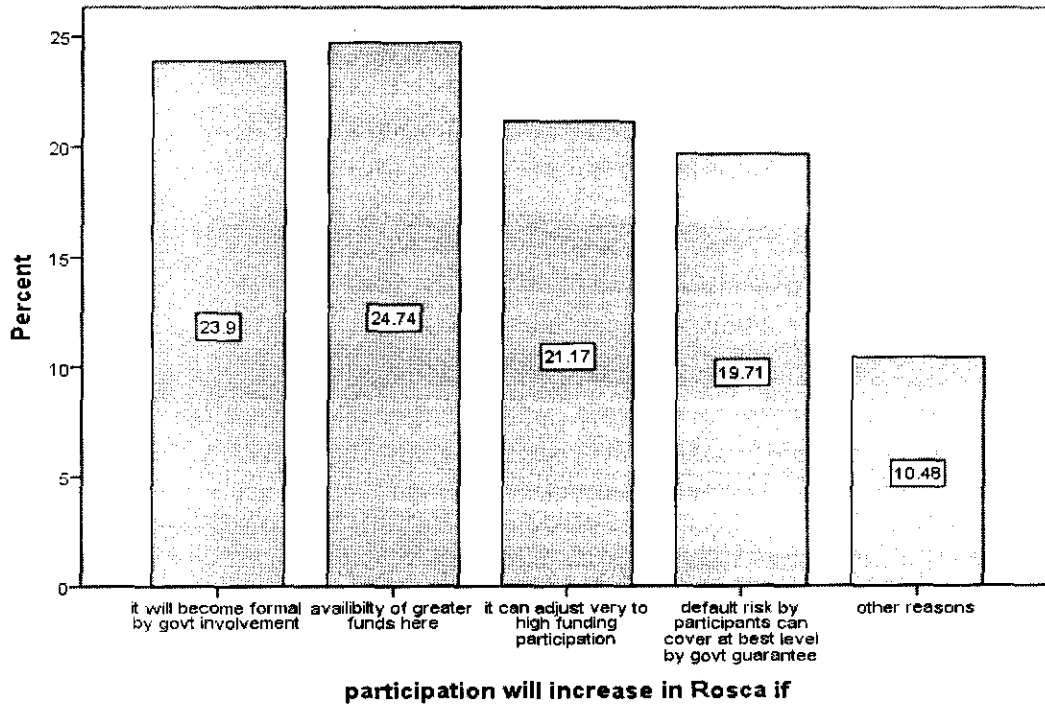


Fig 5.23 Participants' Response Against "Participation will Increase in ROSCA if"

An idea was floated regarding the establishment of an organization for pro-poor Islamic financing to the participants of the survey. Four choices were given, which are Non-Governmental Organization, Postal savings, Mudarbah company and Islamic microfinance bank. Governmental Organizational structure for the proposed financial system was selected by 43.3% of the participants and 33.5 % opted for postal savings. Further details can be found in Figure 5.24.

The model suggests IMFB-type of organization for practical implementation of the proposed model, which also is the most-opted choice by the survey participants.

