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**ISLAMIC MICRO FINANCING:
WELFARE IN THE NAME OF BUSINESS**



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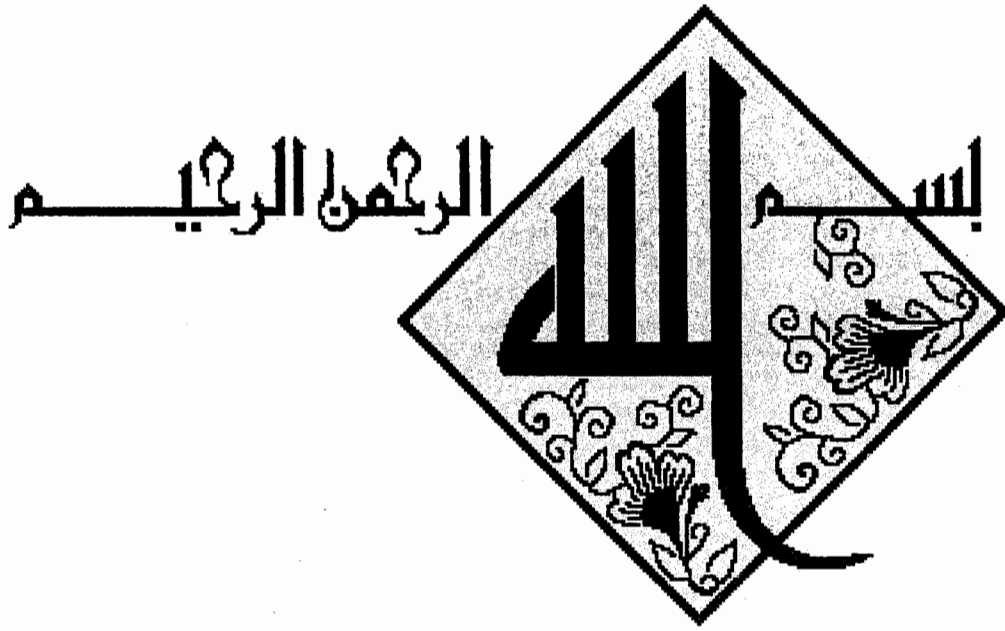
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Islamic countries Banking law

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In the Name of

ALLAH

Most Merciful and Compassionate the Most

Gracious and Beneficent whose help and

guidance we always solicit at every step, at every

moment

Islamic Micro Financing: Welfare In The Name Of Business

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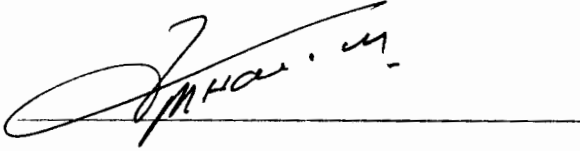
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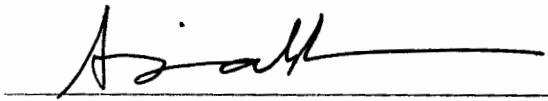
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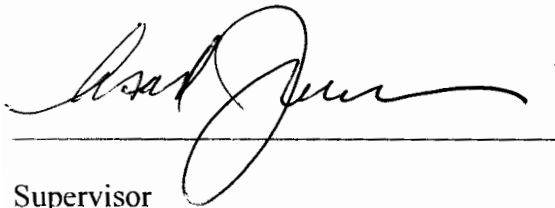
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Dedication

To my Parents...

To my beloved Sheikh...

To my Teachers...

To my Friends...

Who Constantly Encouraged, Helped and Prayed.

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List of Abbreviation:

BOK	Bank of Khyber
CGPA	Consultative Group to Assist the Poor
CO	Community Organization
DPO	District Procurement Officer
FA	Field Assistant
GDP	Gross Domestic Product
HDI	Human Development Index
IDB	Islamic Development Bank
IFS	Islamic Financial Services
IFSI	Islamic Financial Services Industry
IMF	Islamic Micro Financing
IMFG	Islamic Micro Finance Group
IRTI	Islamic Research and Training Institute
MEDP	Microfinance Enterprise Development Program
MF	Murabaha Financing
MFI	Micro Finance Institution
MIP	Micro Investment Plan
MIS	Management Information System
NGO	Non Government Organization
NIC	National Identity Card
NRSP	National Rural Support Program
PO	Procurement Officer

PPAF	Pakistan Poverty Alleviation Fund
RGM	Regional General Manager
RSP	Rural Support Program
SO	Social Organizer
SO	Sales Officer
UC	Union Council
UNDP	United Nation Development Program
VB	Village Bank
VTP	Vocational Training Program

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Abstract

Poverty + Financial exclusion → Financial Access → Within the Shariah Framework →
Welfare + Business

In Islamic Micro Financing we are essentially looking at a "double bottom line"—social gains and commercial success. Conventional Micro Financing setup is somewhat also lying on the same concept but the welfare aspect naturally drawn in the Islamic Financial System – whether it be no penalty in case of genuine late payment reason, risk sharing, profit sharing according to the percentage to support the ups and downs of business, asset based/backed transactions to overcome interest or Riba, settlement in the form of goods; whether it be hardcore welfare aspects of Qard Hassan, Sadaqah, Zakah, Awqaf – have far more reaching and implicitly impacting positive role in each and every regard of life.

Case Study of National Rural Support Program – Islamic Micro Financing is also included. NRSP-IMF is using Murabaha mode of financing for its operation. The beauty of NRSP-IMF is that they have overcome the methodology of agency in practical terms, thus working on true sprits of Murabaha financing.

1. Introduction

In Islamic Micro Financing we are essentially looking at a "double bottom line"—social gains and commercial success. Conventional Micro Financing setup is somewhat also lying on the same concept but the welfare aspect naturally drawn in the Islamic Financial System – whether it be no penalty in case of genuine late payment reason, risk sharing, profit sharing according to the percentage to support the ups and downs of business, asset based/backed transactions to overcome interest or riba, settlement in the form of goods; whether it be hardcore welfare aspects of qard hassan, sadaqah, zakah, awqaf – have far more reaching and implicitly impacting positive role in each and every regard of life.

The world sees augmentation in the percentage of poor people across the globe due to low level of economic development, fire offs from jobs plus shutting down of industries, high inflation rate, less opportunities for competing with main stream producing industries and high financing cost, all these and some other aspects have immensely contributed in the increment of poverty level. There is a gap for someone to play its role and eradicate all the gloom from the face of the world by keeping the welfare piece and business piece unbiased.

Poor are now well over 44 per cent of Pakistan's total population who include 28 per cent living in abject poverty¹. Last month, the Planning Commission reported that Pakistan's poverty rate had jumped from 23.9 percent over the last three years to a

¹ DAWN Newspaper: Oct 26, 2008

staggering 37.5 percent. In other words, more than 60 million Pakistani barely earn enough money to feed themselves². Only five of the Islamic countries³ – Indonesia, Bangladesh, Pakistan, Nigeria and Egypt account for over half a billion (528 million) of the world's poor with incomes below \$2 a day or national poverty line⁴.

Although the capacity of the poor to borrow and save is counter intuitive for some people, their need to do so is actually greater than for better-off people. Precisely because their incomes are tight, and often volatile, financial services that help them fill in mismatches between income and consumption needs, can be a matter of survival. And though seemingly opposite, lending and savings are similar in helping households manage these mismatches.⁵ They can both help people accumulating capital for investment too. Thus in commercial terms, there is a market for microfinance.

A large number of studies on poverty indicated that exclusion of the poor from the financial system is a major factor contributing to their inability to participate in the development process (Christen et al. 2004 of CGAP⁶, Peachey and Roe 2006⁷, Honohan

² The News: March 18, 2009

³ More detail is given in the Literature Survey section 2.5; Annexure I contains the data list of Poverty Levels in IDB Member Countries

⁴ Islamic Research and Training Institute, 2007, "Islamic Microfinance Development Ten-Year Framework and Strategies".

⁵ Savings can generate income, and do not impose the same risks as credit. Notably, the Bank Rakyat Indonesia (BRI)—as a century-old bank, an anomaly within the microfinance world—had 32.3 million deposit accounts to 3 million loan accounts at end-2005.

⁶ Christen, Robert Peck, Veena Jayadeva and Richard Rosenberg (2004) "Financial Institutions with a Double Bottom Line: Implications for the Future of Microfinance" Occasional Paper No. 8. Washington DC: CGAP

⁷ Peachey, Stephen and Alan Roe (2006) "Access to Finance, Measuring the Contribution of Savings Banks", World Bank Savings Institute.

2007⁸, Zahid, 2008⁹). In a typical developing economy the formal financial system serves no more than twenty to thirty percent of the population¹⁰ where as the issue of financial exclusion in the advanced economies is concerned, ten percent of the adult population do not have access to financial services.¹¹

The vast majority of those who are excluded are poor. With no access to financial services, these households find it extremely difficult to take advantage of economic opportunities, build assets, finance their children's education, and protect themselves against financial shocks. Access to financial services in the Islamic world is either inadequate or exclusive. From the Islamic World Countries¹²; as many as 17 countries, only one-fifth or less of their adult population have access; in 21 countries one-fourth or less have access and in 31 countries one third or less have access to formal financial services.¹³ It goes on to argue that diverse approaches are needed to minimize exclusion and that the cultural and religious sensitivities of Muslim societies must be given due emphasis in any attempt to build inclusive financial systems in order to bring a very large segment of the world's poor population into the fold of formal financial systems.

⁸ Honohan, Patrick (2007) "Cross-Country Variations in Household Access to Financial Services", World Bank Conference on Access to Finance.

⁹ Syed Zahid Ahmad 2008, "Financial Exclusion of Indian Muslims", AICMEU's Baitulmal Co-operative Credit Society Ltd, Mumbai. <http://islamicfinanceandbanking.blogspot.com/2008/02/fw-politics-over-indian-muslims-economy.html>

¹⁰ Mohammed, Aliyu Dahiru and Hasan, Zubair (2008) "Microfinance in Nigeria and the prospects of introducing its Islamic version there in the light of selected Muslim countries' experience", Online at <http://mpira.ub.uni-muenchen.de/8287/>

¹¹ Honohan (2007), op. cit. note 3.

¹² Data is available for 44 countries out of 55 Muslim World Countries. Out of which only 28 percent of the adult population uses formal (or semi-formal) financial intermediaries, whether through deposit accounts or borrowing. This percentage includes non-Muslims living in such countries.

¹³ Honohan (2007), op. cit. note 5.

Financial exclusion, thus, binds the poor into a vicious circle of poverty. Building inclusive financial systems therefore, is a central goal of policy makers and planners across the globe anyhow several countries have adopted conventional policies in recent years to reduce financial exclusion (Porteous, 2004¹⁴; Carbo, Gardener and Molyneux, 2005¹⁵; Kempson, 2006¹⁶; Kempson et al., 2000¹⁷).

"The very objective of the Shariah is to promote the welfare of the people, which lies in safeguarding their faith, their life, their intellect, their posterity and their wealth. Whatever ensures the safeguarding of these five serves public interest and is desirable." Al-Ghazali¹⁸

"The basis of the Shariah is wisdom and welfare of the people in this world as well as the Hereafter. This welfare lies in complete justice, mercy, well-being and wisdom. Anything that departs from justice to oppression, from mercy to harshness, from

¹⁴ David Porteous 2004, "Making Financial Markets Work for the Poor", paper was commissioned by FinMark Trust.

¹⁵ Carbó, Santiago, Edward P. M. Gardener and Philip Molyneux. 2005, "Financial Exclusion" (Basingstoke: Palgrave Macmillan)

¹⁶ Kempson, Elaine. 2006. "Policy Level Response to Financial Exclusion in Developed Economies: Lessons for Developing Countries." The Personal Finance Research Centre, University of Bristol. Presented at Brookings-World Bank Conference, May 2006.

http://www.pfrc.bris.ac.uk/Reports/Policy_response_to_fin_exc_EK_0506.pdf

¹⁷ Kempson, Elaine, Claire Whyley, John Caskey and Sharon Collard. 2000. "In or Out? Financial Exclusion: A Literature and Research Review." London: Financial Services Authority.

<http://www.fsa.gov.uk/pubs/consumer-research/crpr03.pdf>

¹⁸ Abu Hamid al-Ghazali (450-505 AH/1058-1111 AD) is one of the great jurists, theologians and mystics of the 12th Century. He wrote on a wide range of topics including jurisprudence, theology, mysticism and philosophy.

welfare to misery and from wisdom to folly, has nothing to do with the Shariah." Ibn al-Qayyim.¹⁹

State Bank of Pakistan has also taken some steps in this regard – and keeping the argument set in previous paragraphs – had outlined a strategic plan for Islamic Banking industry²⁰ while guidelines for Islamic Microfinance Business²¹ and guidelines on Islamic Financing for Agriculture.²²

1.1 Objectives:

The objective of this paper is to look for the possible integration of welfare and business motives and to carry it out in practical terms. Also this paper encloses a case study of a successful Islamic Micro Finance Program running in Pakistan by using Murabaha mode of financing for its execution; named National Rural Support Program – Islamic Micro Finance Program.²³

1.2 Distribution of Sections:

Section 2 contains the Literature Survey. Papers and articles on the subject of Islamic Micro Financing had been taken up and the points under consideration are highlighted to the scope of this paper. Points which directly or indirectly reflect on the pathway of

¹⁹ Ibn al-Qayyim al-Jawziyya (691 AH/1292 AD) Most scholars of the time have acknowledged the author's excellence, and profound knowledge of Qur'anic interpretation, commentaries on the prophetic traditions, and theology.

²⁰ SBP: Strategic Plan for Islamic Banking Industry of Pakistan

²¹ SBP: Guidelines for Islamic Microfinance Business by Financial Institutions

²² SBP: Guidelines on Islamic Financing for Agriculture

²³ NRSP-IMFP is located in District Mardan, NWFP.

welfare and business are systematically arranged so that the emphasis could be easily revealed.

Section 3 includes the case study of NRSP-IMFP. A complete overview of the program is discussed including the step by step procedure followed by the institution for its financing methodology. The forms used by the program and there conditions are also pointed telling the respective working of each form in its regard.

Section 4 contains two subsections in which the Analysis of Data is shown. The first sub section shows the data analysis of NRSP-IMFP clients. Different aspects have been reflected ranging from social surveys to income and expenditure patterns. Second sub section shows the financial health of NRSP-IMFP. The number of financing being made, category in which the financing is given, amount collected, outstanding amount and other analysis are drawn.

Section 5 is the Recommendations and Conclusion section. It outlines the suggestions which are for the improvement of NRSP-IMFP and some for the overall improvement in Islamic Micro Financing. Conclude remarks are attached within it.

2. Literature Survey²⁴

A lot has been written on Islamic Micro Financing topic. Although articles and thesis on conventional microfinancing have surpassed the Islamic Micro Financing but for the few years the numbers of research papers in this regard are increasing at a rapid rate and many Journals plus websites in English/Arabic languages are coming in picture. Papers reaching from Religious Beliefs towards the introduction of Islamic Financial Services to combining with Micro Financing for poverty alleviation and integration of institutions of Zakat, Sadaqah, Qard Hassan and Waqf have been written to a great extend.

2.1 Microfinance is a powerful poverty alleviation tool:

Microfinance (MF) is a powerful poverty alleviation tool. It implies provision of financial services to poor and low-income people whose low economic standing excludes them from formal financial systems. Access to services such as, credit, venture capital, savings, insurance, remittance is provided on a micro-scale enabling participation of those with severely limited financial means. The provision of financial services to the poor helps to increase household income and economic security, build assets and reduce vulnerability; creates demand for other goods and services (especially nutrition, education, and health care); and stimulates local economies.

Poor need financial services because they are often faced with events that call for spending more money than might be available around the house or in the pocket.

²⁴ Bibliography Section contains the complete list of papers used in 'Literature Survey'

Rutherford²⁵ in his path-breaking book, *The Poor and Their Money*, points to three main categories of such events: life-cycle events, emergency needs, and investment opportunities. Life-cycle events include those once-in-a-lifetime occurrences (birth, marriage, death, home building, old age) or recurrent incidents (expenditure related to education, festivals, harvest time) that every household faces. Emergencies include personal crises like sickness or injury, the death of a bread winner or the loss of employment, and theft. Opportunities to invest in businesses, land, or household assets also come up periodically. To come up with the financial outlays required by life-cycle events, emergencies, and opportunities, micro-credit is needed. However, the poor need more than credit. They need a range of options, from credit (beyond enterprise finance), to savings, to money transfer facilities, and insurance in many forms.

Even while the principles reflect a consensus, they do not imply or advocate a single and uniform approach to microfinance. As CGAP²⁶ emphasizes, "diverse approaches are needed—a one-size-fits-all solution will not work. Diverse channels are needed to get diverse financial services into the hands of a diverse range of people who are currently excluded. Making this vision a reality entails breaking down the walls—real and imaginary—that currently separate microfinance from the much broader world of financial systems."²⁷

²⁵

²⁶ Consultative Group to Assist the Poor, Washington, D.C. It is a consortium of 31 public and private development agencies working together to expand access to financial services for the poor, referred to as microfinance.

²⁷ Brigit Helms, *Access to All: Building Inclusive Financial Systems*, Consultative Group to Assist the Poor, World Bank, 2006, P2

Different models of Micro Financing are been practiced in the market i.e. Grameen Bank Model, Village Bank Model, Credit Union and Self-Help Groups.²⁸

Conventional microfinance over the years has witnessed a paradigm shift - from the traditional donor-based approach to a for-profits approach in building inclusive financial systems. The underlying assumption is that the demand for these services is simply too great to be filled by government and donor funds on a sustained basis. The excess demand will, need to be met by commercial capital available at a "fair" market price. The focus therefore, has sharply shifted from charity to profits. Of all the models above, the Grameen model and the village bank model that are the more structured than the rest have been able to enhance their outreach. Indeed the Grameen model has now become the text-book model of microfinance.

CGAP emphasize that access to MF and not cost of MF should be under focus in designing and implementing a poverty alleviation strategy. The strategy should aim at sustainability through a shift from a charity-based donor-dependent approach to a market-based for-profits approach emphasizing systemic efficiency and transparency and restricting use of donor funds to capacity building. The principles also underscore inclusiveness and integration of MF with the formal financial system.²⁹

²⁸ The four-model classification is based on John D Conroy, "The Challenges of Micro-financing in South-East Asia", Financing Southeast Asia's Economic Development, Institute of Southeast Asian Studies, Singapore, 2003.

²⁹ CGAP has come up with a set of key principles of MF that together constitute the essence of "best-practices" MF.

2.2 Impact of Micro Financing:

By now, it is well documented that increased penetration of financial services raises the rate of economic growth. But also it reduces poverty. For example a 1% increase in financial development may raise the growth in the incomes of the poor by 0.4%³⁰; while a 10% change in the ratio of private credit to GDP may reduce poverty ratios by 2.5 to 3 percentage points in terms of headcount.³¹

The chapter on impacts in the 2005 textbook, *The Economics of Microfinance*, by Armendariz de Aghion and Morduch, essentially finds two good studies, both of group lending, that find positive impact.³² One of the two cited by Armendariz de Aghion and Morduch, done in Northeast Thailand, found few statistically significant signs of impact of village banking, except among borrowers on the banks' organizing committees. One explanation is that only these connected borrowers obtained loans large enough that they could reasonably be expected to make a difference.³³ The other study is based on surveys of 1,800 households in Bangladesh carried out in 1991–92 and 1998–99, with backing from the World Bank. It finds that microcredit for women increased their incomes by 8 taka for each 100 lent.³⁴ Thus a \$250 one-year loan would raise a borrower's income by \$12.50/year, or about \$0.03/day. For someone living on \$2/day, that is a 1.5% increase. This does not live up to the microfinance hype, but it is a modest, positive impact. Since

³⁰ For the result see Jalilian and Kirkpatrick (2001) "Financial Development and Poverty Reduction in Developing Countries", Working Paper No 30, IDPM, Manchester University.

³¹ The result is provided by Honohan P. (2004) "Financial Sector Policies and the Poor: Selected Findings and Issues", World Bank, mimeo.

³² Beatriz Armendariz de Aghion and Jonathan Morduch, *The Economics of Microfinance* (Cambridge, MA: The MIT Press, 2005), pp. 59–68, 158–61.

³³ Brett Coleman, "The Impact of Group Lending in Northeast Thailand," *Journal of Development Economics* 60 (1999), pp. 105–42.

³⁴ Shahidur R. Khandker, "Microfinance and Poverty: Evidence Using Panel Data from Bangladesh," *World Bank Economic Review* 19(2), pp. 263–86.

the publication of the Armendariz de Aghion and Morduch textbook, Dean Karlan and Jonathan Zinman have performed the first randomized study of small-scale credit, specifically, of a payday lender in South Africa; they found that extending credit to those just falling short on the credit scoring system raised borrowers' employment rates and income.³⁵ On the other hand, the high-profile "AIMS" impact studies funded by the U.S. Agency for International Development either found no impact or did find it only to have the results undone by other researchers correcting methodological problems.³⁶

Microfinance is not reaching the poorest of the poor, even though this was its purpose, and loans are going to activities unrelated to entrepreneurship the main reason is that the financing is been provided in form of cash so there is to a great extend chance that the borrower is not utilizing it for the specific purpose i.e. purpose for enterprise development. Islamic finance can in principle and practice correct these defects because in Islamic mode of financing the required asset is provided to the borrower not the cash.³⁷

2.3 Islamic Financial Services Industry³⁸:

Islamic financial services (IFS) can be viewed as an element of the broad process of financial innovation and diversification of the financial landscape. IFS are continuing to evolve in response to market demand and regulatory developments. IFS have

³⁵ Dean Karlan and Jonathan Zinman, "Elasticities of Demand for Consumer Credit," October 24, 2005.