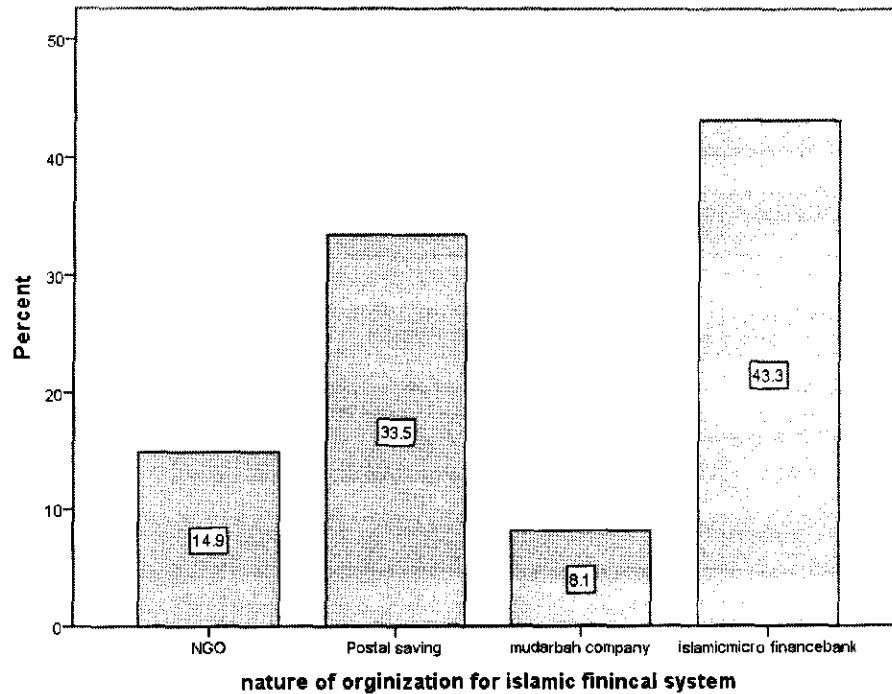


Fig 5.24: Participants Response Against “Nature of organization for Pro-Poor Financial System”

Suggested financial model also has options of putting money in any form. Options are Qarz-i-hasnan, interest free loans, Zakat and services (volunteer or at least cost level) for the eradication of poverty. Financial model is not just about involving money but it should have more meaning to it like services etc.

The survey results suggest that 77% (figure 5.25) of people were willing to provide services on volunteer basis and an encouraging 63% were willing to provide services at least cost level. 66% of people were willing to provide interest free loans to IWFS while 70% agreed to provide Qarz-i-hasna, and 67 % agreed to provide Zakat to IWFS.

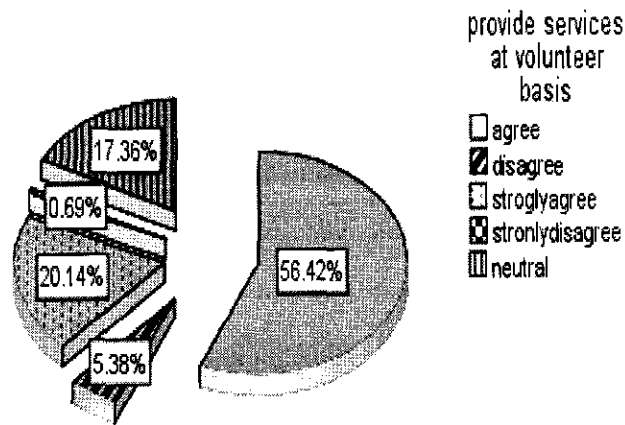


Fig 5.25 Response against “Will you provide services on volunteer basis?”

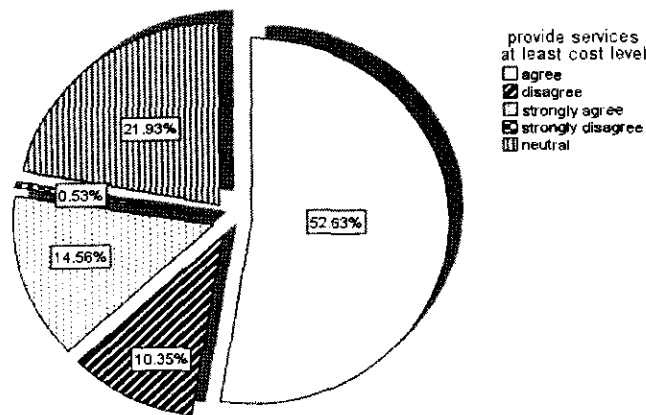


Fig 5.26 Response against “Will you provide services at least cost level?”

Although the response against providing services at volunteer basis was quiet encouraging, still a choice was given regarding provision of services at least cost level or cost below the normal rate in the society. People responded actively in this case with almost 67% (figure 5.26) agreeing, while 11% disagreed that they would provide their services at low cost level. Therefor, the option of volunteer services or services at least cost for poverty reduction were greatly accepted by people and supported the establishment of such features in the proposed model.

Participant's nature of participation was also inquired about, like investment in terms of money, goods and services. 56.57% of the respondents replied with the choice of money, 18.91% with goods and 24.52% with services. Details are given in the figure 5.27. Services, either paid or unpaid, meant they were on volunteer basis. When response against the service on volunteer basis was asked about, more than 56.42% agreed for volunteer basis (further details are given in figure 5.25).

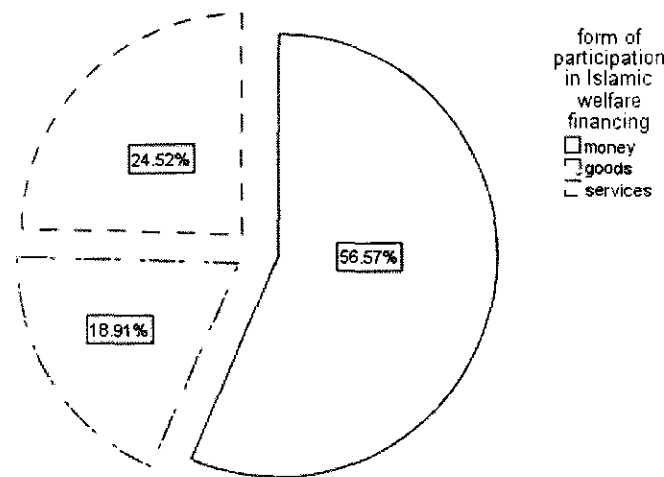


Fig 5.27 Response against “Form of participation in IWFS”

Participants were given the choice on the nature of money participation like small loans, deposit of money for some specific time and funded installments. Almost 29% (Figure 5.28) agreed to give interest free small loans, with almost 32% going for the option that they would deposit the money for specific time so that money could be utilized for some welfare activity, and almost 15% opted for the deposit of funds by installments (as being usually made in the ROSCA system). Therefore, the survey results also favored the different proposed nature of participation for establishment of Islamic welfare financial system.

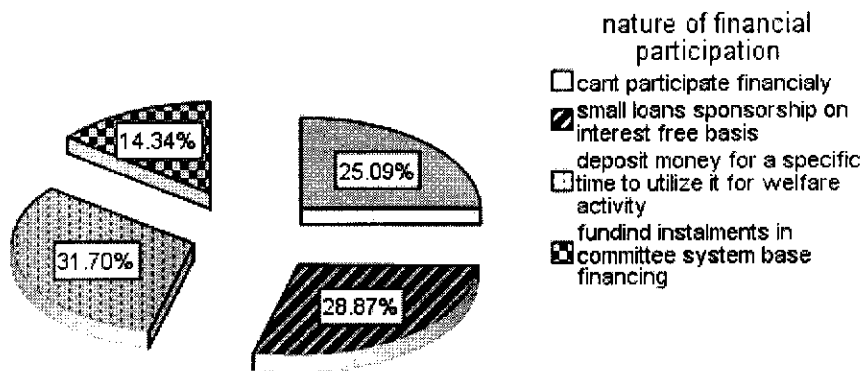


Fig 5.28: Response against different choices given on “nature of financial participation”

Whatever may be the nature of financial participation to establish an Islamic welfare financing system, it is extremely useful and people buy this idea. The participants were also given the choice on the frequency with which they could put their money for Islamic welfare financing system. Almost 55% were found willing to give money on monthly basis, while 20% opted for yearly money input option (details are given in Figure 5.29).

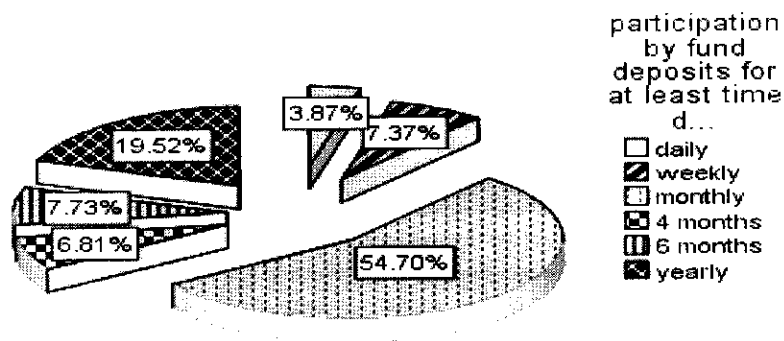


Fig 5.29 Response against “frequency of fund deposits”