³⁶ Beatriz Armendariz de Aghion and Jonathan Morduch, *The Economics of Microfinance* (Cambridge, MA: The MIT Press, 2005), pp. 59–68, 158–61.

³⁷ Samer Badawi of CGAP opined, in the Islamic Finance Project (IFP) of the Islamic Legal Studies Program (ILSP) at Harvard Law School symposium on "Financing the Poor: Towards an Islamic Microfinance." April, 2007.

³⁸ Modes of Islamic Financing are briefly discussed in the Annexure III.

developed products to comply with the prohibition of “riba” and “gharar”, and the ensuing principles of risk-sharing where risk and reward are shared by the institution and the borrower, materiality and no exploitation.

Under conventional microfinance, risk is borne by the borrowers, and rarely by the institutions. NGOs and other institutions offer efficient services to supplement their lending—but these services add to the cost base.³⁹

The general principles of Islamic finance starting with the pronouncement for Muslims to be fair in all dealings and not to take unfair advantage of their associates. Islamic finance, a form of ethically-based finance places a high value on creating a level playing field between business people and restricts activities which put business people at excessive risk of financial ruin.⁴⁰

Micro finance facilities can expand their reach by offering IFS in communities reluctant to deal with conventional financial instruments. Microfinance emphasizes the concern with increased penetration of financial services, support to poor entrepreneurs, and service to the community.

³⁹ Robert A. Annibale, Global Director of Microfinance at Citigroup, shared his insights about Islamic finance and microfinance, in the Islamic Finance Project (IFP) of the Islamic Legal Studies Program (ILSP) at Harvard Law School symposium on “Financing the Poor: Towards an Islamic Microfinance.” April, 2007.

⁴⁰ Dr. Samuel Hayes, III, Jacob Schiff Professor of Investment Banking at Harvard Business School, quoted in “Overview of Islamic Finance”, at the Harvard Business School, Institute of Halal Investing, Harvard Islamic Society, April 2007.

Traditional banks often seek growth through increasing the debts of consumers, but Islamic banking seeks to depart from this debt-based approach. The instruments for this shift from a “shari‘a-compliant” to a “shari‘a-based” mindset exist, but they must be enhanced and used appropriately for success also there must be a change in measurements of success.⁴¹

2.4 Poverty Alleviation and development of Islamic Financial Services

Industry:

In the context of Muslim societies, building inclusive financial systems would most certainly require integration of microfinance with Islamic finance. Microfinance and Islamic finance have much in common. Islam emphasizes ethical, moral, social, and religious factors to promote equality and fairness for the good of society as a whole. Principles encouraging risk sharing, individual rights and duties, property rights, and the sanctity of contracts are all part of the Islamic code underlying the financial system. In this light, many elements of microfinance are consistent with the broader goals of Islamic finance. Both advocate entrepreneurship and risk sharing and believe that the poor should take part in such activities. Both focus on developmental and social goals. Both promote financial inclusion, entrepreneurship and risk-sharing through partnership finance. Both involve participation by the poor.⁴²

⁴¹ Iqbal Khan, HSBC Amanah’s founding CEO, noted in the Islamic Finance Project (IFP) of the Islamic Legal Studies Program (ILSP) at Harvard Law School symposium on “Financing the Poor: Towards an Islamic Microfinance.” April, 2007.

⁴² Rahul Dhumale and Amela Sapcanin, “An Application of Islamic Banking Principles to Microfinance”, Technical Note, Regional Bureau for Arab States, UNDP

Poverty Alleviation and development of Islamic Financial Services Industry (IFSI) are two key strategic objectives. It was widely felt that there is a need to focus on Islamic Microfinance Development as top priority initiative in order to align IFSI development with poverty alleviation. It also offers a community-based, alternative program to promote genuine economic activity. Despite progress in all significant segments, the IFSI has not significantly addressed the challenge of poverty alleviation by making financial services accessible to the poor.⁴³

Islamic convictions on the responsibility go well beyond mere profitability goals as its ultimate goal is the maximization of social benefits as opposed to profit maximization, through the creation of healthier financial institutions that can provide effective financial services also as grass roots levels, some authors⁴⁴ argue that Islamic finance, if inserted in a new paradigm, could be a viable alternative to the socio – economic crisis lived by the Western paradigm.

It goes on to argue that diverse approaches are needed to minimize exclusion and that the cultural and religious sensitivities of Muslim societies must be given due emphasis in any attempt to build inclusive financial systems in order to bring a very large segment of the world's poor population into the fold of formal financial systems.

At a very basic level, the disbursement of collateral free financing in some cases constitutes an example of how Islamic banking and microfinance share common aims.

⁴³ Islamic Research and Training Institute, 2007, "Islamic Microfinance Development Ten-Year Framework and Strategies".

⁴⁴ Al Harran (February 1996) "Islamic Finance needs a new paradigm"

Thus Islamic banking and microcredit programs may complement one another in both ideological and practical terms⁴⁵.

Provision of the above financial services to the poor is expected to lead to poverty alleviation. However, available research evidence shows that the poor must have access to such services over a fairly long-term before the real impact can be seen. It takes time and repeated use of financial services, often combined with other services, to make a dent in poverty. It should also be noted here that microfinance is not the sole solution for reducing poverty.

2.5 Analysis of the Levels of Poverty in the Islamic World and

Measures of Financial Access:

The needs of the poor in Islamic countries are no different from the poor in other societies except that these are conditioned and influenced by their faith and culture in a significant way. The Islamic world is enormous with over 1.2 billion people, there are high and rising poverty levels in both urban and rural parts of most Muslim countries. Poverty levels have also been associated with high inequality alongside low productivity. In Indonesia alone with world's largest Muslim population, over half of the population about 129 million are poor or vulnerable to poverty with incomes less than US\$2 a day.

45 Dhumale R., Sapcanin A. (1996) "An Application of Islamic Banking Principles to Microfinance" Technical Note, A study by the Regional Bureau for Arab States, UNDP, in cooperation with the Middle East and North Africa Region, World Bank

Bangladesh and Pakistan account for 122 million each followed by India at approximately 100 million Muslims below poverty line.⁴⁶

Poor are now well over 44 per cent of Pakistan's population who include 28 per cent living in abject poverty⁴⁷. Last month, the Planning Commission reported that Pakistan's poverty rate had jumped from 23.9 percent over the last three years to a staggering 37.5 percent. In other words, more than 60 million Pakistani barely earn enough money to feed themselves⁴⁸.

An analysis of data provided in Annexure II reveals that only five of the member countries – Indonesia, Bangladesh, Pakistan, Nigeria and Egypt account for over half a billion (528 million) of the world's poor with incomes below \$2 a day or national poverty line. All these countries except Nigeria have Muslims constituting over ninety-five percent of their respective population. With another five countries - Afghanistan, Sudan, Mozambique, Turkey and Niger, they account for over 600 million of the world's poor. If one considers another comprehensive measure of poverty – the Human Development Index compiled for 120 developing countries by UNDP, it is observed that a large number of IDB member countries rank extremely low in the 1-120 rank. Mali, Burkina Faso and Chad have ranks below 100 at 102, 101 and 100 respectively, closely followed by Niger and Guinea at 99 and 96.

⁴⁶ Annexure II provides a snapshot of poverty in the IDB member countries. Adopted from IRTI 2007 op. cit. note 20.

⁴⁷ DAWN: Oct 26, 2008

⁴⁸ The News: March 18, 2009

While poverty is widespread, access to financial services in the Islamic world is either inadequate or exclusive. In an attempt to measure access to financial services some studies have made use of sample surveys of households or individuals. The most recent study is by Honohan (2007)⁴⁹ that provides indication of access for more than 160 countries using a composite measure. The measure is an estimate of the fraction of the adult population using formal financial intermediaries.

An analysis of the data provided in Annexure III⁵⁰ reveals that out of the 44 countries for which the estimate is available, in as many as 17 countries only one-fifth or less of their adult population have access; in 21 countries one-fourth or less have access and in 31 countries one third or less have access to formal financial services. The countries that fare well with over half of their population with access are Lebanon (79 percent), Saudi Arabia (62 percent) and Malaysia (57 percent). Five other countries Kazakhstan, Turkey, Tunisia, Egypt and Indonesia rank next with over 40 percent of their adult population having access. Financial access of the Pakistani population is 12 percent.

A large number of studies on poverty indicated that exclusion of the poor from the financial system is a major factor contributing to their inability to participate in the development process (Christen et al. 2004 of CGAP⁵¹, Peachey and Roe 2006⁵², Honohan

⁴⁹ Patrick Honohan, Cross-Country Variations in Household Access to Financial Services, World Bank Conference on *Access to Finance*, March 15-16, 2007

⁵⁰ Annexure III provides values of composite measure of access to financial services for 44 of the 56 IDB member countries. Adopted from IRTI 2007 op. cit. note 23

⁵¹ Christen, Robert Peck, Veena Jayadeva and Richard Rosenberg (2004) "Financial Institutions with a Double Bottom Line: Implications for the Future of Microfinance" Occasional Paper No. 8. Washington DC: CGAP

⁵² Peachey, Stephen and Alan Roe (2006) "Access to Finance, Measuring the Contribution of Savings Banks", World Bank Savings Institute.

2007⁵³, Zahid, 2008⁵⁴). In a typical developing economy the formal financial system serves no more than twenty to thirty percent of the population⁵⁵ where as the issue of financial exclusion in the advanced economies is concerned, ten percent of the adult population do not have access to financial services.⁵⁶

The vast majority of those who are excluded are poor. With no access to financial services, these households find it extremely difficult to take advantage of economic opportunities, build assets, finance their children's education, and protect themselves against financial shocks. Financial exclusion, thus, binds the poor into a vicious circle of poverty. Building inclusive financial systems therefore, is a central goal of policy makers and planners across the globe anyhow several countries have adopted conventional policies in recent years to reduce financial exclusion (Porteous, 2004⁵⁷; Carbo, Gardener and Molyneux, 2005⁵⁸; Kempson, 2006⁵⁹; Kempson et al., 2000⁶⁰).

⁵³ Honohan, Patrick (2007) "Cross-Country Variations in Household Access to Financial Services", World Bank Conference on Access to Finance.

⁵⁴ Syed Zahid Ahmad 2008, "Financial Exclusion of Indian Muslims", AICMEU's Baitulmal Co-operative Credit Society Ltd, Mumbai. <http://islamicfinanceandbanking.blogspot.com/2008/02/fw-politics-over-indian-muslims-economy.html>

⁵⁵ Mohammed, Aliyu Dahiru and Hasan, Zubair (2008) "Microfinance in Nigeria and the prospects of introducing its Islamic version there in the light of selected Muslim countries' experience", Online at <http://mpira.uni-muenchen.de/8287/>

⁵⁶ Honohan (2007), op. cit. note 3.

⁵⁷ David Porteous 2004, "Making Financial Markets Work for the Poor", paper was commissioned by FinMark Trust.

⁵⁸ Carbó, Santiago, Edward P. M. Gardener and Philip Molyneux. 2005, "Financial Exclusion" (Basingstoke: Palgrave Macmillan)

⁵⁹ Kempson, Elaine. 2006. "Policy Level Response to Financial Exclusion in Developed Economies: Lessons for Developing Countries." The Personal Finance Research Centre, University of Bristol. Presented at Brookings-World Bank Conference, May 2006.

http://www.pfrc.bris.ac.uk/Reports/Policy_response_to_fin_exc_EK_0506.pdf

⁶⁰ Kempson, Elaine, Claire Whyley, John Caskey and Sharon Collard. 2000. "In or Out? Financial Exclusion: A Literature and Research Review." London: Financial Services Authority. <http://www.fsa.gov.uk/pubs/consumer-research/crpr03.pdf>

2.6 Dual approach: Qard Hasana, Sadaqah and Zakah based IMF program for the destitute, disabled and “unbankable” and an Awqaf based IMF program for wealth creation:

Integrate Zakah, Awqaf and Islamic financial contracts in the financial sector development strategies with a view to making financial services relevant for the masses; Microfinance is not reaching the poorest of the poor, even though this was its purpose, and loans are going to activities unrelated to entrepreneurship. Such as Johnston and Murdoch (2007) concludes in there paper that: ‘Microcredit helps the poor smooth consumption and build assets. However, it plays only a modest role in creating new jobs. Often the loans are used for household consumption and not invested in household businesses. In Indonesia, for instance, low-income households use microcredit for consumption purposes about 30 percent of the time. Even households with enterprises use loans for consumption purposes such as school fees, medical needs, and social and holiday spending.’⁶¹ Also, the beneficiaries of microcredit programs are not the poorest of the poor. In northeast Thailand, microfinance schemes run by nongovernmental organizations that explicitly target the very poor tend to operate in the wealthier villages. Even within a given village, the schemes lend more to wealthier households (Coleman 2006).⁶² Similarly in Indonesia, Bank Rayat borrowers have incomes that are 40 percent higher than those of nonborrowing households in the target group (Hulme and Mosley 1996).⁶³

⁶¹ Johnston, Don, and Jonathan Murdoch. 2007. “Microcredit versus Microsaving: Evidence from Indonesia.” Paper prepared for conference on Access to Finance, March 15–16, 2007. Washington, D.C.

⁶² Coleman, Brett E. 2006. “Microfinance in Northeast Thailand: Who Benefits and How much?” *World Development* 34 (9): 1612–1638.

⁶³ Hulme, David, and Paul Mosley, eds. 1996. “Finance Against Poverty”. London: Routledge.

Islamic finance can in principle and practice correct these defects. The Islamic approach to poverty alleviation through microfinance and underscores the need for a dual approach: a zakah and awqaf-based charity program for the destitute, disabled and “unbankable” and a micro-finance program of wealth creation.

Conventional microfinance is not for the poorest of the poor. There is a sizeable substratum within the rural poor whose lives are unlikely to be touched, let alone improved by financial services. They are not "bankable" in their own or their neighbor's eyes, even when the bank is exclusively for poor people. Yet they desperately need some sort of assistance. An Islamic microfinance system, on the other hand, identifies being the poorest of the poor as the primary criterion of eligibility for receiving zakah. It is geared towards eliminating abject poverty through its institutions based on zakah and sadaqah.

Financial services, and especially credit, are not usually appropriate for the destitute (for instance, those who go hungry or without a cash income). It is sometimes forgotten that the other word for credit is debt. Loans to the destitute may in fact make the poor poorer if they lack opportunities to earn the cash flow necessary to repay the loans. Basic requirements like food, shelter, and employment are often more urgently needed than financial services and should be appropriately funded by government and donor subsidies.

The primary issue with zakah and sadaqah-dependent institutions is the issue of sustainability as they are essentially rooted in voluntarism. Funds mobilized through

charity could fluctuate from time to time and may not lend themselves to careful planning and implementation. The issue of sustainability is addressed in the institution of awqaf through creation of permanent and income-generating physical assets which indirectly helps the process of production and creation of wealth. Awqaf has historically been the major vehicle for creating community assets. By targeting its benefits towards the poor, awqaf can play an important role in poverty alleviation.

Though there has been significant improvement in management of zakah and awqaf in recent years, their role as vehicles of microfinance and poverty alleviation is grossly underestimated. Their growing popularity evidenced through establishment of many a zakah fund and awqaf fund is an indication of their vast potential in Muslim societies.

While estimates of actual zakah collected in Muslim countries reveal that the quantum is grossly inadequate to meet the financing needs of the poor, the impact of zakah and sadaqah on poverty alleviation, once their full potential is realized, remains to be seen.⁶⁴

2.7 Deposit Mobilization:

If charity-based funds are inadequate, then recourse must be found in a commercial approach. Islamic microfinance institutions should be able to mobilize resources, either through accepting savings deposits or obtaining funds from local Islamic

⁶⁴ IRTI 2007 op. cit. note 27

banks for onward financing or from the capital market. This commercial approach entails charging and sharing of profits and is quite consistent with Islamic Shariah. While Islam strongly encourages charity from the giver's point of view, it seeks to minimize dependence on charity from the beneficiary's point of view and restricts the benefits to flow to the poorest of poor and the destitute, which are not in a position to generate any income and wealth.

Instruments for mobilization of funds may be broadly divided into (1) charity that includes zakah, sadaqa, awqaf; gifts that include hiba; (2) deposits that may take the form of wadiyya, qard-hasan and mudaraba and (3) equity that may take the form of classical musharaka or the modern stocks.

In the globalization era, banks and financial institutions in general cannot afford to face financial exclusion. The segment of the population that has been excluded from financial services so far has to be seen as an opportunity, a profitable market niche. As a result of a major interest towards these people, positive social externalities will show. The "financially excluded" group is heterogeneous and includes not only poor people in developing countries, but also migrants who need money transfer to manage their remittances in their home countries, young people with the enthusiasm of starting some new income generation activity but lack capital.⁶⁵

⁶⁵ Chiara Segrado, 2005, "Islamic Microfinance and Socially Responsible Investments", University of Torino

2.8 High interest rate: shows the right frequency of devastation:

Most conventional microfinance providers charge rates of interest that are found to be high when benchmarked against mainstream banking rates. It is often said that micro entrepreneurs can “afford” to pay high interest rates as cost of funds (sometimes as high as sixty-seventy percent) as long as the same are lower than rates of return. It is commonly believed that rates of returns on micro-projects tend to be very high. However, the same is true only for the “successful” projects passing through “good times” and not true of all projects at all times. Interest related liability can compound and accentuate the financial problems of a project experiencing bad times and hasten its failure. The pace, frequency and intensity of such failure is directly related to the levels of interest rates. In case of Islamic profit-sharing mechanisms on the other hand, there is a clear alignment between profitability of the project and cost of capital. The latter rises and falls in line with the realized profits of the venture. In case of Islamic debt financing too, the negative effects of financial risk arising out of use of fixed-rate financing are limited as compared to interest-based debt. This is because the former does not allow for compounding of the debt in case of possible default.⁶⁶

MFIs often state their interest rates on a “flat” basis—that is, relative to the original loan amount. But if an MFI makes a \$100 loan to be repaid in equal installments over 50 weeks, then over the course of the year the average balance is only about \$50. Thus the effective interest rate, relative to the average balance, is about twice what it appears to the naïve.

⁶⁶ IRTI 2007 op. cit. note 41

In addition, MFIs may charge origination fees, force savings that earn below-market interest or none at all or sell credit life insurance at high prices. The best, systematically collected measure of the interest rate, then, may be the gross portfolio yield, an MFI's ratio of income on loans to loans outstanding. In the 2004 MBB sample of 302 MFIs, individual lenders reported a gross portfolio yield of 32.0% at the median (24.9% after adjusting for inflation), while solidarity lenders charged 41.7% (32.7% after inflation) and village banks 48.9% (39.1% after inflation). These figures understate the actual charges to the generally slight extent that arrears reduce yield. Since they are medians, half the solidarity lenders earn more than 41.7% and half the village banks earn more than 48.9%.⁶⁷

Of course, raising rates does not automatically improve financial performance, since high prices can deter customers. Rajeev Dehejia, Heather Montgomery, and Jonathan Morduch confirmed that principle for microfinance by studying how demand for credit from SafeSave varies with the interest rate. (SafeSave a MFI it lends as well as takes deposits.) The researchers found that a 1% increase in interest charges (not a 1 percentage point increase) reduced uptake of credit by 0.25% in the short run and 1.18% in the long run.⁶⁸ Moreover, higher rates can exacerbate a form of adverse selection. As the rate goes up, potential borrowers with safe, predictable investment plans drop out because they know they will not be able to earn enough to cover the interest charges.

⁶⁷ David Roodman and Uzma Qureshi, 2006, "Microfinance as Business", Center for Global Development

⁶⁸ Rajeev Dehejia, Heather Montgomery, and Jonathan Morduch, "Do Interest Rates Matter? Credit Demand in the Dhaka Slums," Discussion Paper No. 37, Asian Development Bank Institute, Tokyo, September 2005

That leaves a pool of clients with riskier plans, who have a shot at covering the interest but also greater chance of failure and default.

Interest rate – high or low, is rejected by large sections of the Muslim societies as tantamount to *riba* – something that is prohibited in no uncertain terms by the Islamic Shariah. From the above, it is clear that the cultural and religious sensitivities of the Islamic world are somewhat unique and these must be given due emphasis in any attempt to build inclusive financial systems and bring the over one-billion Muslims into the fold of formal financial systems.

Micro-credit as offered by conventional MFIs in Muslim countries violates the fundamental prohibition of *riba* that the Islamic Shariah mandates. While some poor Muslims, devoid of options and hard-pressed for cash avail of interest-bearing credit, many prefer to stay away.