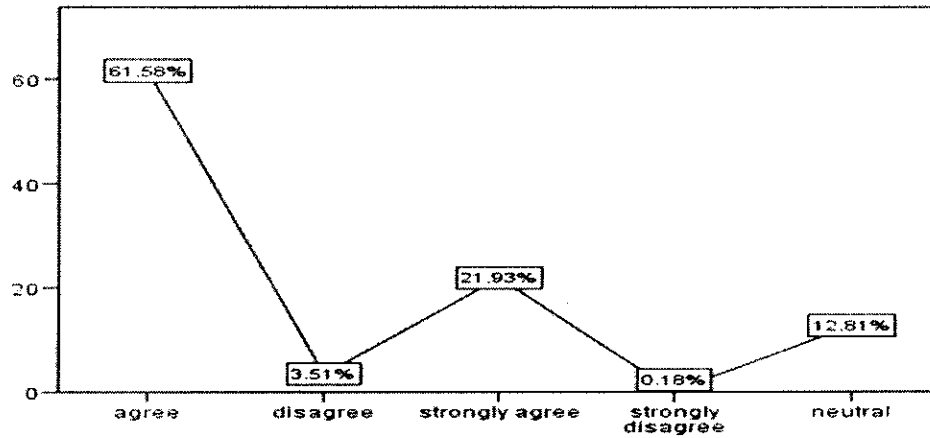


Fig 5.30 Response for participation in Poverty Reduction Islamic Financing System”

Response against second option of the proposed system is elaborated in the Figure 5.30. Almost 83% of the participants agreed to participate in poverty reduction Islamic financing (Qarz-i-Hasana) system and just 4% disagreed to establish this system. Details are given in the Figure 5.30.

Moreover, Qarz-i-Hasana is a key factor to establish such type of poverty reduction system. When asked about providing Qarz-i-Hasana, more than 75% were found willing to provide such type of loan (details are given in the Figure 5.31). This highlighted the fact that Qarz-i-Hasana is greatly acceptable in the society thus adding weight to the proposed model idea.

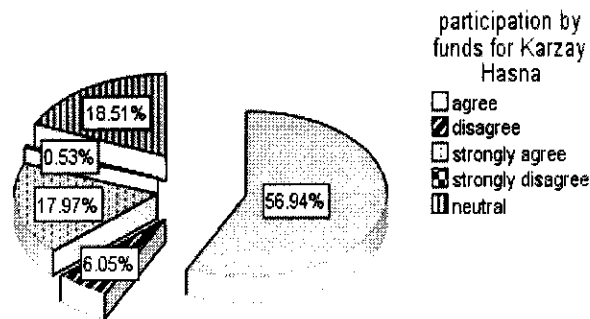


Fig: 5.31 Response to participate by Qarz-i-hasana in PRIWS

Range of money for poverty reduction Islamic system via Qarz-i-hasana was then inquired about, details of which are given in the figure 5.32.

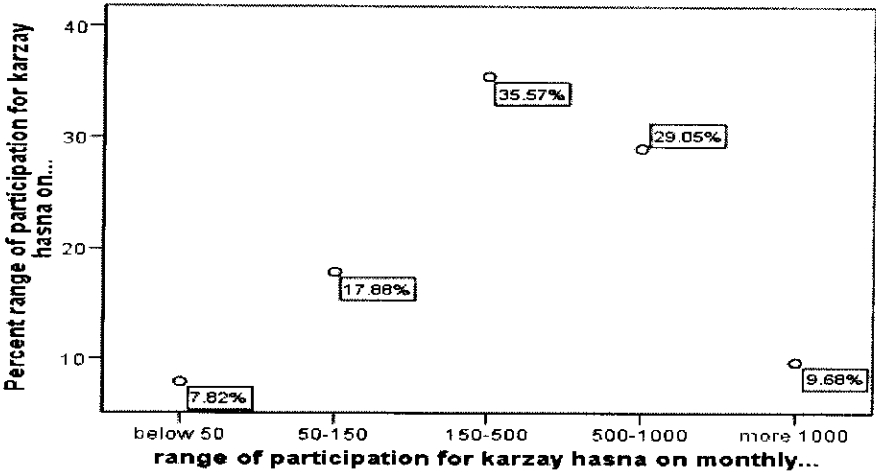


Fig 5.32 Response against “Range of money on monthly basis for PRIWS”

Figure 5.32 shows the details of expected financial help by Qarz-i- Hasana. 35.57% of the respondents opted for Rs. 150-500 money range, 29% for Rs. 500-1000 and 10% of the people expected to provide more than 1000 Rs. on monthly basis. By pooling in all such money, it will result in considerable amount of support in monetary terms to poor people, eventually leading to reduction of poverty in the society. Thus, in the proposed model, amounts for Qarz-i- Hasana inputs were kept flexible keeping in view the fact that the survey suggested ranges as reference.

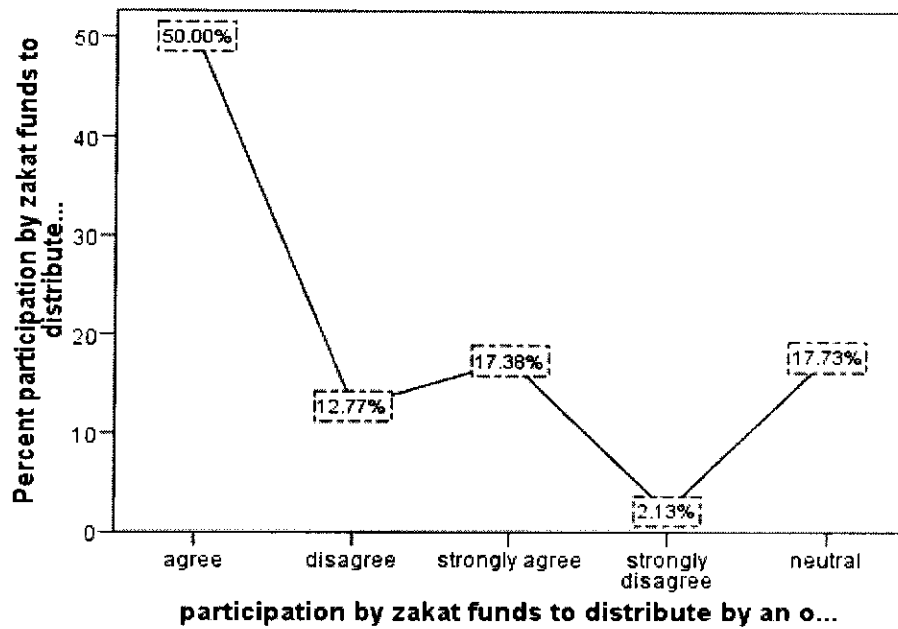


Fig 5.33 Response against “Will you participate in PRIWS via Zakat funds?”

Another choice to participate in poverty reduction Islamic financing system is by pouring in the money of Zakat. Fewer participants replied to this option as compared to the ones who favoured Qarz-i-hasana with 67% agreeing as compared to 75% for Qarz-i-hasana.

The proposed model caters for trust regarding usage of Zakat money. Different conditions to increase trust and response against them are given in the figure 5.34.

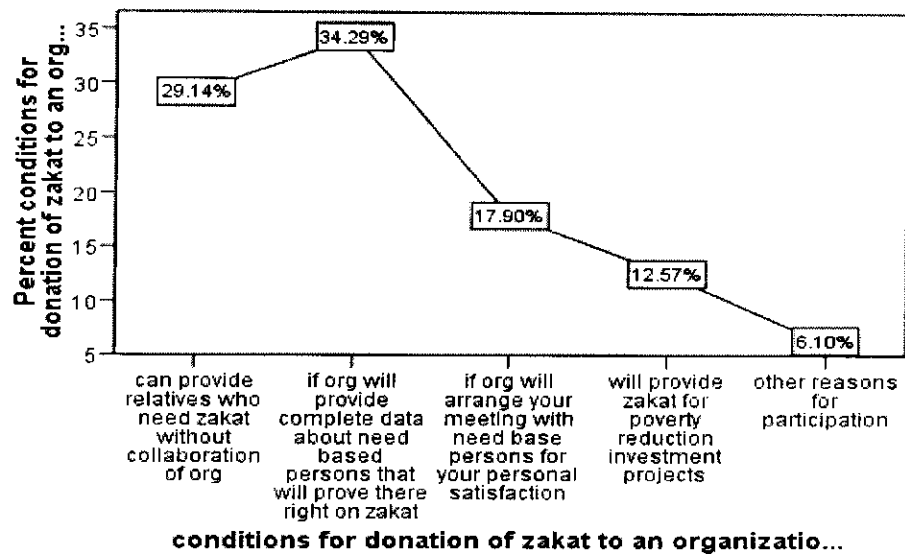


Fig 5.34 Response of “conditions for donation of Zakat to an organization”

Different choices were given in order to find the reason behind providing Zakat for establishment of poverty reduction Islamic financing system. The results showed that more than 34% of the people wanted to make sure that their Zakat reached to those who actually deserve Zakat (figure 5.34). By giving complete data about needy ones or by arranging meetings with them, increase in Zakat participation can be made as people trust will increase. Considering the options given in the figure 5.34, there will also be an increase in the acceptability of PRIWS option.

Further, survey response against various features of proposed model and involvement in its different prongs were quite obvious and the figures mentioned in above paragraphs are quiet encouraging. Hence, conclusion can be reached that the society is willing to accept the proposed system making the idea implementable.