2.9 Islamic Social Capital⁶⁹:

Islamic values carry significance in framing organizational and participatory approaches. The concept of unity, as directed through Divine revelation, can be instrumental in gathering momentum for collective action and social transformation⁷⁰. The social capital built-up on the injunctions of Shariah is expected to effectively solve the Muslim populations and insure sustainability of IMFP supported by excellence in

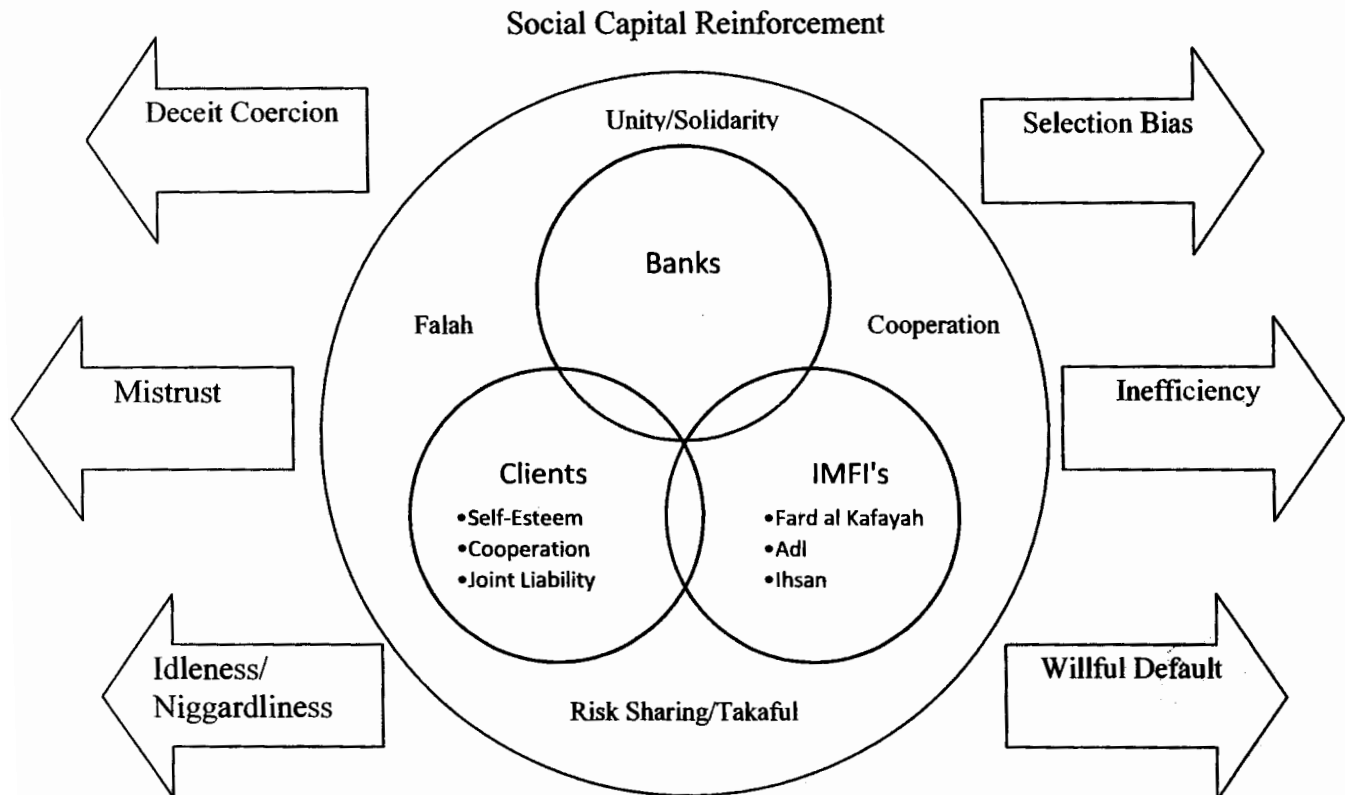
⁶⁹ Muhammad Khaleequzzaman, 2007, “Islamic Microfinance: Outreach and Sustainability”, *Journal of Islamic Banking and Finance*, October-December 2007.

⁷⁰ M.A. Choudhury, 2002. “Microenterprise Development Using Islamic Financing and Organizational Instruments: Modality and Practicum”, *International Journal of Social Economics*, 29(1/2)119, 2002.

quality and commitment of staff of IMF and their clients. The following Islamic values can become instrumental in organizing coherent actions of all social agents i.e. clients and there IMFG and IMF and Islamic Banks.

- a. Solidarity among clients, IMFG's, and IMFI's so that each unit represents the whole principle of unity.
- b. Relationship among the group members – trust, joint/unlimited liability, co-operation.
- c. Nature of relation between IMFG and IMFI – trust, co-operation.
- d. Motivational force for the programs – fard al kafayah, falah, adl, ihsan and taawun.
- e. Payment behavior – necessity of repayment and prohibition of willful default, respite.
- f. Mutual responsibility and risk sharing – kafalah, takaful.
- g. Help for poor and destitute by wealthy – zakah and infaq.

Such social capital can help sustain the microfinance operations by building greater confidence between IMFIs and their clients. The proposed environment of Islamic social capital can be demonstrated as – showing positive social capital being reinforced among the social agents and negative capital pushed out.



Any parameter of Islamic Social Capital can be present in respect of more than one social agent. The outer circle reflects the social environment common to all agents while the inner circles reflect the parameter specific to each of them or not common to all. The Negative Social Capital has been arrowed out.

The social capital environment suggests reinforcement of Islamic values to bring excellence in quality and commitment of all stakeholders, ensuring sustainability.

A social capital survey of the clients and non clients of the Small Scale Enterprises Development (SSED) Programme of Islamic Relief Pakistan (IRP) in regard of current endowment was assessed to know the potential for developing it on Islamic

Principles. The parameter used for assessment included trust, collective action, cooperation and social cohesion. The results are in table (a).

Table (a): Islamic Social Capital - Respondents vide Social Value			
Social Value	Determinant	Respondents vide social Value	
		Client %	Non-Client %
Trust	Most people living in vicinity can be trusted.	86	70
Group Work	Already worked with others in the past 12 months.	73	80
Collective action and Cooperation	Up to 4 people would be ready to help in case of sudden need of small amount of money.	68	52
	5 or more people would be ready...	24	29
	None would be ready...	-	-
	It would be very likely that people get together to help the grieved at some unfortunate happening	46	51
	It would be very unlikely that people...	7	0
	It would be somewhat likely to somewhat unlikely that people...or respondents remained neutral	47	49
Social Cohesion (Closeness among people)	Respondents felt that they were at great distance from each other.	15	21
	Respondents felt that they were very close to each other.	24	33
	Respondents felt that they were from somewhat distance to somewhat close to each other...or remained neutral.	61	66

2.10 Quran and Hadith⁷¹:

A famous Hadith demonstrates how to design and implement a strategy of poverty alleviation. The Hadith is broken down into numbered statements so as to highlight the key principles of such a strategy that follow from them.⁷²

⁷¹ Only those Quranic Verses and Hadith Mubarak are included in this section which have been discussed in the Papers, Articles and Thesis listed in Bibliography section. Annexure IV contains a list of words فرض, بيع, صدقة, صدقات, مال, زكوة, ربا, انفاق used in Holy Quran specifying the Surah and Verse number.

⁷² IRTI 2007 op. cit. note 43

Narrated Anas ibn Malik:

A man of the Ansar came to the Prophet (peace be upon him) and begged from him. (#1)

He (the Prophet) asked: Have you nothing in your house? He replied: Yes, a piece of cloth, a part of which we wear and a part of which we spread (on the ground), and a wooden bowl from which we drink water. (#2)

He said: Bring them to me. He then brought these articles to him and He (the Prophet) took them in his hands and asked: Who will buy these? A man said: I shall buy them for one dirham. He said twice or thrice: Who will offer more than one dirham? A man said: I shall buy them for two dirhams. (#3)

He gave these to him and took the two dirhams and, giving them to the Ansari, he said: Buy food with one of them and hand it to your family, and buy an axe and bring it to me. (#4)

He then brought it to him. The Apostle of Allah (peace be upon him) fixed a handle on it with his own hands (#5)

and said: Go, gather firewood and sell it, and do not let me see you for a fortnight. (#6)

The man went away and gathered firewood and sold it. When he had earned ten dirhams, he came to him and bought a garment with some of them and food with the others. (#7)

The Apostle of Allah (peace be upon him) then said: This is better for you than that begging should come as a spot on your face on the Day of Judgment. Begging is right only for three people: one who is in grinding poverty, one who is seriously in debt, or one who is responsible for compensation and finds it difficult to pay.

(Sunan Abu Dawood, Kitab al-Zakah, Book 9, Number 1637)

The components of the hadith can be seen to emphasize the following fundamental conditions of a successful microfinance program:

- #1. Access of the poorest of the poor to the program
- #2. Careful assessment of the financial health of the poor; enquiry blended with empathy; insistence on contribution and beneficiary stake;
- #3. Transformation of unproductive assets of the beneficiary into income-generating ones through rigorous valuation (on the basis of price discovery through auction method); Involvement of the larger community in the process;
- #4. Meeting of basic needs on a priority basis and investment of the surplus in a productive asset;

- #5. Direct involvement of the program in capacity building in the run-up to income generation and technical assistance to the beneficiary; Commitment of top management of the program;
- #6. Technical assistance in the form of imparting requisite training to the beneficiary for carrying out the business plan/ income-generating project; monitoring through a time-bound schedule and impact assessment through a feed-back mechanism; and
- #7. Transparent accounting of operational results and liberty to use part of income to meet higher needs.

While Islam strongly encourages charity from the giver's point of view, it seeks to minimize dependence on charity from the beneficiary's point of view and restricts the benefits to flow to the poorest of poor and the destitute, which are not in a position to generate any income and wealth.

More evident from the following Hadith:⁷³

Narrated Ubaydullah ibn Adl ibn al-Khiyar: Two men informed me that they went to the Prophet (peace be upon him) when he was at the Farewell Pilgrimage while he was distributing the sadaqah and asked him for some of it. He looked us up and down, and

⁷³ IRTI 2007 op. cit. note 47

seeing that we were robust, he said: If you wish, I shall give you something, but there is nothing spare in it for a rich man or for one who is strong and able to earn a living.

(Sunan Abu Dawood, Kitab al-Zakah, Book 9, Number 1629)

In short, the Islamic approach to poverty alleviation is more inclusive than the conventional one. It provides for the basic conditions of sustainable and successful microfinance, blending wealth creation with empathy for the poorest of the poor. There are certain aspects of the Islamic approach that need added emphasis.

One, transparency through meticulous accounting and proper documentation is a fundamental requirement of financial transactions in the Islamic framework.

As the Holy Quran⁷⁴ asserts:⁷⁵

“O you who believe, when you transact a debt payable at a specified time, put it in writing, and let a scribe write it between you with fairness...” (2:282)

The import and significance of this verse is often not fully understood. Indeed, lack of proper documentation and accounting by beneficiaries is a major challenge confronting microfinance.

Two, as discussed earlier, a common feature of successful microfinance experiments is group-based financing and mutual guarantee within the group. This is a highly desirable feature of Islamic societies. Mutual cooperation and solidarity is a norm central to Islamic ethics.

⁷⁴ Translation has been taken from The Noble Quran by Shaykh Mufti Taqi Usmani

⁷⁵ Dr Mohammed Obaidullah, “Islam, Poverty and Micro Finance "Best Practices"”

The second verse of Surah Al Maida in the Holy Quran says:⁷⁶ "...Help each other in righteousness and piety, and do not help each other in sin and aggression..." (5:2) The following Hadith by the Prophet (peace be upon him) reinforces this principle of cooperation and mutual assistance:⁷⁷

"Believers are to other believers like parts of a structure that tighten and reinforce each other." (Al-Bukhari and Muslim)

Three, once the contract is agreed all parties should abide by its terms and conditions. The Holy Quran clearly places importance on this:⁷⁸

- "O you who believe, fulfill the contracts..." (5:1)
- "...And fulfill the covenant. Surely, the covenant shall be asked about (on the Day of Reckoning) (17:34)
- So, (they met their fate) for breaking their pledge... (4:155)

If the borrower is genuinely unable to meet his or her repayments due to circumstances unforeseen at the time they received their financing then an Islamic financing programme has an obligation either to wait until such time as the financing amount can be repaid, re-schedule the repayments or simply forgive the remainder of the loan. Indeed the Holy Quran states:⁷⁹ "If there is one in misery, then (the creditor should allow) deferment till (his) ease, and that you forgo it as alms is much better for you, if you really know." (2:280)

⁷⁶ Dr Mohammed Obaidullah, op. cit. note 50

⁷⁷ Dr Mohammed Obaidullah, op. cit. note 51

⁷⁸ Ajaz Ahmed Khan, 2008, "Islamic Microfinance Theory, Policy and Practice"

⁷⁹ Ajaz Ahmed Khan, 2008, op. cit. note 53

Qard al-Hasan in Qur'an and Sunnah

In many places of the Holy Qur'an, Allah has mentioned and encouraged His creature for qard al-hasan by assuring better reward in this world and in the Hereafter.

In the Holy Qur'an Allah says,⁸⁰

- “Who is the one who would give Allah a good loan so that Allah multiplies it for him many times? Allah withholds and extends, and to Him you are to be returned.” (2:245)
- If you advance a good loan to Allah, He will multiply it for you, and will forgive you. And Allah is Appreciative, Forbearing, (64:17)
- ...And advance to Allah a goodly loan... (5:12)
- Surely those men who give Sadaqah (alms) and those women who give Sadaqah and have advanced a good loan to Allah, for them it will be multiplied, and for them there is a noble reward. (57:18)
- Who is there to advance a loan, a good loan, to Allah so that He multiplies it for him, and he may have a noble reward? (57:11)
- ...And establish Salah, and pay Zakah, and advance to Allah a goodly loan... (73:20)

The sunnah of the Prophet (peace be upon him) is also very clear on this issue.

⁸⁰ Mohammad Delwar Hossain, “Al-Qard al-Hasan: A Practical Approach”; Ajaz Ahmed Khan, 2008, op. cit. note 54;

It is reported that the Prophet (peace be upon him) said,⁸¹ "in the night of the journey, I saw on the gate of heaven written, 'reward for sadakah is ten times and reward for qard al-hasan is eighteen times'. So, I asked the angel, how is it possible? The angel replied, "Because beggar who asked had already had something but a loanee did not ask for loan unless he was in need." [Ibn Hisham & Ibn Majah].

In another hadith reported by Abu Hurairah (R), the Prophet (peace be upon him) said,⁸² "whoever relieves a believer from a difficulty in this world, Allah will relieve him from his difficulty and Allah will facilitate him in this world and world hereafter." [Muslim]

The above Qur'anic verses and Hadith directly and indirectly encourage the Muslims to give qard al-hasan and which will increase their credits in manifold and bring forgiveness for them.

⁸¹ Mohammad Delwar Hossain, "Al-Qard al-Hasan: A Practical Approach"

⁸² Mohammad Delwar Hossain, *op. cit.* note 56

3. Case Study: National Rural Support Program – Islamic Micro Finance Program (NRSP-IMF)

3.1 Institutional Review:

3.1.1 Background and History:

The National Rural Support Program (NRSP) is Pakistan's largest multi-sectoral rural development program, established in 1991 by the Government of Pakistan. It is a not for-profit organization registered under Section 42 of Companies Ordinance 1984. NRSP is also the largest Rural Support Program in the country in terms of outreach, staff and development activities. Its goal is to reach out to 38 million poor people all over Pakistan through its network and other Rural Support Programs (RSPs). At present, it is operational in 35 districts in all the four provinces of Pakistan including Azad-Jammu & Kashmir through 13 Regional offices and many field offices.

Salient features of NRSP are: It is a home grown organization, registered as a Company Limited as Guarantee under Section 42 of Companies Ordinance (1984); Government of Pakistan provided seed money to establish NRSP in 1992; it is an Not for Profit Organization; core operations are managed from the income of an endowment fund as well as from donor funding; is autonomous and independent; has no preconceived package for delivery of services or supplies; it has no political agenda.

3.1.2 Mission, Vision and Purpose:

NRSP mandate is to alleviate poverty by harnessing people's potential and undertaking development activities in Pakistan. NRSP is currently working with more than half a million poor households. With sustained incremental growth, it is emerging as Pakistan's leading engine for poverty reduction and rural development.

NRSP works to release the potential abilities, skills and knowledge of rural men and women, to enable them to articulate their aspirations and to effectively marshal the resources they need to meet their identified needs. The purpose is poverty alleviation - enabling people to break the cycle of poverty, which begins with lack of opportunity, extends to the well-known miseries of economic and nutritional poverty and leads new generations to endure the same conditions. The process is social mobilization – bringing people together on new terms for a common purpose.

The conceptual tools are

- Social guidance (recruiting local population who will take on a leadership role)
- Advocacy
- Capacity building and
- Awareness rising.

The programmatic tools are

- Training
- Support to institutions
- *Islamic Micro finance (Murabaha mode)*

- Infrastructure development
- Natural resource management and
- Productive linkages with other line agencies and private organizations.

The organizational purpose is to advocate for the poor and to bring the concerns of economically marginalized men and women to public consciousness and to affect policy so that the poor are brought into the mainstream of the economy. NRSP vision is manifested in expanded opportunities for income-generation; community schools which provide quality primary education, community owned and managed infrastructure schemes, improved agricultural productivity, and higher returns for labor and so on. From the widest perspective the vision is manifested as the first stages of a transformation of civil society.

3.1.3 Objective:

The main objective of NRSP is to create a countrywide network of grassroots level organizations to enable rural communities to plan, implement and manage developmental activities and programs for the purpose of ensuring productive employment, alleviation of poverty and improvement in the quality of life. The organization is designed in such a way that it specializes as a support organization, which provides social guidance to the communities.

The guiding tenets of NRSP philosophy are:

- To organize rural communities.

- Develop their Capital Base at the local level through Islamic Micro Financing (Murabaha Mode) and Savings.
- Support Human Development endeavors.
- Link the communities with the government service delivery departments, donors, NGOs and the private sector.

While interacting with so many stakeholders, NRSP carefully outlines its role as that of a facilitator. This leads the communities and other partners to maintain their relationship independent of NRSP.

The generic principles of NRSP philosophy prevent it from following a preconceived package approach. The whole quest is to identify and support whatever activities communities intend to do on their own according to their prioritized needs.

3.2 Microfinance Enterprise Development Program – Islamic Micro

Finance Program:

3.2.1 Introduction of MEDP:

As part of its holistic approach, NRSP provides various financial services to the members of COs in rural areas to help them implement their Micro Investment Plans (MIP). Major program donors are PPAF, IFAD and a substantive part of the credit program is also through NRSP endowment fund provided by the Government of Pakistan. A separate program for Islamic Micro Finance is also activated under MEDP. The

funding for this program is provided by Bank of Khyber and PPAF under Mudarabah mode of Islamic Financing.

MEDP services include:

- Islamic Micro Finance – individuals through groups and Village Banking
- Micro Credit - individuals through groups and Village Banking (stopped operating/lending now)
- Micro Insurance - hospitalization and accidental death
- Savings - COs keep their savings in post offices current account or saving account or in commercial banks or they invest these in Community Physical Infrastructure.

3.2.2 Introduction of Islamic Micro Finance Program:

NRSP started its Islamic Micro Finance Program in 2006 in Mardan/Malakand district. The first disbursement was made on 25th Dec 2006. The main motivation behind the starting of this program is to provide Interest Free Financing. Although the Microcredit program was in full swing during the realization of NRSP-IMF but the great enthusiasm of Muhammad Sharif Khan, Regional General Manager, Mardan/Malakand made it possible to run the pilot project. Micro-credit was a major component of NRSP focusing on improving livelihoods but now NRSP micro credit system is shifting from the credit procedure towards Islamic Mode of Financing, a more social beneficial and firm Shariah method.

Muhammad Sharif Khan, RGM and Niaz Ali DPO started research in 2004 over the methodology for an interest free way to be implemented for Micro Financing to the clients in NRSP. They contacted Darul Uloom Deoband, India, Shariah Advisor of The Bank of Khyber (Islamic Banking Division) and other prominent scholars of NWFP, which supported them immensely and issued Fatawa (Darul Uloom Deoband, India⁸³) for the procedure - if followed correctly by the organization - to be within the boundaries of Shariah. Thus, with the closer coordination and guidance implementation strategy both for rural and urban clients and other necessary formalities have been designed for the Murabaha Financing Program. They also contacted other institutes which were working on Islamic Micro Finance at that time for the assistance and received their support.

In order to start the Murabaha Financing by NRSP-IMF, Halal funds were needed as the source and its utilization must be kept within the framework of Islamic Principles and Shariah so as to keep it Halal and Islamic. The financial initiative was taken up by The Bank of Khyber (Islamic Banking Division).

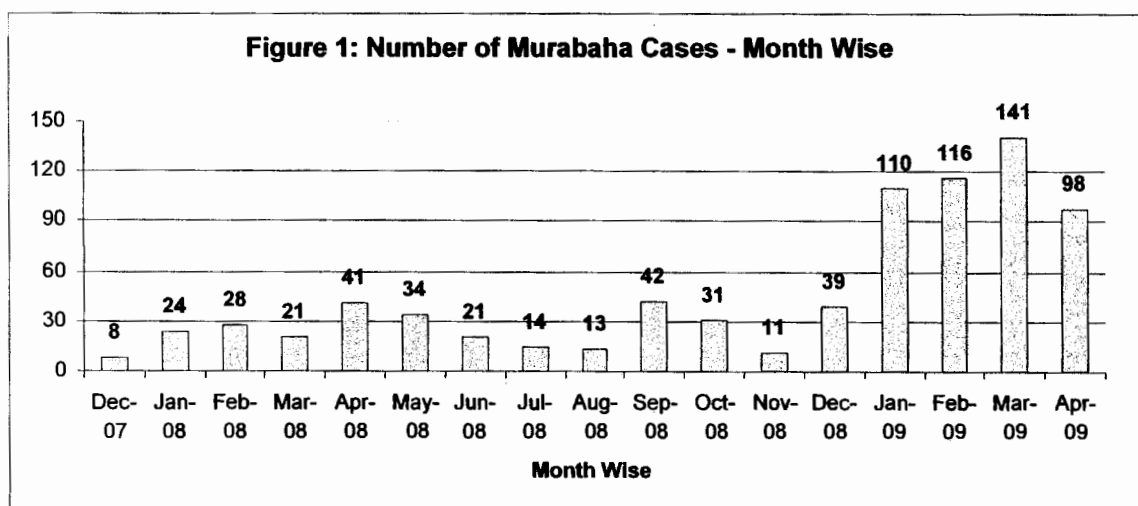
The BOK provided Rs. 3 million Halal funds to NRSP-IMF on Mudaraba basis for a period of two years with profit sharing of 80% towards BOK and 20% for NRSP-IMF after deducting the operational cost from total profit. NRSP-IMF was to further invest these funds in Murabaha mode of finance with its Community Organization's members (clients). Recently NRSP-IMF got funds of Rs. 70 million from Pakistan Poverty Alleviation Fund (PPAF).