SUMMARY

The proposed model suggests to combining ROSCA, ASCA and CU. It is derived from survey that the model can be implemented with the government's participation because majority of the respondents are risk averse and do not participate due to risk of default. This effectively will be the public-private partnership where the majority share capital of an Islamic microfinance bank will be contributed by the government. The government participation will provides buffer against this default. Moreover, the proposed model incorporates the best practices of both formal and informal financing system. The survey results conclude that people want to access the services of informal institutions and enjoy the quality of formal. The proposed model can result in enhancement of saving and is helpful in poverty reduction because it not only incorporates the features of both formal and informal financing systems, but also involves Islamic means to bring financial equality in the society. This is also supported as a vast majority of population of Pakistan is Muslim and many amongst them want shariah based financing system. So involvement of Islamic means is pivotal in acceptability of proposed model in society. Education, precautionary measures and household needs are key choices for saving as derived from survey results.

The feedback from survey participants was incredibly promising and supportive for the proposed model. Survey concluded good expectation of participation by more than 15% in SHGs backed by shariah and government involvement. Currently about 56% people are participating in SHGs while involvement of shariah and government is expected to raise this participation to 71%. The model can be applied as a test case in the cities of Wah Cantt and Rawalpindi as the participation rate in informal finance is quite high in these cities i.e. 50.6% and 64.8% respectively.

The survey enlightened that 85% of participants were in the favor of interest free SHG's system. Two reasons could be found for low participation in the ROSCAs; one being the risk of default and the other being absence of the involvement of a credible authority like government. In case the risk of default could be covered by government guarantee, participation in proposed model would greatly increase, which is also a key component of the suggested model. The proposed model is not just about involving money but it should have more meaning to it like services etc. the proposed model also provides options of putting money in any form like Qarz-i-hasnan, interest free loans, Zakat and services (volunteer or at least cost level) for the reduction of poverty.

The model proposes two different features namely IWFS and PRIFS. The survey results suggest that 77% of people were willing to provide services on volunteer basis and an encouraging 63% were willing to provide services at least cost level. Of total, 66% of people were willing to provide interest free loans to IWFS and PRIFS while 70% agreed to provide Qarz-i-hasna, and 67 % agreed to provide Zakat (on conditional basis) to IWFS. The mentioned figures thus support acceptability of model.

It is the need of the time to launch a financial model which can be beneficial in poverty eradication in Pakistan. A financial model with simple processes, easy framework and accessible to all can bring great success in Pakistan's case. A professional approach in its launch and good monitoring can Insh Allah make it a success and proposed system can become a useful tool in reducing poverty in Pakistan.

RECOMMENDATIONS

- In third world countries like Pakistan poverty alleviation is one of the main objectives of governments and their economic machinery. It is recommended to develop a model which can be beneficial in reduction of poverty by focusing on savings instead of credit (also supported by survey results).
- It is recommended to keep focus on target groups as identified from the survey. Government employees, private job holders, business class and people of ages between 18 to 40 years, are the ideal target groups. This emphasis can be greatly beneficial in establishing a broader base for proposed model in society.
- There are adequate savings to support the establishment of proposed model. It is recommended that these savings may be utilized to give loans to the poor of society, which eventually will help in poverty reduction.
- It is advisable to keep focus on these saving purposes as hopefully these options will attract more people to participate in the proposed model and facilitate people above the age of 40 for precautionary savings, as it is clear from survey results that the people of mentioned age group save maximum for precautionary measure.
- Facilitate more the women for savings in proposed model as survey concludes that females compared to males are less satisfied with their savings. Active female participation can result in greater savings.
- Results derived from survey are quiet hopeful and encouraging enough to launch a pilot project. To launch this system practically, pilot project is recommended for the cities of Wah Cantt and Rawalpindi. Already, the survey conducted attracted large participation for the proposed model.

- Success of any project is proportional to advertisement of its benefits to common man. It is recommended to advertise the benefits of the proposed model properly after its launching as survey results highlight that 35% of people who participated in the survey either do not know details or had not heard about informal/SHG's finance. Proper advertisement can attract almost 1/3rd of the unattended society to the proposed financial model.
- Money matters involve risk in order to give confidence to participants in proposed model. It is recommended to involve government guarantees. According to survey, if the risk of default can be covered by government guarantee, participation in proposed model will greatly increase.
- It is recommended to establish Islamic Microfinance Bank IMFB type organization for practical implementation of proposed model, as per the rule and regulations set by State Bank of Pakistan (SBP).