⁸³ Annexure IX, X, XI, XII, XIII contains the Fatawas.

NRSP-IMF is working in the following sectors through Murabaha mode.

- Supporting micro entrepreneurs to uplift their small enterprise.
- Supporting small farmers for improving their agricultural production by Purchasing Agriculture inputs like fertilizers, seeds, pesticides etc.
- Live stocks sector development i.e. purchasing milk animals, fattening etc
- Assets creation i.e. purchasing home appliances (Shariah compliant items only, those items that are allowed under murabaha financing mode)
- Mechanics generation income (Purchasing small machines which can be used for income generation)

NRSP-IMF at its initial stages has shown remarkable achievements, using Murabaha mode of financing and have disbursed around 12.5 million within 1 year and 3 months (of its operation time period since Dec 2006 to March 2009) to 694 clients⁸⁴. NRSP-IMF had distributed Mudaraba profit of Rs.102000 at the end of period with Bank of Khyber.

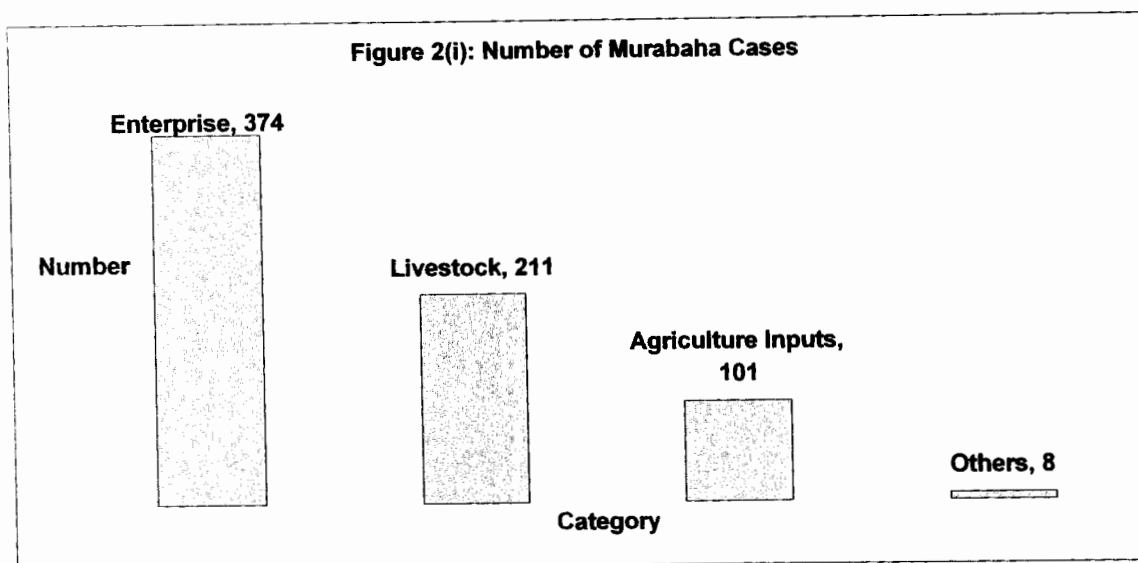


⁸⁴ During April 2009 they had financed 98 cases and still continuing.

The Murabaha financing is provided for the items pricing maximum of 25000. The organization's predetermined Murabaha rate of profit, including the processing fees, cost of purchasing item and delivery in some cases, is 22.5 percent flat on every repayment mode i.e. either it be monthly, semiannually or lump sum. But now currently they have decreased there Murabaha profit rate to 20 percent for monthly installment repayment mode and 23 percent Murabaha profit for semiannually and lump sum.

The recovery rate is claimed to be almost 100 percent. The staff had to work hard in recovery procedure but majority of the clients pay their installment on time and by visiting the village bank. Also some clients pay their installment in advance.

NRSP-IMF provides financing to the members of the COs through a solidarity group approach. Although, NRSP-IMF does not have a preconceived package, Murabaha financing is given for any income generating purpose broadly distributed in following categories; 'Agriculture Inputs', inputs such as seeds, pesticides, urea etc; 'Livestock', such as cow for milk, buffalo for resale etc; 'Enterprise' such as products for resell in retail shop, all halal business purpose items etc. Other than this purpose there are very rare cases in which the financing is been given for non income generating purposes such as bricks, gaader, cement for extra room construction in home. This purpose is specified in 'Others' broad category.

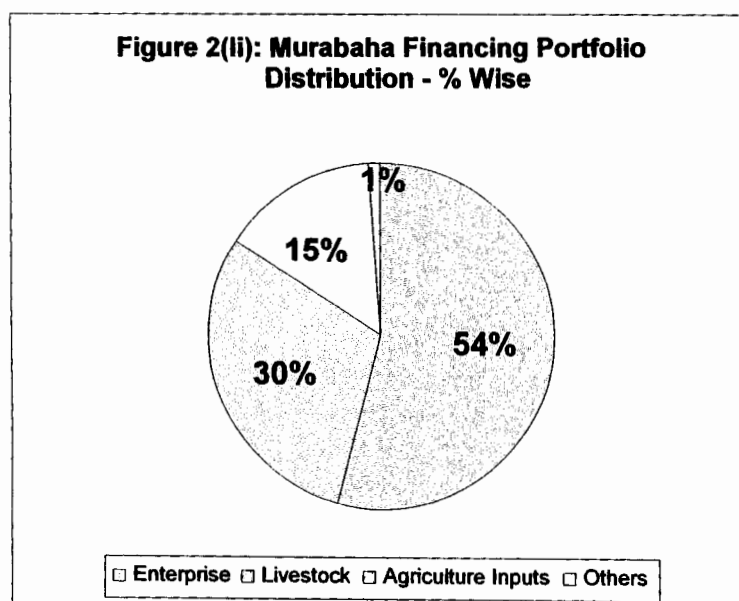


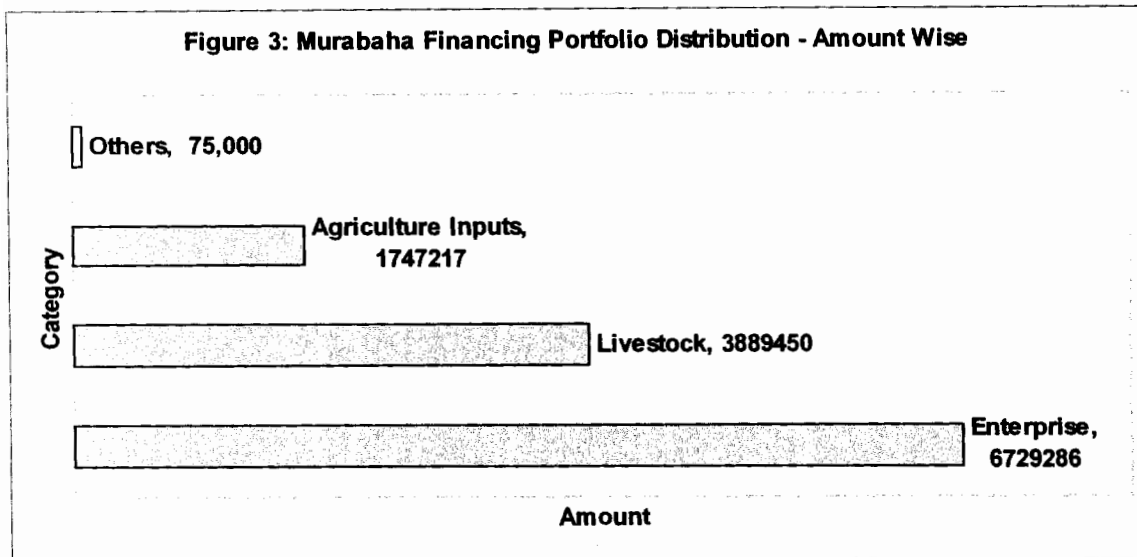
The beauty of NRSP-IMF is that they themselves purchase the item which is needed by the client and then resell it to the client after keeping some profit on it. *The methodology of agency is overcome in practical terms, working on true spirits of Murabaha financing.* According to NRSP-IMF the utilization of purchased item is 100% as the client gets the item instead of cash amount this ensures that the client will be using it positively and on the other hand it transfers some sense of responsibility over the client because he is taking the item in its whole sole form.

NRSP-IMF has a concept of family financing as the whole family is entangled in the vicious cycle so the whole family must/can be taken out of it by working hand in hand. Furthermore, as the program purpose is to focus on improving the household livelihood conditions, the gender of the borrower is not a major issue. In the NRSP micro credit program most of the loans taken by the women were actually utilized for/by male family member's income generation activities. NRSP-IMF have until now 100% financed to men. The majority of the house earners are men in this respective district.

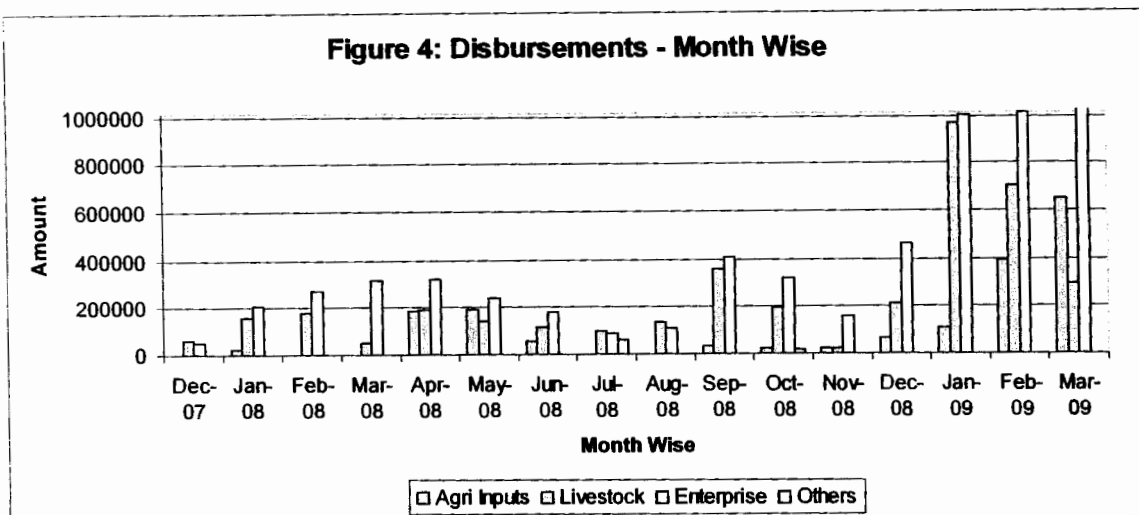
Table 1: NRSP-IMF Distribution Portfolio		
Product	# of MF	Portfolio %
Enterprise	374	54%
Livestock	211	30%
Agriculture Inputs	101	15%
Others	8	1%
Total	694	100%

The majority of the NRSP-IMF financing are used for enterprise development 54 percent whereas 30 percent for livestock and 15 percent for agriculture inputs.





NRSP-IMF, with a portfolio of 694 total cases – out of which 114 cases have been settled (Murabaha price paid) while 580 cases are active – worth Rs. 12,440,953 since Dec2006 upto March2009. There had been a continuous increase in number of clients (disbursements) over this short period and for the last three months it have significantly increased i.e. 185 percent in Jan 2009 as compared to Dec 2008 number of disbursements. In all the financing sectors there is a significant increase, as the program is expanding and the people are knowing it and the major difference of halal and haram modes, namely financing and credit, making excellent signs for NRSP-IMF.



3.2.3 Murabaha Financing Disbursement Methodology:

Solidarity lending methodology is exercised by NRSP-IMF in which the following procedure is followed.

3.2.3.1 Situation analysis:

As part of the entry process, the Social Organizers (staff of NRSP) completes a 'Situation Analysis', which covers demographic trends, economic data (household income, agricultural and other earnings), employment data, institutions (schools, hospitals etc.) found in the area, the amount and condition of land, health and education facilities and physical infrastructure and the state of the agricultural economy.

The situation analysis utilizes primary and secondary sources (interviews, Census data, etc.) and is valuable as a benchmark, as a tool for entry level planning and for eventual program expansion.

3.2.3.2 Social Mobilization; the core of NRSP philosophy:

Social mobilization is based on acknowledging that the community is the centre of all development activities. It is only informed and engaged community members who can plan and undertake sustainable grass roots development. The process of social mobilization in a new Union Council begins with a series of dialogues with community members, explaining the purpose of the organization, about Islamic Micro Financing and the mutual obligations which Community Organization (CO)⁸⁵ formation entails.

These dialogues:

- Help to establish rapport and build trust between the NRSP Social Organizers and the villagers;
- Enable potential CO members to identify the socio-economic and infrastructural opportunities available in their communities. Every effort is made to include both men's and women's perspectives as the dialogues proceed.
- Help identify potential areas of effective intervention, as defined by the men and women of the community. Once identified, the opportunities are grouped into sector specific categories.

3.2.3.3 Formation of CO:

The NRSP-IMF staff asks people to form Community Organizations (COs), which will function as a platform for development. A meeting place is selected in the locality where the introduction (a complete outline and macro details) of the program is given. The meeting lasts for around one or two hours depending on the number of questions asked by the attendance. The meeting attending peoples are those who live

⁸⁵ Currently there are around 75 CO in NRSP-IMF, each comprising of around 15 members.

within the distance of ten minutes from the meeting place. CO is formed by passing a resolution in favor of the program and by enrolling the names of the meeting attending peoples. On average there are around 15-20 members in a CO. The president and manager for the respective CO are chosen at the same time and a name is given to the CO which becomes the specific identification for the members of the CO. The NRSP-IMF staff and the CO members identify an Activist from amongst the CO members. In addition, CO members have the facility to utilize trainings and skill enhancement through NRSP.

3.2.3.3.1 Functions of CO Meetings:

Meetings of a CO are held fortnightly and a representative from the NRSP-IMF must attend the meeting, sometimes Sales Officer or Procurement Officer. Different agendas are discussed during the meeting such as; importance of members attendance in meetings, importance of savings, a small detail of the IMF program, importance of timely installment payment, etc. the meeting usually last for 20-30 minutes.

3.2.3.3.2 Resolution:

A resolution (Qarardaad) is passed in every meeting. Highlighting the topics discussed during the current meeting and the points on which all the members and NRSP-IMF staff agreed to work on. Names with signatures of attending members are entered in the resolution. (The saving amount is also entered in the form.) Also, if any member interested for the Murabaha Financing can submit his name and the item he needed during the meeting. His name and the item going to be purchased has to be approved by at least 75% of the total members of the CO and written in the resolution with the name

of member, the item to be purchased through Murabaha Financing, the estimated price of the item. As the CO members live within close vicinity of each other's homes they are familiar with one another and take responsibility for each other; CO members are/should be prepared to repay on behalf of a defaulter in the CO.

3.2.3.3.3 Savings:

Each Community Organization is encouraged to collect some amount from its members during fortnightly meeting and put these savings in Post Office current account. The importance of saving is discussed during the meeting and some amount is collected from the attending members. Each member is given a 'NRSP-IMF Saving Scheme' booklet. In which meeting wise amount saved and total deposited in the Post Office account is written by the respective member. This amount is given to the president of CO whose responsibility is to deposit the amount in Post Office account and keep the receipt with him and with NRSP-IMF VB/Staff.

The saving amount is mentioned in the resolution. Also the resolution contains a column in which the previous saving amount by the members is mentioned and the current saving and the total sum of the respective CO.

There is no fixed amount to be paid by each member in each meeting, variation in saving amount is allowed but joining in this scheme is must for each member. Saving is not a mandatory and has no minimum and maximum limits for applying for Murabaha Financing Program. Saving is only for the purpose that the members get used to daily saving habit.

One client told that he had made a habit of saving regularly small amount to pay the installment right on time, he have calculated daily saving amount by dividing the installment amount over the total monthly working days in accordance with the average income.

The other purpose is that if the community organization wants to carry out some social work like installation of hand pump, making cemented roads etc. in their respective areas then the amount required can be taken out from its respective CO's savings. NRSP contributes 80% of the total cost of the social work whereas the community organization contributes 20%. If the labour (mazdoor) used for the project is from the same community organization then its better as compared to outside labour because the member can see the quality of the work and on the other hand NRSP pays the members, labour cost fractionally more then the ongoing market rate. Like if market labour price is going at around Rs.200 then NRSP will pay Rs.220 to the member labour.

3.2.3.3.4 Initial Steps in Verification of Client:

The COs is primarily responsible for assessing the character and the credit worthiness of the intended financing borrowers. Primarily the CO undertakes the responsibility of verifying the proper utilization of the financing and its repayment. The client submits the financing application to NRSP-IMF Village Bank (VB) in the form of; Resolution signed by at least 75 percent of the CO members, NIC cards of two guarantors and his own also, pictures and latest paid utility bill. The concept of social pressure through group formation still prevails, because the financing is given on the

recommendation of the CO, which also undertakes the responsibility for repayment. The guarantors must be the members of same CO in which the client is.

3.2.3.4 Appraisal Process:

Two independent appraisals are conducted.

- Social Appraisal by Field Assistant
- Technical Appraisal by Sales Officer

The NRSP-IMF, Field Assistance (FA) and Sales Officer (SO) conduct social and technical appraisals respectively before the approval for the financing. The appraisal process focuses on assessing the character and trustworthiness plus the financial feasibility of the intended clients.

Previously, NRSP appraisal process focused primarily on the financial feasibility of the proposed activity plus the CO guarantee. However, the Organization has learned from experience that the character of the client plays a greater role in his repayment performance than his ability to generate a profit from the business or activity for which the financing is taken.

The Field Assistant carries out an appraisal at the home of the intended client. This is called the Social Appraisal or 'Household Survey'. It confirms the financial position of the client house members i.e. earning and non earning members with how much total income, total expenses occurred per month, the quality of house structure, assets possessed by the client or at his home and a detail map showing the home of the client

from the VB and CO meeting place also to be verified from the neighbors that the client lives at this place. FA also had to judge the character of the client, whether he is responsible person or not, whether he is honest or not and whether he is in need of financing or not. The other main question, that whether the client have completely understood the Murabaha Financing procedure or not. After this social appraisal the client can easily be putted in one of these categories: Well to do, Better off, Poor, Very poor, Destitute.

While the second appraisal, referred to as a Technical Appraisal is done by the Sales Officer. The Sales Officer checks the financial viability of the proposed activity. For enterprise development: the SO checks the type of the clients business, amount of fixed investment and invested by whom, its working capital, highs and lows of business, present estimated sale, estimated purchase, estimate profit, total estimated expenses, net estimated profit, purpose of the item to be purchased, estimated impact on income after the Murabaha Financing. Sales Officer also confirms the information colleted by the FA. SO gives his opinion about the financing amount required by the client is justified or not, other sources of income and the possibility of doing Murabaha Financing with the client. In some cases assistance from the Engineer or other specialists such as the enterprise development staff if required is also taken. Same is the procedure being followed for Agriculture Inputs Appraisal and Livestock Appraisal.

This double appraisal at the household level helps the NRSP staff to know the borrower and also involve the family members in the process. The Field Worker is not

authorized to reject a credit application on his own. The decision lies with the Senior Sales Officer. If the Field Worker and Sales Officer disagree, the Senior Sales Officer makes the decision, after hearing both opinions. The data obtained by the appraisals and a complete record is maintained at the village and district offices.

3.2.3.5 Shariah Advisor:

NRSP-IMF also takes the guidance from the Shariah Advisor in the program. Shariah Advisor for NRSP-IMF is Mufti Muhammad Hanif educated from Jamia Binoria, Karachi. The Shariah Advisor gives the opinion regarding the item to be purchased under Murabaha Financing is allowed or not and the procedure to be followed for the correct transaction. Shariah Advisor also trains the staff regarding the Murabaha Financing procedure and the step by step points to be follow for Halal transaction. If any transaction is mistakenly or deliberately been done wrong then the Shariah Advisor have the authority to point it out and take out that profit amount and give in Sadaqah. It's upon NRSP-IMF program to give the Sadaqah where they see it applicable.

3.2.3.6 Disbursement Step:

The forms are completed, verified and sent to the district office for entering of data in record (computerized) and issuing of the cheque in favor of the client – be reminded that the client is not given the amount - Disbursement of item is done within 7 to 8 days of filing of application by the client. The completed form comprises of;

3.2.3.6.1 Sanction Form:

The initial bio data, the item to be purchased and its amount, the repayment mode and period, and the poverty ranking of the client.

3.2.3.6.2 Household Survey Form:

The social appraisal done by Field Assistant.

3.2.3.6.3 Comments Form:

Comments given by Field Assistant, Sales Officer and Shariah Advisor.

3.2.3.6.4 Murabaha Promise Form:

In this form a promise is taken by NRSP-IMF from the client that the client will purchase the item under the Murabaha Financing mode. Detail of the item, its quantity and the price plus expenses is undertaken. Also the NRSP-IMF profit is before hand mentioned, thus the client becomes to know the price he is going to pay at the end and the duration in which he will pay the total amount and in how many installments.

3.2.3.6.5 Conditions of Murabaha Financing:

All the conditions for a valid Murabaha Financing are mentioned in this part of form.

1. Murabaha Financing is a Islamic Mode of Financing, in which the seller sells the item/commodity for the price in which he had purchased it plus the expenses occurred on purchasing and bringing in it's custody plus the reasonable profit, the seller must tell all this to the purchaser before selling it.

2. Murabaha Financing is allowed for all the items for which the purchasing and selling is permitted.
3. If the item going to be purchased is already in possession of the buyer or he had purchased it then the Murabaha Financing becomes void.
4. Before Murabaha Financing transaction the item will be in possession of NRSP-IMF and it will be responsible for its profit and loss.
5. After purchasing the item from the market by NRSP-IMF, if the client didn't take possession of the item then NRSP-IMF will be responsible for its loss.
6. After the Murabaha agreement the item when goes in possession of the client then he is responsible for its profit and loss.
7. Two guarantors must be presented by the client for the Murabaha Financing and both the guarantors must be members of the same Community Organization in which the client is.
8. The quality, price, quantity, profit and duration must be explicitly defined during the Murabaha Financing mode.
9. Where the purchasing is not possible, NRSP-IMF can appoint the client or any third party to purchase the item on its behalf as an agent. Whereas there is a must of signature on agency agreement between NRSP-IMF and the agent before the purchase of item.
10. As an agent on behalf of NRSP-IMF the agent cannot resell or use the purchased item. Because it is in the ownership of NRSP-IMF.
11. In Murabaha Financing the agreement done between NRSP-IMF and the client with mutual consent for the item's total price, quantity, profit, mode of

repayment and period when settled/fixed. After that item's total price, quantity, profit, mode of repayment and period will not be changed.

12. In Murabaha Financing the repayment of financing amount if in monthly, quarterly, semi annually, lump sum, if the client defaults in paying the due amount then the guarantors of the client will be liable to pay the amount evenly in monthly, quarterly, semi annually, lump sum until the amount is fully paid.
13. Until the repayment of total amount due the guarantors are liable to pay evenly in monthly, quarterly, semi annually, lump sum.
14. NRSP-IMF has the authority to accept or reject the application after the Social Appraisal at household level and Technical Appraisal at business level.

3.2.3.6.6 Promissory Note:

It is filled to ensure the repayment by the client from the court. Currently a Stamp Paper is introduced in lieu of Promissory Note.

3.2.3.6.7 Agency Agreement:

If the purchasing is not possible for NRSP-IMF it assigns the client or third party to carry out the purchasing procedure. The conditions are;

1. To purchase the best possible item by using all sincere efforts for NRSP-IMF.
2. Purchase of item according to the specification is the responsibility of the agent.
3. To inform NRSP-IMF as soon as the purchase is made.
4. Receipt of purchasing with name of item is a must to be handed over to NRSP-IMF.

5. Agent cannot inform about the purchase to NRSP-IMF before purchasing the item.
6. The purchased item is in the ownership of NRSP-IMF so as an agent on behalf of NRSP-IMF the agent can not use or sale it.
7. The amount and item is agent's responsibility until it is in your physical custody, meanwhile in case of any loss due to any carelessness the compensation lies on the agent.
8. If not able to purchase the item within the specified period of time the agent is liable to repay the cash/cross cheque/ ordered cheque etc to NRSP-IMF.

3.2.3.6.8 Purchasing:

These forms are completed and signed and send to the district office for cheques disbursement. The installment schedule showing the due dates and amount to be repaid plus the cheque are issued from the district office and received by the Procurement Officer (PO).

PO calls (calling done through informing the president of the respective CO or person living near the house of client or using telecommunication services) 4 to 6 those clients whose cheques are prepared with there original and photocopy of NIC card at the same time in the Village Bank to carry out the purchasing step. When all the called clients reaches the VB the PO takes them all to the Bank for which the cheque is issued and liquidated there, the amount is kept with the PO. The PO then tells all the clients to go to the market and start searching for the most suitable item that they require. Few clients go with the PO else visits the market independently. As soon as the client finds the

suitable item - within the range of his application financing - he contacts the PO (on mobile) to come at the specific place to see the item and make the payment to the seller.

The PO reaches at the place and meets the seller and introduce the seller about the whole NRSP-IMF program and about the Murabaha Financing mode, the conditions on which the contract becomes void is also told to the seller so as to bring him in his knowledge that if he is doing something wrong then he will be lying in the haram part of contract. The final price is settled and the specimen is taken on the form of both the seller and the client and also of the comments from the PO. The price of the item is paid to the seller, mostly in cash form and the item is taken from him, on this spot the item is in possession and ownership of NRSP-IMF. Now the PO assigned by NRSP-IMF transfers the possession and ownership over to the client. The item is taken to the working place or home of the client by himself; in rare cases where the PO doesn't trust the client he himself hires the transport and delivers it to the final place.

3.2.3.6.9 Murabaha Matter Form:

The final sale made by NRSP-IMF to the client is recorded in this form. The final price plus the expense, the profit of NRSP-IMF, the total price of the item, the final payment amount from client, mode of repayment and period (months) are included in this form. Also it is written in the form that the client had purchased the item from NRSP-IMF after properly checking it and now the client will be responsible for its profits and loss and the client will be responsible for the timely repayment of the installments to NRSP-IMF according to the schedule. Signatures of client and guarantor and PO are taken. Conditions of Murabaha Matter Form are:

1. Murabaha Financing is a Islamic Mode of Financing, in which the seller sells the item/commodity for the price in which he had purchased it plus the expenses occurred on purchasing and bringing in it's custody plus the reasonable profit, the seller must tell all this to the purchaser before selling it.
2. Both parties are liable to acknowledge all the conditions of Murabaha Matter.
3. Excuse of Murabaha Matter is not allowed to be used for fulfilling the cash requirement by the client.
4. In Murabaha Matter the agreement done between NRSP-IMF and the client with mutual consent for the item's total price, quantity, profit, mode of repayment and period when settled/fixed. After that item's total price, quantity, profit, mode of repayment and period will not be changed.
5. Before Murabaha Matter the item will be in possession of NRSP-IMF and it will be responsible for its profit and loss.
6. After purchasing the item from the market by NRSP-IMF, if the client didn't take possession of the item then NRSP-IMF will be responsible for its loss.
7. After the Murabaha Matter the item when goes in possession of the client then he is responsible for its profit and loss.
8. After the Murabaha Matter the repayment of financing amount in monthly, quarterly, semi annually, lump sum; if the client defaults in paying the due amount then the guarantors of the client will be liable to pay the amount evenly in monthly, quarterly, semi annually, lump sum until the amount is fully paid.
9. Until the repayment of total amount due the guarantors are liable to pay evenly in monthly, quarterly, semi annually, lump sum.

3.2.3.7 Collateral:

NRSP-IMF extends micro financing to economically marginal men and women who have no material collateral. The COs, however, exert social pressure in case of default. Because each MF request is signed by at least 75% of the CO members, each member acts as a guarantor for all other members. To facilitate the COs and their members in the repayment of their financing in difficult times, NRSP-IMF encourages the COs to practice regular savings before requesting a financing. However, to ensure that this does not discourage the poorest CO members, the ceilings for mandatory savings are flexible.

If the client installment becomes overdue and there is no concrete reason then the client is asked to keep something as collateral. And if the client defaults then the collateral is sold in the market. The amount outstanding is deducted from it and the remaining is given back to the client. In NRSP-IMF until now only one client defaulted (out of 694 total cases) – that client was given financing on the basis of agency arrangement – gold was taken from him and sold in the market, after keeping the outstanding amount the rest was returned to the client.

3.2.3.8 Principles of Recovery Monitoring and Dropouts:

Recovery monitoring is given a lot of importance. Although it's upon the client to select the most feasible repayment period i.e. lump sum, quarterly, semi annual or monthly. But the business of the client is given preference before setting the period. If the

client is a daily wage worker then its better for monthly repayment period, if a farmer then better of quarterly of semi annual, if a business then lump sum. Also the financing requested for which purpose must be seen before deciding the repayment period. It requires daily recovery planning with preparation of daily recovery targets based on the due date of each installment. The list of due dates is computerized generated and the staff receives it at the start of each month. The Senior Sales Officer's primary duty is to develop daily monitoring reports and to ensure that a client who does not pay his installments on time is reminded of the obligation to repay. It is the responsibility of the Senior Sales Officer to focus on finding ways and means of ensuring timely recovery.

NRSP-IMF have a stringent approach towards recovery and also depend more on the social collateral through the COs and client guarantors. To-date, the program has not encountered any major defaulters. Majority of the clients pays there due installments in timely manner; by visiting at the village bank. Those client which shows laziness signs for there timely repayment when approached at there working place/home they pay there due installment.

Almost every client comes back for second cycle of financing. But a tight screening process is taken up by the program. If the client was punctual in every regard previously then he is given the financing.

3.2.4 Enterprise Development:

NRSP-IMF facilitates the COs in developing new enterprises and improving existing ones through its Vocational Training Programme (VTP) and Natural Resource Management Programme. As part of the VTP, the CO members are trained in business development and financial management.

3.2.5 Characteristics of Financing Staff:

The model recognizes the importance of on-the-job training and monitoring to build staff capacity. The Field Assistants, Sales Officer and Procurement Officer are the front line workers responsible for maintaining close contact with the COs and their members. This requires a large number of honest and responsible Field Assistants, Sales Officers and Procurement Officers who can meet the entire COs and their members.

3.2.6 Village Branches:

In order to establish frequent contact with community members, one to two room Village Branches (VB) have been formed at accessible locations, typically at the centre of one or more Union Councils. The location and number of Village Branches in a Union Council is determined by the size and proximity of the potential clientele. The VB is the smallest administrative unit responsible for coordinating with the COs and their members on a daily basis. It is also a recovery collection hub. The Field Assistant and the Sales Officer, Procurement Officer keep the VB open during office hours according to a fixed schedule, posted in the office.

According to the schedule, the FA allocates time for CO meetings, recovery follow-up, and appraisals and recovery collection. The Sales Officer monitors the performance of the FA through surprise visits and checking of all the records etc. The Senior Sales Officer arranges periodic 'surprise visits' to ensure proper office procedures and compliance with the agreed schedule.

The worker's degree of mobility depends on the type of terrain and the settlement pattern. In areas with high population density, the FA visits CO and clients on foot, and in areas where the population is scattered the FA is provided with a motorcycle

3.2.7 Internal Controls:

NRSP-IMF has a comprehensive Management Information System with a database for its program. The accounting staff at the district level reports directly to the Regional General Manager and to Finance and Accounts at the head office. In order to ensure the correct postings of data in the MIS, the Sales Officers are authorized to check the daily postings from the receipts. In addition, the other principles are: The CO formation and financing delivery are two distinct processes which must take place independently of each other: The staff responsible for Murabaha Financing should be able to focus exclusively on financing operations and should be able to implement a strategy that leads to 100% on time recovery; The organizational structure, such as location of offices and staffing patterns, should make it possible to pursue clients effectively; The entire process should be transparent; All credit disbursement and recovery activities should be implemented in a planned manner; The system should allow

performance evaluation of staff on the basis of predefined criteria. For example, the Social Organizers will be evaluated on the quality and performance of the COs they form, and financing staff on the financing outreach and the quality of the MF portfolio.

4. NRSP-IMF Survey Results

Since NRSP-IMF has been in operation just for a few months (1 year, 3 months), almost all of its clients are still only in their first Murabaha Financing cycles. Clearly, any 'impact' of the intervention by microfinance institution, is highly tenuous, and at best, slight and partial. We would expect little to have changed in a matter of few months, and to find not much significant difference between Active Clients and Pipeline Clients.

Interview schedule was used as tools of data collection and questionnaires were distributed among respondents who were literate and illiterate respondents were helped filling in the required information. Questioners were Pre-tested in the targeted area some irrelevant questions were omitted from the interview schedule and necessary questions were added. The sample comprises of Active Clients (at start, in between and about to end), Completed Clients and Pipeline Clients. The survey gives the picture of the living condition of all the sample clients at a glance. The questioner is at the appendix section⁸⁶.

These results give an outline picture of workings of NRSP-IMF. The time required for impact to be noticeably observed and quantified, is considerably greater than the period NRSP-IMF have been in business for. As discussed before that the difference is not that much significant but after interviewing some clients it can be safely said that NRSP-IMF program has impacted positively on the lives of the clients. The income has increased and the program had given the clients huge relief that they are using Islamic way to overcome their financing gap.

⁸⁶ Annexure VIII: Questioner for Survey

4.1 Home Survey Analysis:

Table 2 shows the sample housing structure; mean column shows the average of all the variables; the total home area in marlas the average is 25 marlas, around 96 percent of the clients are owner, the average number of rooms is 3, around 83 percent of the clients are living since birth, 61 percent of the clients have the walls made-up of mud, 61 percent of the clients have the roof made-up of gadar, 35 percent of the clients use motor for water supply and 75 percent of the clients use open drainage system.

Table 2: NRSP-IMF Housing Structure			
Variables		Mean	St Dev
<i>Total Home Area</i>	(Marla)	25.0323	13.5585
<i>Ownership</i>		96.7742	17.9605
<i>No. of Rooms</i>		3.3871	1.2296
<i>Residing From</i>	(Birth)	83.8709	
<i>Walls</i>	Mud	61.2903	
	Bricks	19.3548	
	Mixed	19.3548	
<i>Roof</i>	Gadar	61.2903	
	Wood	29.0323	
	Lintar	9.6774	
<i>Drinking Water</i>	Handpump	38.7097	
	Motor	35.4839	
	Well	25.8065	
<i>Drainage</i>	Open	74.1935	
	Flush	25.8065	

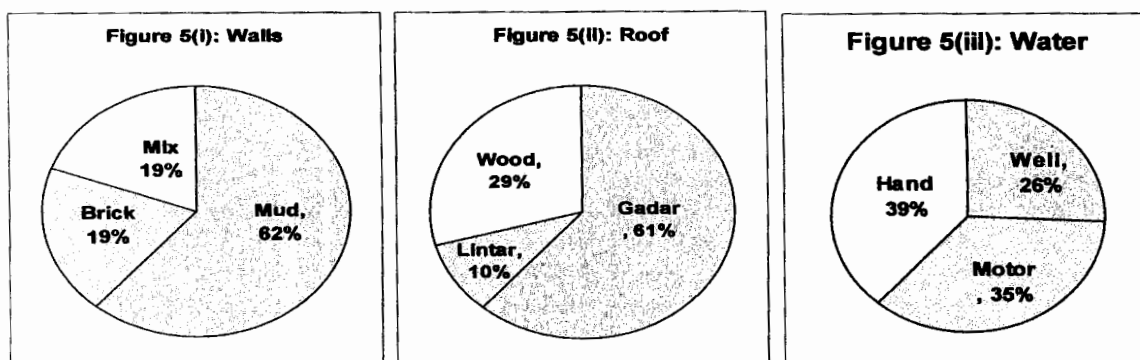
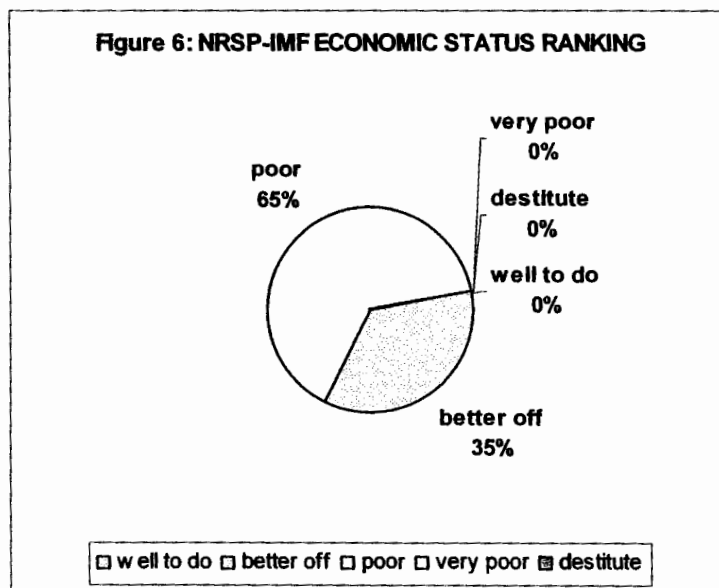


Table 3 shows the economic status of the sample clients; the average monthly expenditure is around Rs.11125, out of total expenditure food expense is of Rs.5951, the average of total home income including all the earning members of the family is of Rs.19551, per capita expenditure and per capita food expenditure is of Rs.1448 and Rs.781 respectively whereas income per capita is Rs.2527, household asset score shows the average number of assets in possession i.e. 5 out of 11, ranking shows the economic status of the clients as measured by NRSP-IMF or the clients which are being financed majority of the clients 65 percent are in poor category, 35 percent are in better off category.

Table 3: NRSP-IMF Economic Status		
Variable	Mean	St Dev
Monthly Expenditure	11125.81	5318.0647
Food	5951.61	2474.3849
Home Total Income	19551.61	14132.0173
Expenditure Per Capita	1448.83	587.8360
Per Capita Food Expenditure	781.15	290.9763
Income Per Capita	2527.47	1429.7422
Household Asset Score	5	1.7367
Ranking		
well to do	0%	

better off	35%
Poor	65%
very poor	0%
Destitute	0%



The Micro Financing didn't target those living in extreme poverty, such as; very poor and destitute. Also it has been found in a study by PPAF (2002)⁸⁷, which says that the poorest generally remain outside the net of conventional programs for two reasons. Firstly, successful micro-credit operations are careful to screen out potentially risky clients. Secondly, the poorest people often self-selected themselves out. They may not consider themselves to be 'credit worthy' or may not feel they have enough resources to generate sufficient income to pay back the financing amount.

⁸⁷ PPAF, (2002), "Micro-finance and Social Safety", quarterly newsletter (Vol. 1-No. 1) Autumn 2002, Pakistan Poverty Alleviation Fund, Islamabad.

Table 4 shows the household asset ownership by the clients in emergency majority of the clients 64 percent borrow money from relatives, washing machine is owned by around 53 percent, cycle by 86 percent, motor cycle by 26 percent, sewing machine by 83 percent, fridge by 53 percent, car/tractor by 16 percent, agricultural land is owned by 70 percent and of around 2 acres by each on average, cow by 43 percent, buffalo by 33 percent, goat by 46 percent and yoke by 3 percent.

Variable	Mean	St Dev
Borrow From In Emergency:		
Relative	64.5161	
Friend	35.4839	
Washing Machine	53.3333	50.7416
Cycle	86.6667	34.5746
Motor Cycle	26.6667	44.9776
Sewing Machine	83.3333	37.9049
Fridge	53.3333	50.7416
Car/Tractor	16.6667	37.9049
Agricultural Land	67.7419	
Cow	43.3333	56.8321
Buffalo	33.3333	47.9463
Goat	46.6667	57.1346
Yoke	3.3333	18.2574

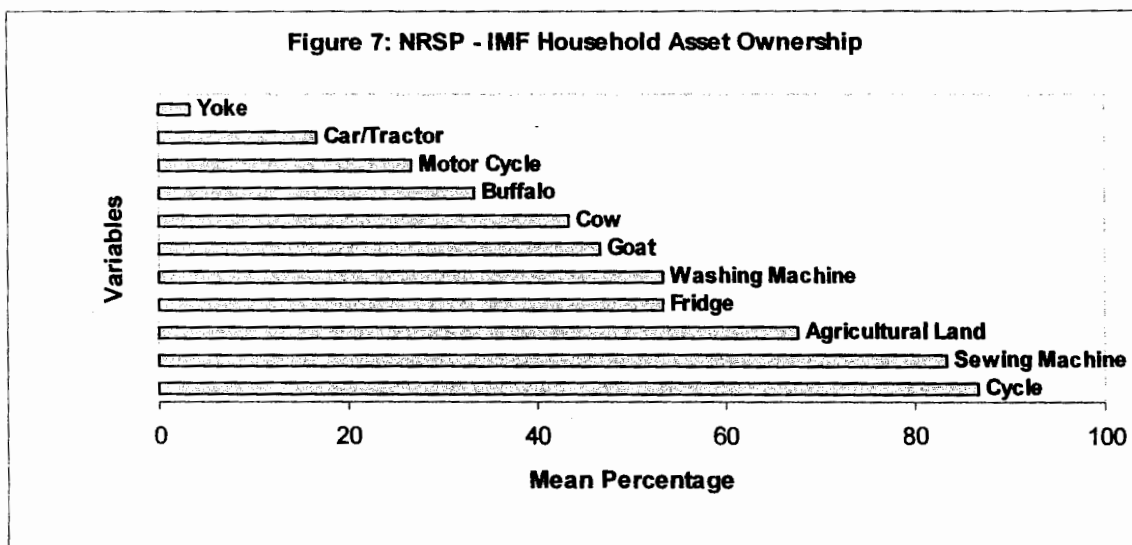


Table 5 gives the information regarding the nature of business the clients are involved; majority of the clients 43 percent are involved in zamindari (farmer), 30 percent are doing business, mazdoori (worker) and pri/govt job employed are 13 percent respectively.

Variable	Mean
Zamindar (Farmer)	43.3333
Business	30
Mazdoor (Worker)	13.3333
Pri/Govt Job	13.3333

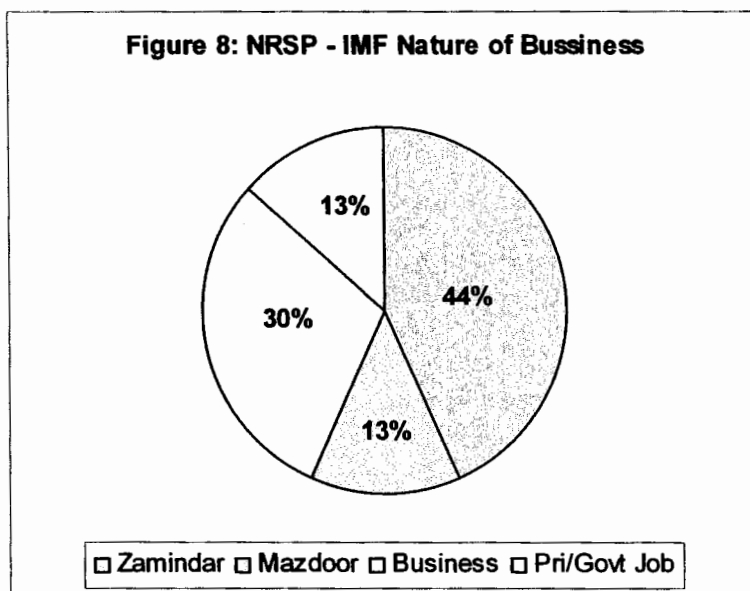


Table 6 discusses household demography i.e. on average how many members are in each client's family and how many are dependent on earning members of the family; there are 64 percent 7 to 9 persons in each family, 22 percent 4 to 6 persons, 12 percent that the family size is greater then 9, whereas the average family size is of 8 persons/members with dependency ratio of 63 percent i.e. out of on the average 8 members in a family there are 3 earning members and 5 non earning members.