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INTERNATIONAL ISLAMIC UNIVERSITY
ISLAMABAD

ANX-A

Dear Respondent *Assalam o Alaikum*

I am a research student of Economics and Finance at International Islamic University, Islamabad, and conducting a research on "FEASIBILITY STUDY OF A NEW MODEL FOR PRO POOR FINANCING". The questionnaire will be used for research. The objective of this questionnaire is to find out the opinion of the people. It should take only few minutes to fill the questionnaire as all of questions just require you to tick the option of your choice.

Your answer will be kept strictly confidential and will only be used for research purposes. Your name will not be mentioned anywhere in the research work documentation so kindly give an impartial opinion to make research successful.

Thanks

A		Personal Information							
A1	Name								
A2	Gender	Male				Female			
A3	Age	18-25	26-40	41-50	51-60	Above 60			
A4	Religion	Muslim				Non-Muslim			
A5	Marital status	Single	Married	Divorced/Separated		Widow			
A6	City/Region	Rawalpindi			Wah Cantt				
A7	No of dependent	No	1-3	3-5	5-10	More than 10			
A8	Education	Primary	Metric	Technical	Intermediate	Graduation	Masters	More than masters	

B Saving Aptitude							
B1	Profession	Student	House Wife	Labor	Private job	Own business	Govt Employee
B2	Income Basis	Daily	Weekly	Monthly	Seasonal	Yearly	
B3	Income Range	Below 300 300-500 500-1000 1000-1500 1500-2000 More 2000	Below 1000 1000-1500 1500-2000 2000-3000 3000-4000 More 4000	Below 6000 6000-10000 10000-20000 20000-35000 35000-60000 More 60000	Below 50,000 50,000-70,000 70,000-100,000 100,000-250,000 250,000-400,000 More 400,000	Below 100,000 100,000-300,000 300,000-500,000 500,000-800,000 800,000-1200,000 More 1200,000	
B4	Saving range	No Below 20 20-35 35-50 50-100 More 100	No Below 100 100-150 150-250 250-500 More 400	NO Below 1000 1000-1500 1500-3000 3000-5000 More 5000	No Below 10,000 10,000-20,000 20,000-35,000 35,000-50,000 More 50,000	No Below 50,000 50,000-150,000 150,000-300,000 300,000-500,000 More 500,000	
B5	Are you satisfied with your current level of saving?	Strongly satisfied	Satisfied	Neutral	Not satisfied	Strongly dissatisfied	
B6	Purpose of saving	House hold	Education	Child marriage	Precautionary motives	Investment	

C Preference for Formal & Informal financing						
C1	You keep your saving in which form? (can choose more than one here)	Cash In Hand or at home	Informal groups (self-help group) ³	Banks		
C2	Your preference for financing?	Formal financing system e.g. Banks	Informal financing system e.g. Committees	Both formal & informal	Neutral	
C3	Do you have trust on informal groups?	No	Referenced based	Well known in society		
C4	Will you participate in informal interest based groups if they are guaranteed by Govt?	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree

³ Informal groups like Committees.

C5	Will you participate in self-help groups if a) they are shariah based b) Govt guaranteed c) sharia based and Govt guaranteed	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree

D	Participation in formal financing Groups								
D1	Do you have bank account?	Yes			No				
D2	In which type of bank you have account?	Commercial Bank	Islamic Bank	Commercial Bank having Islamic window		Micro finance banks			
D3	Which type of account you have?	Current		Savings		Others			
D4	How much deposit transaction you made?	Randomly	Weekly	Monthly	Half year	Yearly			
D5	Deposit range you must keep in account?	Below 5000	5000-10,000	10,000-30,000	30,000-80,000	80,000-150,000	150,000-300,000	300,000-800,000	More
D6	Withdraw money from your account?	Randomly	Weekly	Monthly	Half year	Yearly			
D7	What is your yearly withdrawal of money as a percentage of total deposit?	Below 10%	10-25%	25-45%	45-70%	70-90%	More		

E	Participation in Informal (self-help groups) Financing Groups							
E1	Have you ever heard about informal/ self-help financing groups?	Yes	No	Heard but don't know the details				
E2	Are you participating in informal group financing?	Yes	No					
E3	Participation in which type of informal financing group?	Committee system	Credit unions ⁴		Others			
E4	In which group you are participating?	Interest based			Interest free based			
E5	Your committee's collection & distribution time...	Daily		Weekly	Monthly			
E6	No of members in your committee...	Below 10	10-20	20-30	30-40	more		
E7	Your purpose of participation in committee?	House hold	Education	Marry child	Accidental needs	Investment	Other	
E8	Range of your money installment in committee?	100-500	500-1000	1000-2000	2000-3000	3000-5000	More 5000	

⁴ A credit union operates like committees but serves a much larger membership and offers a wider range of savings and credit services to its members.