Table 6: NRSP - IMF Household Demography	
Variable	Mean
Family Size 1 – 3 Persons	0
Family Size 4 – 6 Persons	22.58065
Family Size 7 – 9 Persons	64.51613
More than 9 Persons	12.90323
Average Family Size	8
Dependency Ratio	63.78855

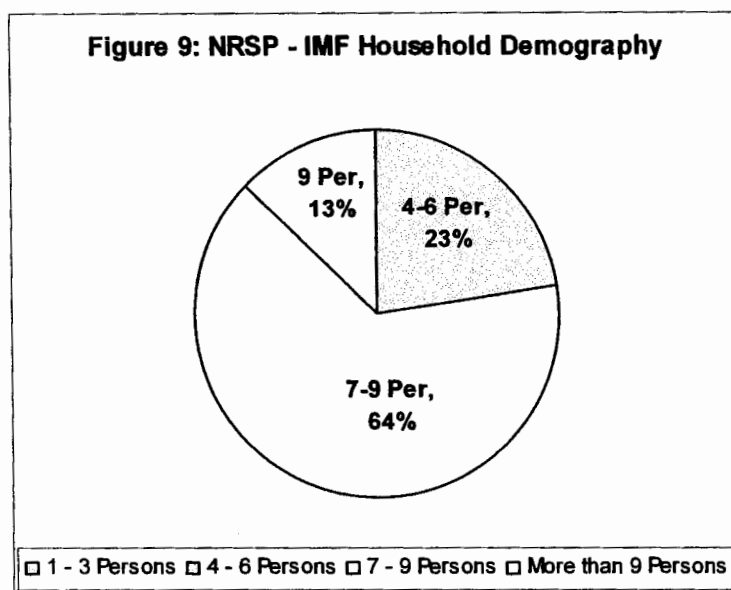
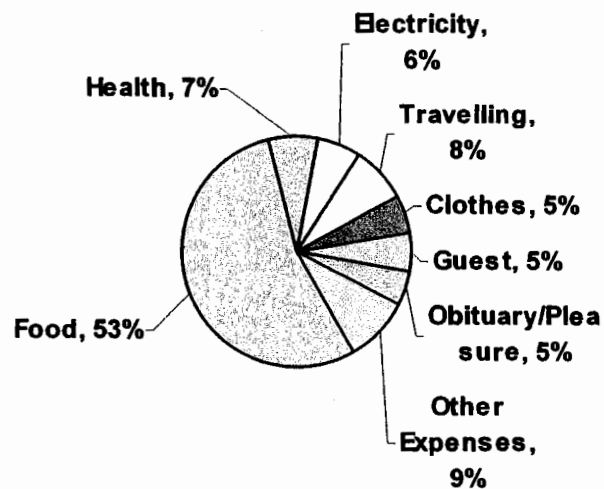


Table 7 outlines the household consumption pattern and specifically all the major expenses and percentage of the specific expense from total expense; average monthly per capita expense is Rs.1448, average food exp per capita is Rs.781 it comprises of 53% of total expense, average health expense is Rs.516 it comprises of 7% of total expense, average electricity expense is Rs.661 it comprises of 6% of total expense, gas expense is bear by only few clients because majority of the clients use traditional methods for fire usage, average traveling expense is Rs.845 it comprises of 8% of total expense, average clothes expense is Rs.611 it comprises of 5% of total expense, average guest expense is Rs.577 it comprises of 5% of total expense, average obituary/pleasure expense is Rs.517 it comprises of 5% of total expense, animal feed expense and installment/committee expense is bearded by just a few clients because majority of the clients have there fields for animals feed and only few clients have taken loan from other NGO's, average other expenses is Rs.1006 it comprises of 9% of total expense.

Table 7: NRSP – IMF Household Consumption Pattern		
Variable	Mean	%age
Monthly Exp per Capita	1448.8291	
Food exp per capita	781.1473	
%Expenditure on Food	5951.6129	53%
Health	516.1290	7%
Electricity	661.2900	6%
Traveling	845.1600	8%
Clothes	611.2903	5%
Guest	577.4194	5%
Obituary/Pleasure	517.7419	5%
Other Expenses	1006.4516	9%

Figure 10(i): NRSP - IMF Household Consumption Pattern



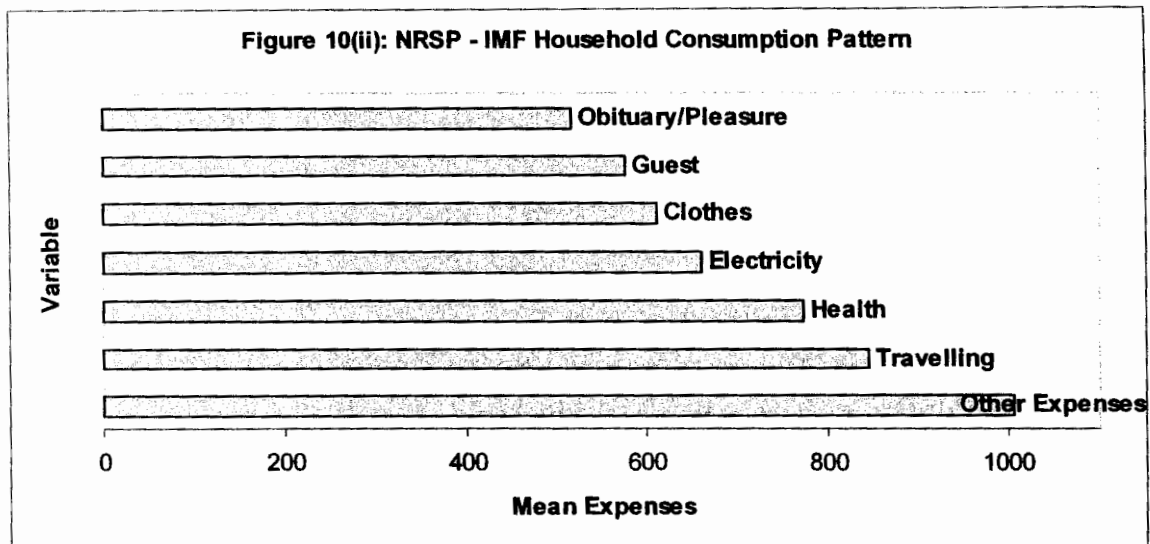
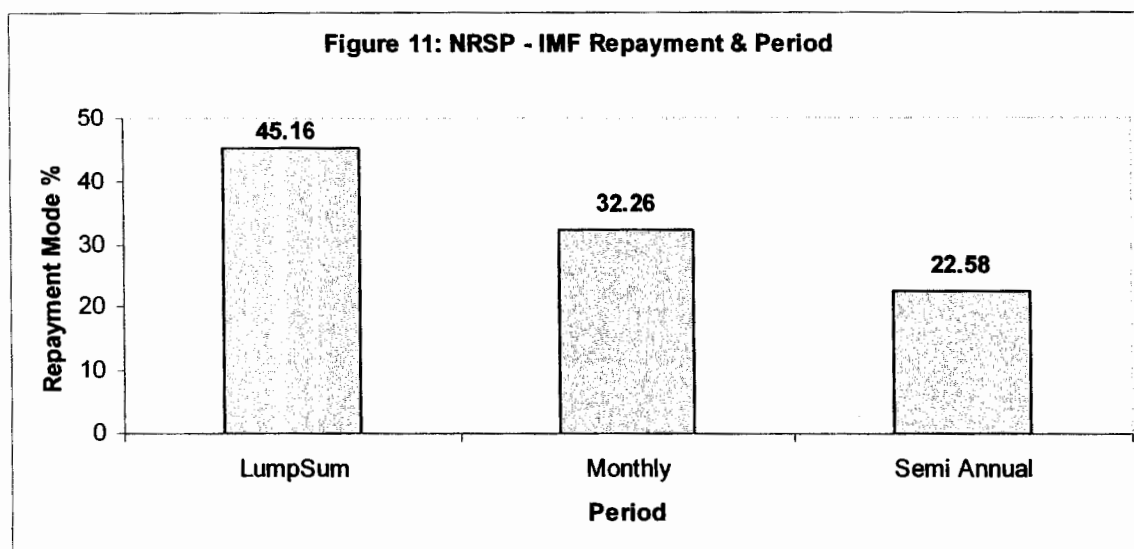


Table 8 shows the samples repayment preference; 45 percent have the lump sum repayment preference, 22 percent have the semi annual repayment preference, 32 percent have the monthly repayment preference.

Variable	Mean
Lump Sum	45.16
Semi Annual	22.58
Monthly	32.26



4.2 Clients Interview:

Khalid: Does a Business of Medicine Supply. He supplies to around 20 local doctors in the area. He participated in Murabaha Financing with NRSP-IMF and took financing of Rs.15000 for purchasing different medicines for his business for one year. Khalid is in his last installment payment. He pays Rs.1400 per installment per month. He had six children's and the eldest is in class 10. Monthly saving for Khalid had increased to around Rs.8000. Use to save Rs.50 daily for the timely installment payment.

Muharram Gul: Is a professional cooker. He purchased 2 Dhaigs⁸⁸ from NRSP-IMF Murabaha Program for Rs.14000, semi annually. Previously Muharram Gul had only 2 Dhaigs and was facing many constraints as he could not take many orders to expand his business. He used to take dhaigs on rent for Rs.100 per day and on some cases had to distribute his profits with the borrower. During these six months of induction in

⁸⁸ Big pot for cooking large quantity of food, used mostly in ceremonies.

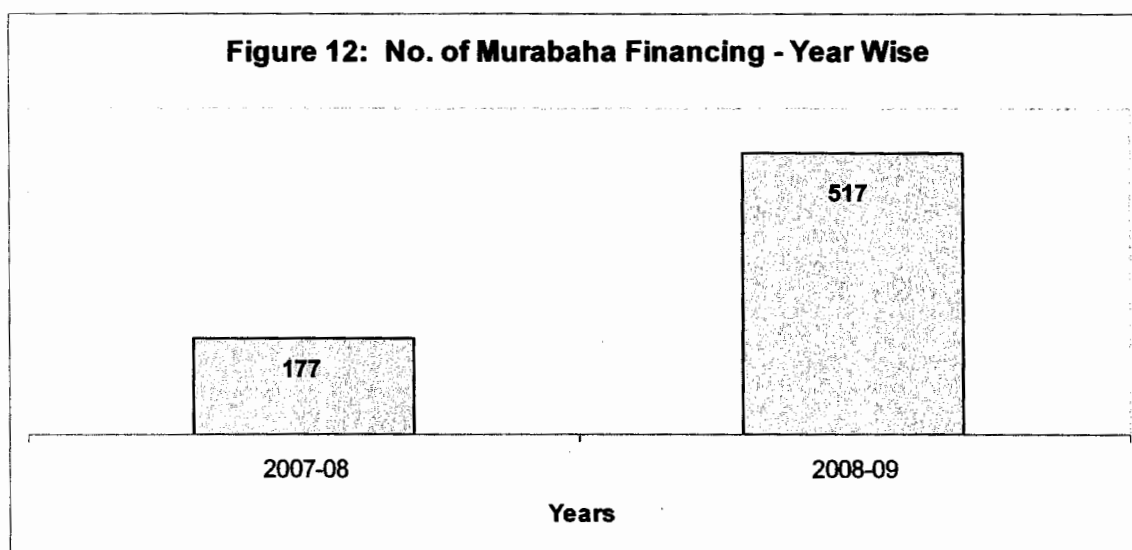
Murabaha Program, Muharram Gul had generated Rs.14000 as net profit and had paid the installment of Rs.8400 on time.

Niaz Udeen: Carpenter as a professional and owns his own business of carpentry. He needed a planer machine to carry out more work in less time and efficiently. When needed planer machine he had to bring it on rent at Rs.150 per day. Niaz Udeen purchased the planer machine for Rs.20000 with the help of NRSP-IMF on Murabaha Financing. Installment to be paid on monthly basis and all the installments had been paid successfully. Now the reselling price of this planer machine is around Rs.40000. Thus by induction in this Murabaha Program the income as well as the asset price had increased.

4.3 Financial Position [Year-Wise Disbursement, Recovery and Overdues (Cumulative)]:

Table 9 shows the number of financing provided by NRSP-IMF during its total functional period; total number of financing provided is 694, whereas during the year 2007-08 (Dec07 to June08) the number of financing provided was 177 and during the year 2008-09 (July08 to March09) the number of financing provided was 517. There is a substantial increase around 192% increases in the number of financing provided as compared to previous period. Main reason is because the program had gained some experience and also because of the expansion of program in new union councils (areas) made it possible to finance more clients.

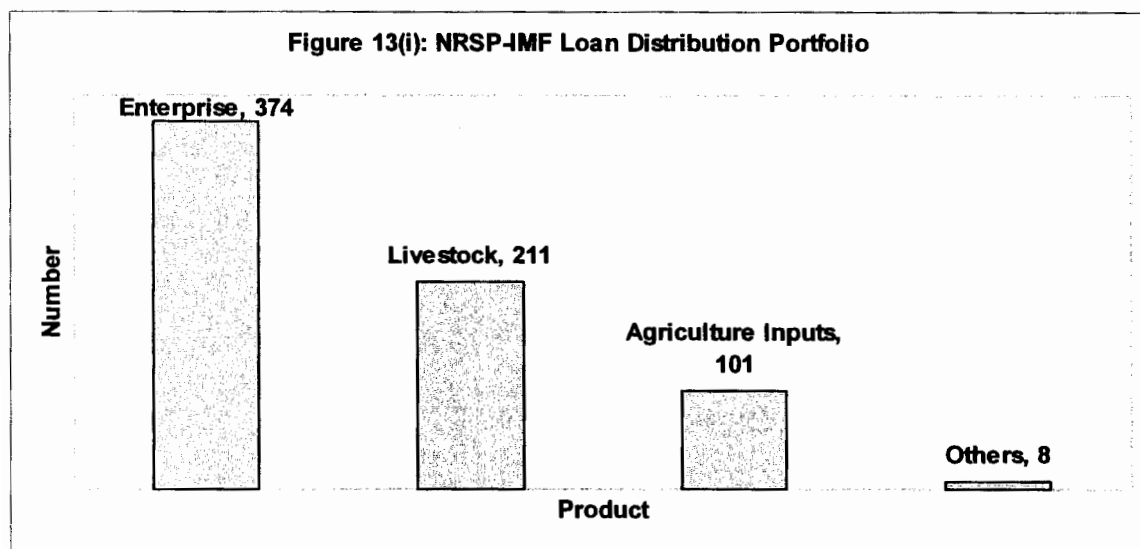
Year	No. of MF
2007-08	177
2008-09	517
Total	694



From Dec 2006 to March 2009, NRSP-IMF has financed 694 clients. The broad categories for which the financing is provided are Agriculture Inputs, Livestock, Enterprise and Others. Table 10 shows the financing portfolio distribution. It shows the number of financing been provided in each product category and the percentage of share in the portfolio; 374 clients have been provided enterprise financing and it comprises of 54 percent of total portfolio, 211 clients have been provided livestock financing and it comprises of 30 percent of total portfolio, 101 clients have been provided agriculture

inputs financing and it comprises of 15 percent of total portfolio, , 8 clients have been provided financing for other (non income generating purpose) and it comprises of 1 percent of total portfolio.

Product	# of MF	Portfolio %
Enterprise	374	54%
Livestock	211	30%
Agriculture Inputs	101	15%
Others	8	1%
Total	694	100%



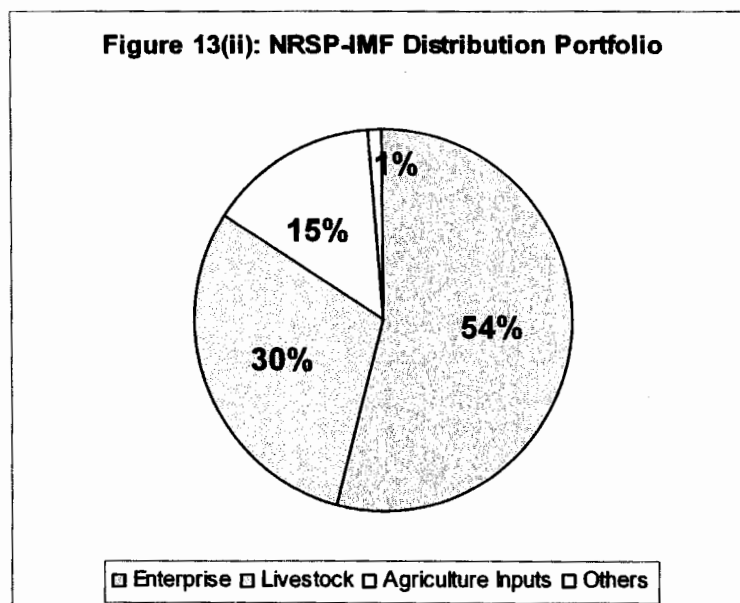


Table 11 shows the amount of the disbursement made upto (from Dec07 to March09) now; the principal amount (PA) total financed amount is Rs.12440953 around 12.5million, the service charges (SC) or the Murabaha Financing profit total is Rs.2920355 around 3million, the total receivable amount is Rs.15361308 around 15million.

Table 11: NRSP-IMF Murabaha Disbursement			
Year	PA	SC	Total
2007-08	2,927,360	492,123	3419483
2008-09	9,513,593	2,428,232	11941825
Total	12440953	2920355	15361308

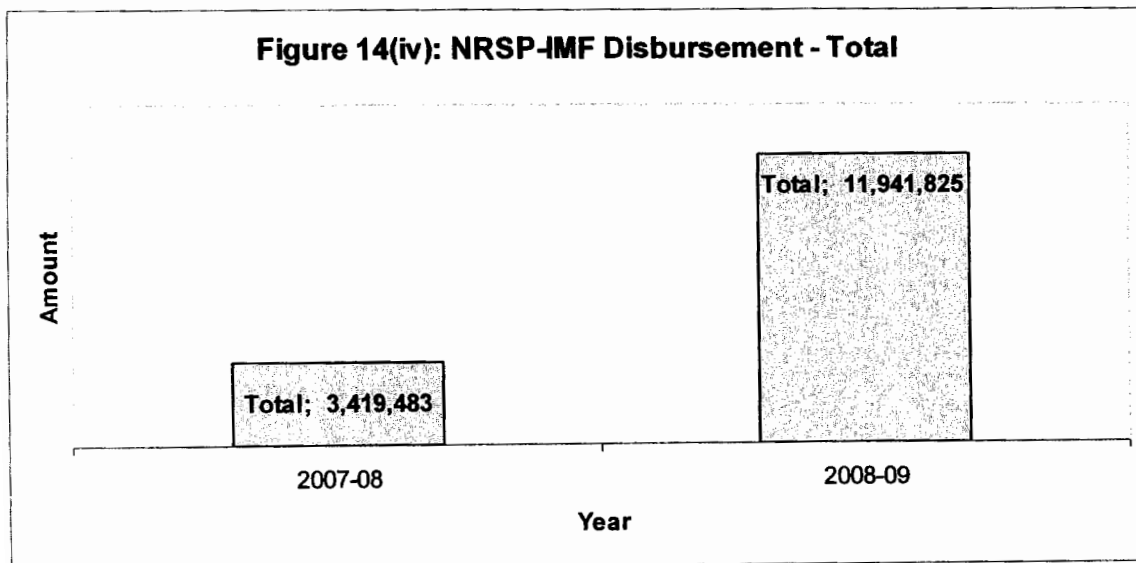
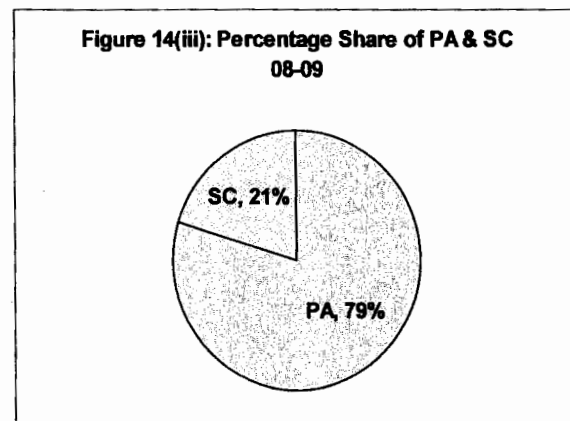
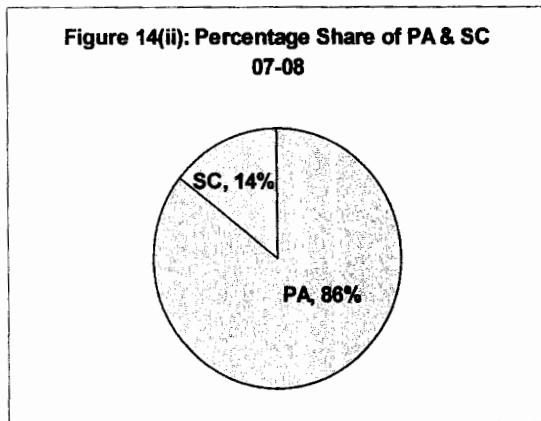
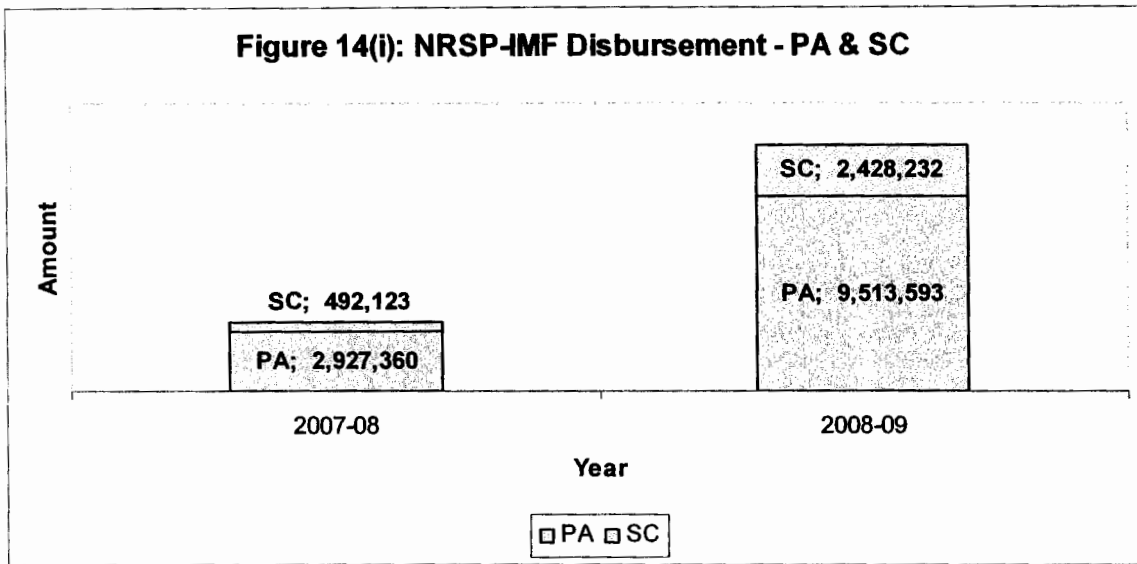


Table 12 shows the amount invested in different sectors marked by NRSP-IMF. The portfolio distribution upto March 09 comprises total sum of around Rs. 12.5 million. Which can be further classified as around 7 million rupees invested in Enterprise Murabaha Financing, around 4 million rupees in Livestock Murabaha Financing, around 1 million rupees in Agriculture Inputs Murabaha Financing and around 0.1 million rupee in Others Murabaha Financing category. Thus the main investment area is in Enterprise Development then in Livestock.

Table 12: NRSP-IMF MF Portfolio Distribution	
Product	Amount
Enterprise	6,729,286
Livestock	3,889,450
Agriculture Inputs	1,117,857
Others	75,000
Total	12440953

Figure 15: Murabaha Financing Portfolio Distribution - Category Amount Wise

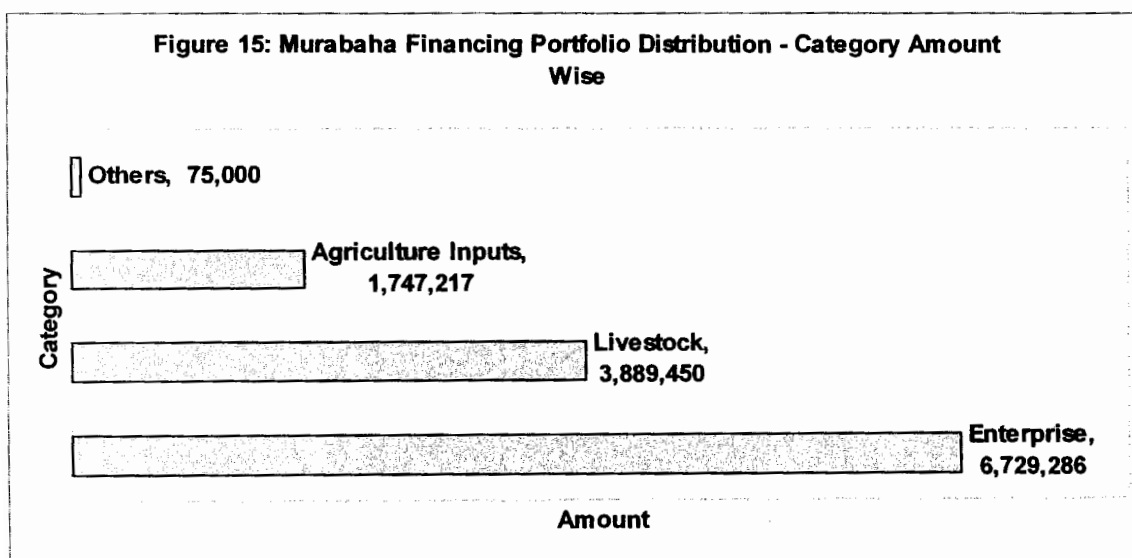
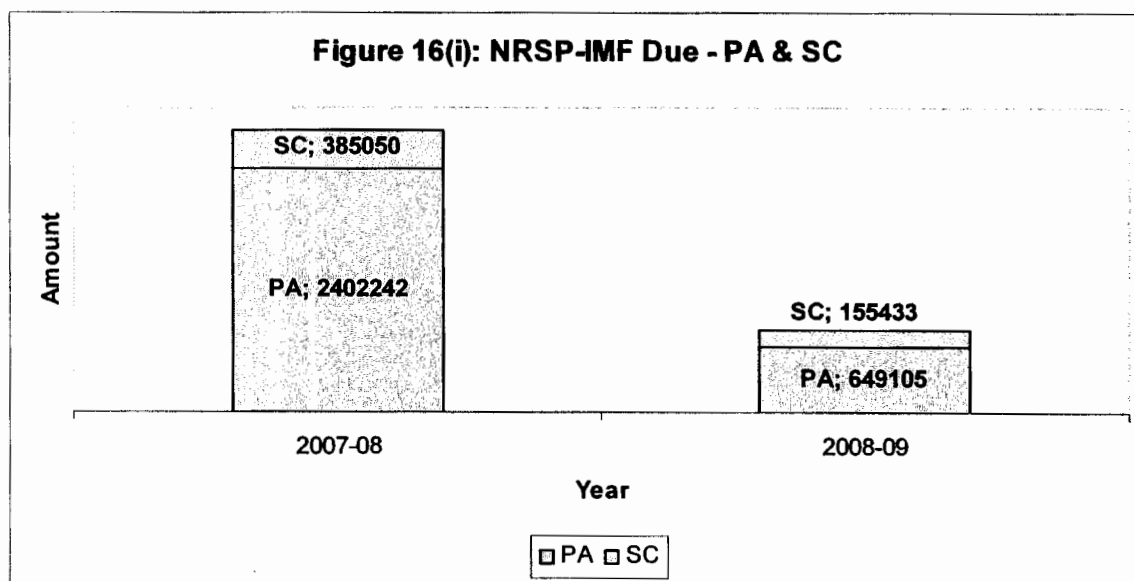


Table 13 shows the amount which have become due on the clients; 23 percent of the total disbursement amount has become due of Rs.3591830 around 3.5million, 81 percent of the disbursement made in year 2007-08 have become due around 2.5million, 7 percent of the disbursement made in year 2008-09 have become due around 0.6million. The main reason for such a small fraction becoming due for second period is that the huge amount have been disbursed just recently in past three months so this 7 percent is not reflecting those disbursed amount as they have not become due.

Year	PA	SC	Total	%
2007-08	2402242	385050	2787292	81.51%
2008-09	649105	155433	804538	6.74%
Total	3051347	540483	3591830	23.38%



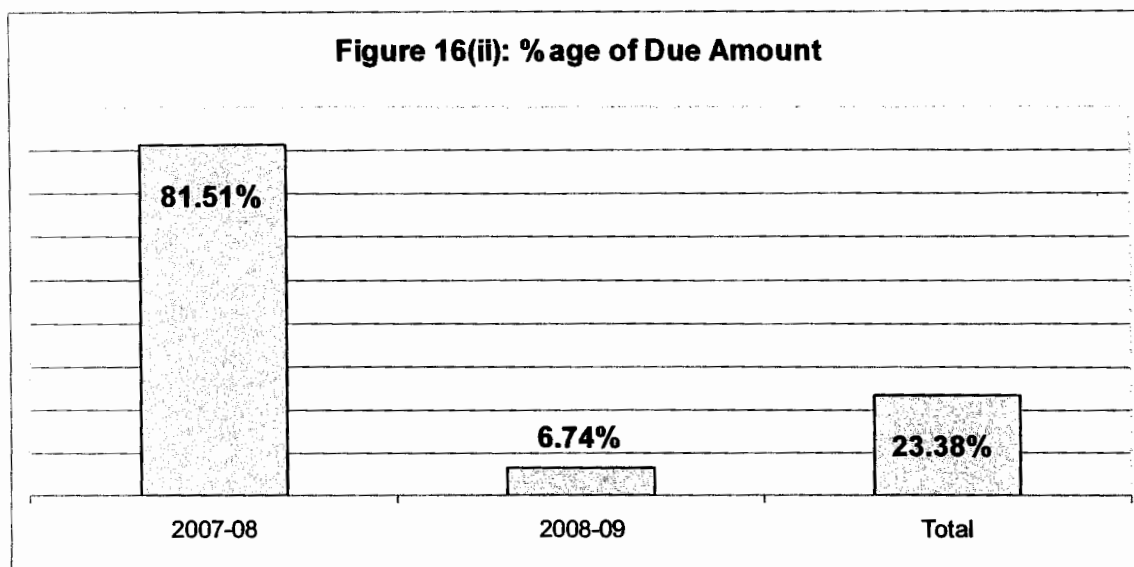


Table 14 shows the recovery made out of the due amounts; from the due amounts of the year 2007-08 the recovery is almost 100 percent of Rs.2786392 (PA and SC both included); for the year 2008-09 the recovery shows complete 100 percent of Rs.804538 (PA and SC both included) with some advance collection also of Rs.116802⁸⁹; a total of almost 100 percent had been recovered out of the due amount of Rs.3590930.

Year	PA	SC	Total	%
2007-08	2401342	385050	2786392	99.97%
2008-09	649105	155433	804538	100.00%
Total	3050447	540483	3590930	99.97%

⁸⁹ Out of the total advance received the amount comprises of Rs.72310 for Livestock, Rs.44205 for Enterprise and Rs.287 for Agriculture Inputs.

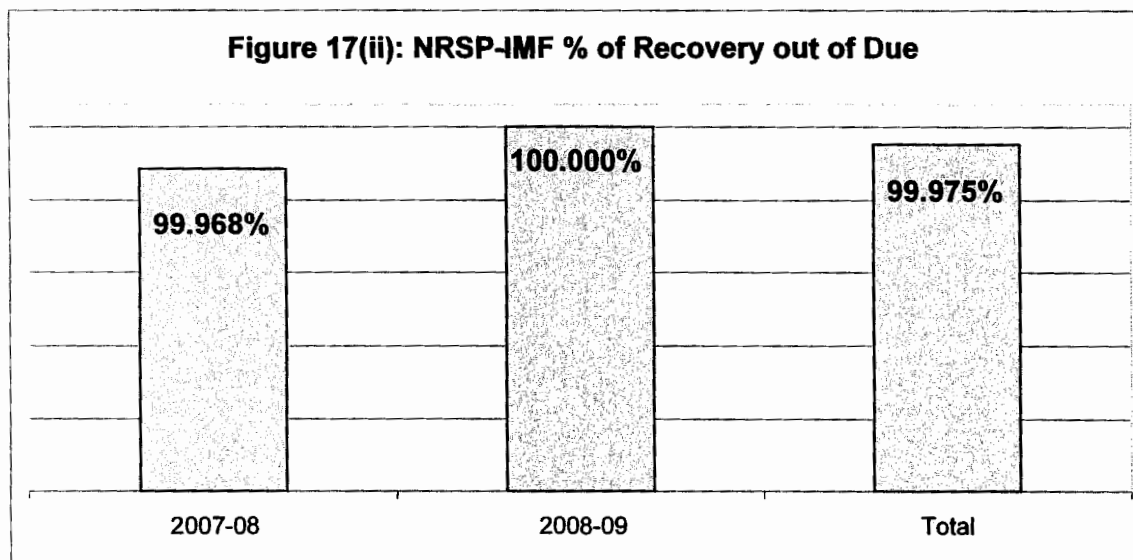
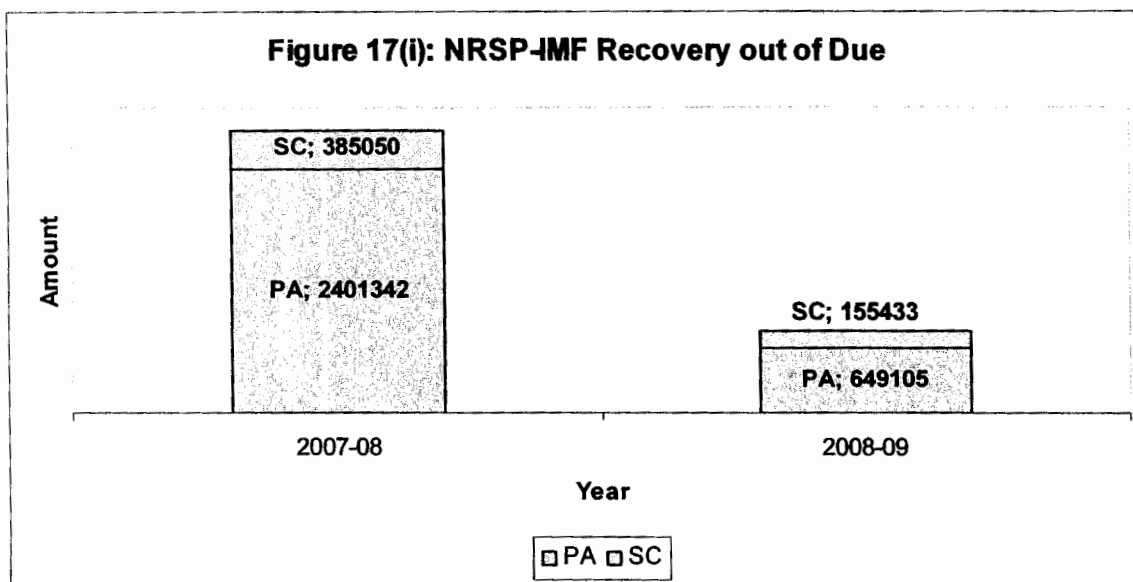


Table 15 shows the amount which had become overdue. Overdue are those amounts on which the due period had crossed; for the year 2007-08 only 0.03 percent amount is overdue of a fractional Rs.900 only it shows almost 100 percent recovery; for the year 2008-09 no amount had become overdue; thus the total overdue amount is of Rs.900 comprising of just 0.03 percent.

Year	MFCases	PA	SC	Total	%
2007-08	3	900	0	900	0.03%
2008-09	0	0	0	0	0.00%
Total	3	900	0	900	0.03%

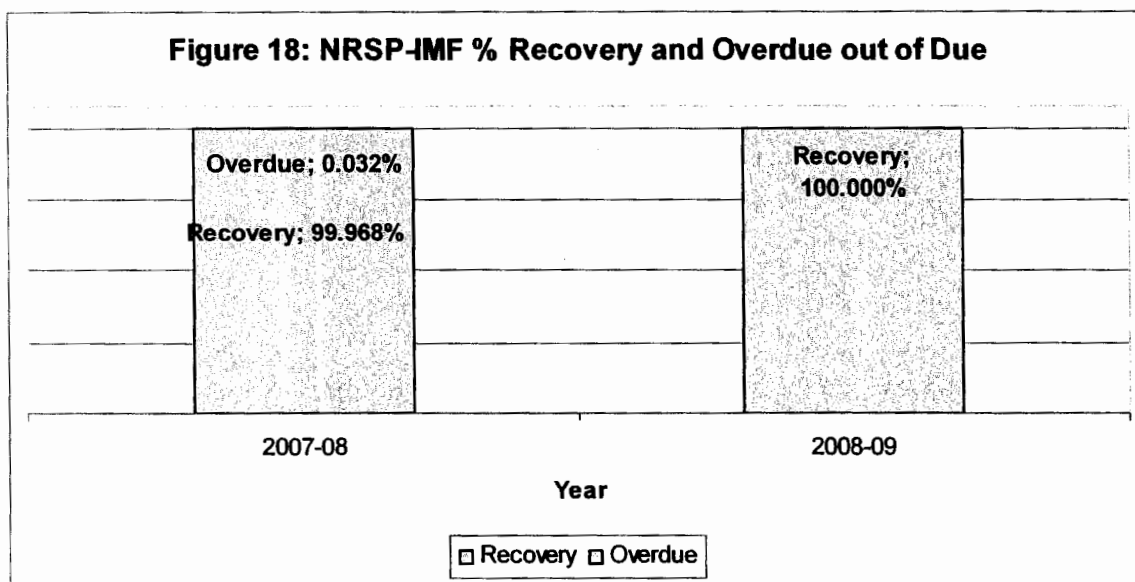


Table 16 shows the amount that has not become due yet; 76 percent of the total disbursed amount had not become due yet, 18 percent of the disbursed amount for the year 2007-08 had not become due yet of around Rs.6million reason can be that these financing were given on lump sum and for one year period, 93 percent of the disbursed amount for the year 2008-09 had not become due yet.

Year	PA	SC	Total	%
2007-08	525118	107073	632191	18.49%
2008-09	8864488	2272799	11137287	93.26%
Total	9389606	2379872	11769478	76.62%

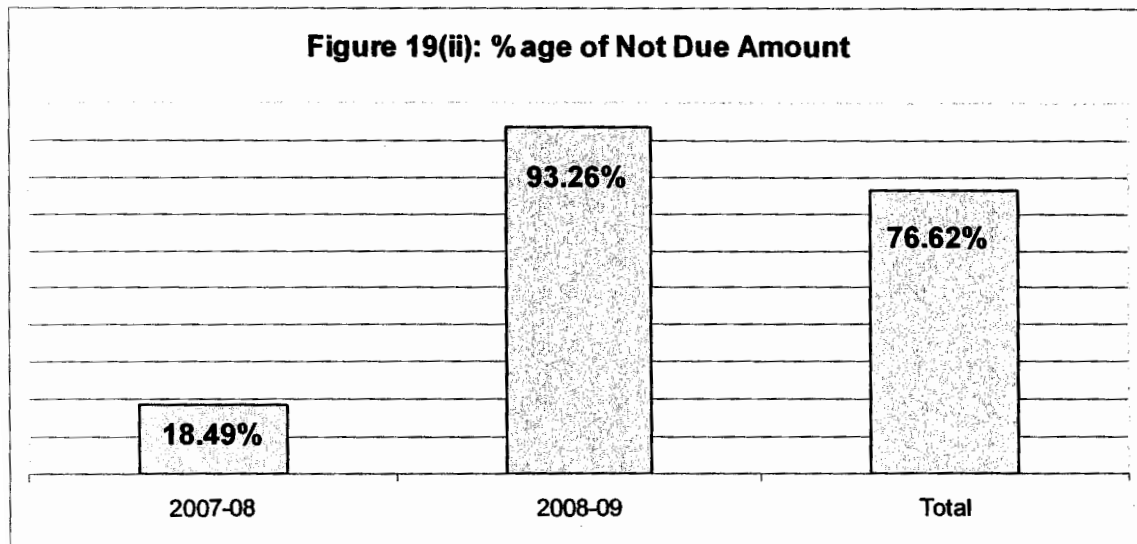
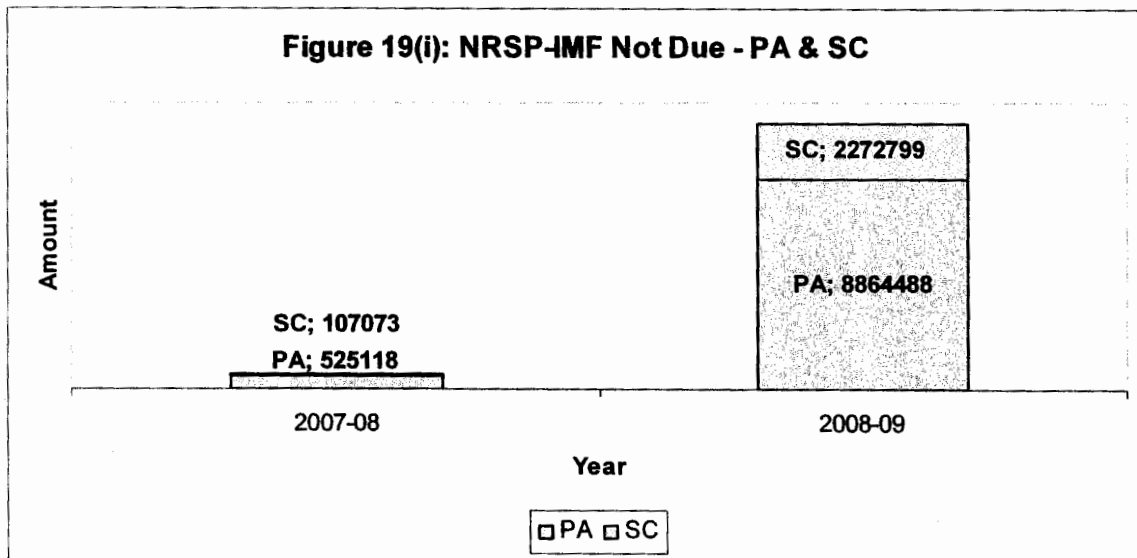


Figure 20 shows a comparison between the percentage of the Due and Not Due amount.