E9	People are going to less participate in committee system with time?	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	
E10	A reason of participation in committee instead of banks is...	<ul style="list-style-type: none"> • From religious point of view it is halal • Can adjust or arrange even for very small purposes • It favors saving that can be done alone • The system is easily understood • No cost of transaction here • Other reason 					
E11	What is the Reason of low participation in committee system?	<ul style="list-style-type: none"> • It's risky because of no authentic body or Govt involvement • Very small availability of loans • Risk of default • Other 					
E12	Your participation will increase in committee system if...	<ul style="list-style-type: none"> • It will become formal by Govt Involvement • Availability of greater funds here • It can adjust very small to high funding participation • Default risk by participants can cover at best level by govt guarantee • Other reason 					
E13	What will be your range of participation in committee installments if this system can improve?	100-500	500-1000	1000-2000	2000-3000	3000-5000	More 5000
E14	An objective behind this research is to formalize the committee system, if given the option what type of organizational structure you would prefer:	NGO	Postal saving	Mudarbah company	Islamic micro finance bank		

F Behavior for Islamic welfare financing (Interest free small loans) establishment						
F1	Are you in favor of establishing Islamic welfare financing system at national level?	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
F2	For its establishment will you sacrifice for interest on your money?	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
F3	Will you participate in Islamic welfare based financing?	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
F4	For helping poor segment of the society will you participate in the form of:	Money	Goods	Services		
F5	Can you provide services at volunteer basis...?	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
F6	Will you provide services at least cost level...?	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree

F7	Which type of services you can provide?	Labor	Teacher	Management	Medical	Engineering	
F8	Financially can participate in terms of...	<ul style="list-style-type: none"> • Can't participate financially • Small loans sponsorship on interest free basis • Deposit money for a specific time to utilize it for welfare activity • Funding installments in committee system base financing 					
F9	Can deposit funds for welfare of ...	Health	education	House holds	Marry children	Small investments	
F10	Can participate by fund deposits for at least time duration...	Daily	weekly	monthly	4 months	6 Months	Yearly
F11	Can provide funds range monthly...	Below 100	100-300	300-800	800-2000	2000-5000	More 5000

G		Behavior for Poverty reduction Islamic financing (Qarz-i- Hasana)				
G1	Are you in favor of establishing Islamic welfare financing nationally?	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
G3	Will you participate in Islamic welfare based financing?	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
G4	Can you participate by funds for Qarz-i- Hasana?	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
G5	What will be your participation funds range for Qarz -i- Hasana at monthly basis?	Below 50	50-150	150-500	500-1000	More
G6	Will you participate by your zakat funds to distribute by an organization on your behalf to the needy?	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
G7	At what conditions you will donate your zakat to an organization?	<ul style="list-style-type: none"> • Can provide relatives who need zakat without collaboration of organization • If organization will provide complete data about need based persons that will prove their right on zakat • If organization will arrange your meeting with need based persons for your better personal satisfaction • Will provide zakat for poverty reduction investment projects • Other reason for participation 				
G8	Can you provide your services voluntarily for poverty reduction?	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
G9	Can provide services for...	Labor	Teacher	Management	Medical	Engineering

Shari'ah Academy
International Islamic University Islamabad
Pakistan



أكاديمية الشريعة
الجامعة الإسلامية العالمية بإسلام آباد
باكستان

Director General

FATWA

Loan recovery process

I do not see any Shariah problem in the case presented for Fatwa. Parties to loan agreement may agree on recovery of loan in form of service, if the monetary value of service is accurately and fairly calculated.

Dr. Muhammad Tahir Mansoori
May 14, 2013

Shari'ah Academy
International Islamic University Islamabad
Pakistan



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الجامعة الإسلامية العالمية بإسلام آباد
باكستان

Director General

FATWA

Rosca (Rotating Saving Credit Association (Committee) Process

I agree that random and decision Rosca is Shariah compliant.

Dr. Muhammad Tahir Mansoori
May 14, 2013