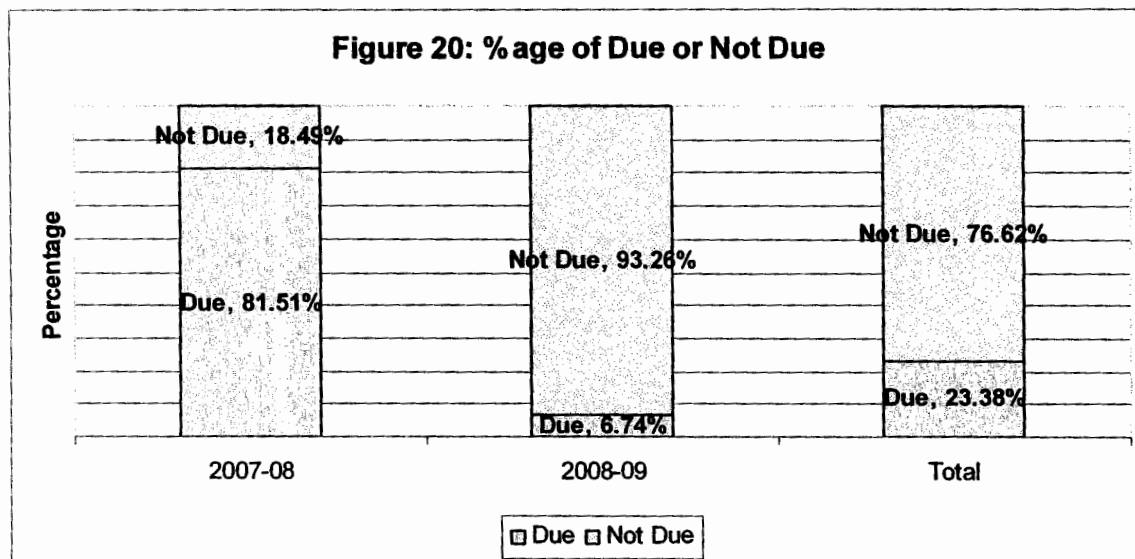


Table 17 shows the balance amount to be recovered out of the principal amount (only disbursement) and it also shows the percentage amount recovered; 18 percent of the disbursed principal amount Rs.526018 in the year 2007-08 is left to be recovered whereas 82 percent had been recovered; for the year 2008-09 balance amount to be recovered is 93 percent Rs.8864488 and 7 percent of the amount had been recovered; a total of 75 percent of the principal amount is in balance Rs.9390506 whereas 25 percent of the total principal amount had been recovered.

Table 17: NRSP-IMF Balance			
Year	PA	%	Recovered %
2007-08	526018	17.97%	82.03%
2008-09	8864488	93.18%	6.82%
Total	9390506	75.48%	24.52%

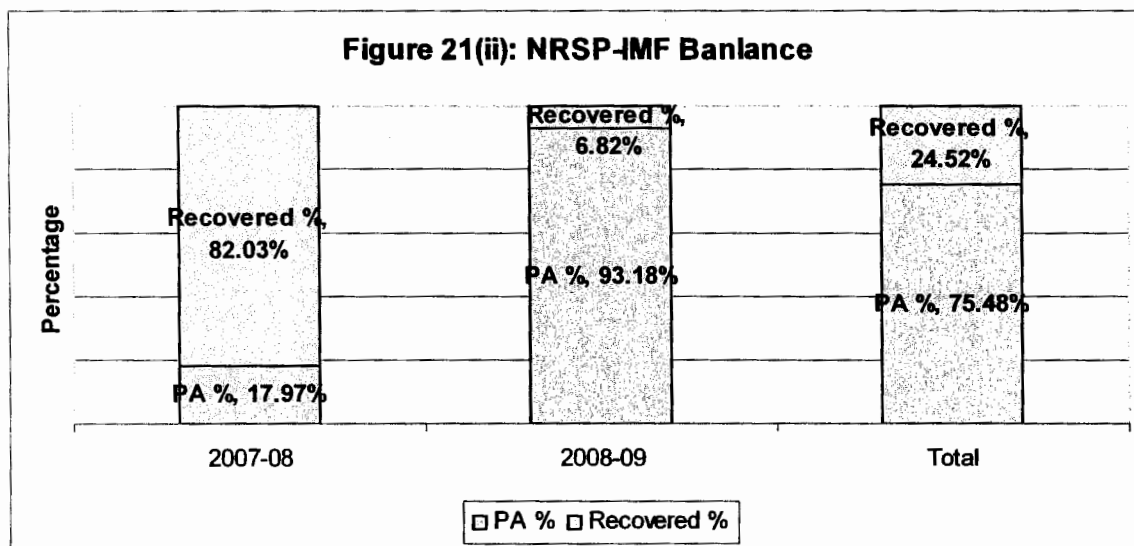
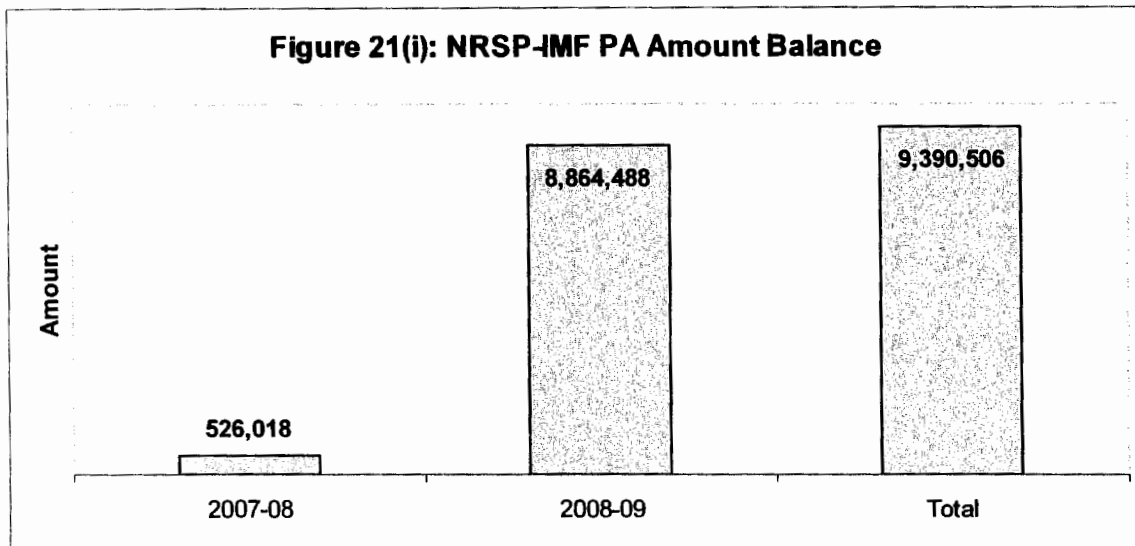
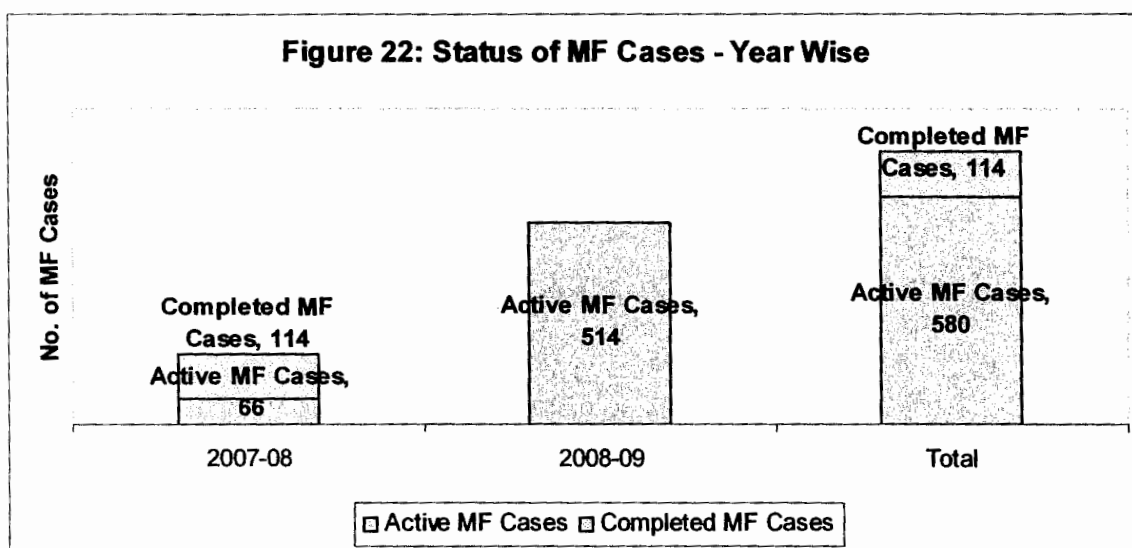


Table 18 shows that how many clients are in cycle of completing there Murabaha Financing installments and how many have completed there installments; until now 114 clients have successfully completed there Murabaha Financing installments, 66 and 514 clients for the year 2007-08 and 2008-09 respectively are on the way for completing there cycles, a total of 580 clients are on the way for completing there Murabaha Financing Installments.

Year	Active MF Cases	Completed MF Cases
2007-08	66	114
2008-09	514	
Total	580	114



5. Suggestions

5.1 Suggestion List

1. New approach for investing the premium gathered from MicroTakaful.
2. Reallocation of deposits in form of investment from urban people to their relatives living in rural areas.
3. Integration of spiritual treatment with the Islamic Microfinancing program.
4. Setting up of Zakah rating agency. Can become regulator for taking Usher and its distribution.
5. Can covert the whole society more towards Musharaka and Mudarabah.
6. Step by step financing procedure by using different modes at different stage.
7. Usage of different Islamic mode of financing for different poverty ranking clients.
8. Islamic Microfinancing Institutes can become gateway for investments in basic education, health, and infrastructure.
9. Also can highlight the importance of Sadaqah to the depositors and take it willingly from them. Similarly for Zakah, Usher and Awqaf.
10. Incentive for punctual repayment.

5.2 Suggestion list detail

Micro Takaful...

Poor are every now and then faced with some circumstances and due to the fragility of there lifestyle they are in need with some sort of safe guard against theses. As Takaful

has entered in the Islamic Financial Services Industry so has the Micro Takaful. Few of the Takaful companies had started there services in this regard.

The premium they charge from the clients are basically invested in the stock markets or in the Sukuk both of them have very limited scope of investment as only handful companies stocks can be traded in to keep the transaction Halal. The recommendation is to take premium amount from the clients in village and provide them security against the circumstances, but the main thing is that the takaful company invests that premium amount in the same area from where the premium had been taken i.e. the clients village not in the stock market or in sukuk. The investment can be made in the form of opening small cottage industry or something like that in order to get profits also and the village people can get job also.

Reallocation...

A special service can be provided to the depositors that they can finance there relatives who live in the rural or urban areas and the institute will look after the whole procedure. In other words; can take deposits from rich people living in cities and can distribute or advance financing among their relatives residing in rural/urban areas, especially who are in need of help or financing. Also can put condition that the amount if financed then when get it back from the client will be able to pay it back to the depositor. Thus, covering the risk factor, providing financing and gaining deposits.

Integration of Spiritual Teachings...

Indonesia has a long history of microfinance. Its strong emphasis on its Islamic roots has enabled itself to experiment with a dual system of Islamic finance and a system of microfinance that is not just Shariah compliant, but actually uses Islamic “spiritual treatment” along with financial and technical assistance to develop its micro-enterprises and work towards elimination of poverty. A recent pilot study conducted by Bank Indonesia (BI) divided beneficiaries into groups based on those receiving: (i) financial assistance only; (ii) financial and technical assistance only; and (iii) financial and technical assistance along with spiritual treatment. It was observed that group (iii) outperformed all other groups highlighting the importance of spiritual treatment. BI plans to use the findings to develop a model of microfinance that is not only integrated but also uses spiritual treatment as an important intervention.⁹⁰

Islamic teaching can be included in the program to be delivered from each office. Ulema can give weekly speech in which the benefits and importance of good moral, speaking truth, not to do fraud, clean and timely complete of promise, punctuality, and complete orders of Islamic religion are taught. Both working of religion and worldly to be given by the program.

Ulema can also supervise the Shariah angle of the transactions carried out in the respective office – Shariah Advisor.

⁹⁰ Islamic Research and Training Institute, 2007, “Islamic Microfinance Development Ten-Year Framework and Strategies”.

Zakah Rating Agency...

Government can setup a zakah rating agency which could rank the working institutions which takes zakah from the government or public showing that the amount they are taking is going to the correct beneficiaries and towards the poorest of the poor. So the public could trust in them and there will be an eye over the working of the institution. As the outreach of the program is huge and the program objective of providing assistance to the needier person it will be a good fit for the zakah management ministry to provided the funds through the institutes and manage a rating agency.

Shifting Mode of Financing...

Slowly and gradually the emphasis must be shifted from Murabaha mode towards the Musharaka and Mudarabaha mode, from short term financing towards long term financing, from sale contract towards financing contract. If successful in doing so then the whole society will be easily turned towards a more stable mode of financing because the micro financing is for the majority of the population. If the majority of the population turns towards it then the rest of the rich people or minority of the country population will turn towards these modes easily. The issue of sustainability can be easily overcome through these modes of financing. As the business grows the profits also increase. Partnership can be of many types such as less than one year partnership or more than one year with diminishing feature.

Different Modes for Different Stages...

For different poverty ranking clients use different Islamic modes of financing. If the client is at destitute level then can start from the point of financing with no intention of

taking the financing amount back or can use Qard al Hasan mode. When the business expands then use Murabaha, Salam or Ijarah then as the business expands towards Musharaka or Mudaraba, so that the clients also gets some help and after few months the institute start getting profits in order to cover for expenses or use in expansion. If the client is of well to do, better off category then can start from the Murabaha or Musharaka mode of financing. By using all types of financing at once so that the profits gained from one can be transferred to other mode portfolio. Also can invest in larger organizations so the profit is large and can be used in other direction.

There is a possibility that within a community organization where the number of clients is around 15 to 20 the institute can finance to 2 to 3 clients on the basis of Qard. Thus the profits gained from the other clients can be easily channeled towards them and the surplus can be utilized for different usage of the institution.

Gateway for Investing in Basic Utilities...

Education centers, hospitals, hand pumps etc. are the basic requirement of the people. By providing these basic utility centers to the people the institute can make a great impact among the population. Can assist governmental bodies, NGO's or can put our own profits in making, can charge nominal fee from the people visiting these buildings. Islamic Microfinance institutions should not be seen as a substitute for investments in basic education, health, and infrastructure but as a gateway for it has extensive reaching power and can be a responsible party in behalf of this regard.

Emphasis on Sadaqah, Zakah and Usher, Awqaf...

Emphasis regarding sadaqah that to give some amount in way of Allah (S.W.T) can be made on the depositors or a facility of depositing willingly sadaqah with the institute for this purpose can be arranged. Usher from the rural agricultural lands and Zakah from the accounts can be taken and distribute in there own area among poor people or can give in other village or can sell them and then give the amount among the needy. Institute can become a kind of helping hand of zakah ministry. Same thing can be arranged for awqaaf properties. Also the institution can setup waqf properties for its own usage or with the help of local population can setup a waqf property in which the investment is equal from both sides and likely the drawing benefits be same.

Punctuality in Repayment...

From the NRSP-IMF experience, the staff was facing some difficulties in getting repayment on time. Although they were achieving their target but the lack of timely repayment was the major cause of hectic for the staff and increment in expenses. To overcome this problem the institute can give incentive to the clients that whichever community organization is punctual in repayment a cash prize will be given to it on the monthly wise. Not the individual but the whole community organization will receive the cash prize. But to overcome the other problems the cash prize can be deposited directly in the respective saving account of the community organization i.e. post office account in case of NRSP-IMF.

6. Conclusion

The “double bottom line”— social gains and commercial success aspect can be easily confronted. Shariah has provided a great deal of flexibility for profit generation with the welfare part encrypted within it. There are many institutions working on different Islamic modes of financing and enjoying relative success on both lines, namely, the ruling part over the hearts of the clients and business part within their industry.

Creation of ‘searchers’ behavior within the institutional program is the need of time. Searching for the rightful needy person, searching for the perfect fit mode of Islamic financing for the respective client, searching the way for fulfilling the financing requirement, searching for the urgent requirement of the client (other than business development), searching for the systematical approach gratifying the necessity of the clients and non clients (other than business development).

Islamic Micro Financing Institutes enrich the institutional fabric of their nations. So even if Islamic Micro Financing does not live up to the hype, if we judge it against realistic expectations, it is doing quite well. In order to enhance the reach and richness of Islamic Microfinance it is imperative to start taking serious steps in holistic manner.

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Annexure

Annexure I: Poverty Levels in IDB Member Countries							
S.No.	Name of Member Country	Human Poverty Index Rank	Income Poverty Index Population Below			Population In Millions	No of Poor in Millions
			\$1 a day (%)	\$2 a day (%)	National Poverty Line		
1	Islamic Republic of Afghanistan				53	31.06	16.5
2	Republic of Albania				25	3.58	0.9
3	Democratic and Popular Republic of Algeria	46	2	15.1	25	32.93	5
4	Azerbaijan Republic				49	7.96	3.9
5	Kingdom of Bahrain					0.7	
6	People's Republic of Bangladesh	85	36	82.8	45	147.37	122
7	Republic of Benin	90	30.9	73.7	33	7.86	5.8
8	Brunei Darussalam					0.38	
9	Burkina Faso	101	27.2	71.8	45	13.9	10
10	Republic of Cameroon	61	17.7	50.6	48	17.34	8.8
11	Republic of Chad	100			80	9.94	8
12	Union of Comoros	56			60	0.7	0.4
13	Republic of Côte d'Ivoire	82	14.8	48.8	37	17.65	6.5
14	Republic of Djibouti	52			50	0.49	0.2
15	Arab Republic of Egypt	44	3.1	43.9	20	78.89	34.6
16	Republic of Gabon	50				1.42	
17	Republic of the Gambia	86	59.3	82.9		1.64	1.4
18	Republic of Guinea	96			40	9.69	3.9
19	Republic of Guinea Bissau	92				1.44	
20	Republic of Indonesia	41	7.5	52.4	17.8	245.45	128.6
21	Islamic Republic of Iran	35	2	7.3	40	68.69	5
22	Republic of Iraq					26.78	
23	Hashemite Kingdom of Jordan	11	2	7	30	5.91	0.4
24	Republic of Kazakhstan				19	15.23	2.9
25	State of Kuwait					2.42	
26	Kyrgyz Republic				40	5.2	2.1
27	Republic of Lebanon	20			28	3.8	1.1
28	Great Socialist People's Libyan Arab Jamahiriyah				7.4	5.9	0.4
29	Malaysia	15	2	9.3	8	24.39	2.3
30	Republic of Maldives	36			21	0.36	0.1
31	Republic of Mali	102	72.3	90.6	64	11.72	10.6
32	Islamic Republic of Mauritania	81	25.9	63.1	40	3.18	2

33	Kingdom of Morocco	59	2	14.3	19	33.24	4.8
34	Republic of Mozambique	94	37.8	78.4	70	19.69	15.4
35	Republic of Niger	99	60.6	85.8	63	12.53	10.8
36	Republic of Nigeria	76	70.8	92.4	60	131.5	121.5
37	Sultanate of Oman					3.1	
38	Islamic Republic of Pakistan	65	17	73.6	24	165.8	122
39	State of Palestine	8			45.7	3.8	1.7
40	State of Qatar	13				0.89	
41	Kingdom of Saudi Arabia					27.02	
42	Republic of Senegal	84	22.3	63	54	11.99	7.6
43	Republic of Sierra Leone	95		74.5	68	6.01	4.5
44	Republic of Somalia					8.86	
45	Republic of Sudan	54			40	41.24	16.5
46	Republic of Suriname	23			70	0.44	0.3
47	Syrian Arab Republic	29			11	18.88	2.1
48	Republic of Tajikistan				64	7.32	4.7
49	Republic of Togo	72			32	5.55	1.8
50	Republic of Tunisia	39	2	6.6	7.4	10.18	0.7
51	Republic of Turkey	21	3.4	18.7	20	70.41	13.2
52	Republic of Turkmenistan				58	5.04	2.9
53	Republic of Uganda				35	28.2	9.9
54	United Arab Emirates	34				2.6	
55	Republic of Uzbekistan				28	27.31	7.6
56	Republic of Yemen	77	15.7	45.2	45.2	21.46	9.7

Annexure II: Access to Financial Services in IDB Member Countries

Serial #	Name of Country	Access Percentage	Serial #	Name of Country	Access Percentage
1	Islamic Republic of Afghanistan		32	Islamic Republic of Mauritania	16
2	Republic of Albania	34	33	Kingdom of Morocco	39
3	Democratic and Popular Republic of Algeria	31	34	Republic of Mozambique	12
4	Azerbaijan Republic	17	35	Republic of Niger	31
5	Kingdom of Bahrain		36	Republic of Nigeria	15
6	People's Republic of Bangladesh	32	37	Sultanate of Oman	33
7	Republic of Benin	32	38	Islamic Republic of Pakistan	12
8	Brunei Darussalam		39	State of Palestine	14
9	Burkina Faso	26	40	State of Qatar	
10	Republic of Cameroon	24	41	Kingdom of Saudi Arabia	62
11	Republic of Chad		42	Republic of Senegal	27
12	Union of Comoros	20	43	Republic of Sierra Leone	13
13	Republic of Côte d'Ivoire	25	44	Republic of Somalia	
14	Republic of Djibouti		45	Republic of Sudan	15
15	Arab Republic of Egypt	41	46	Republic of Suriname	32
16	Republic of Gabon	39	47	Syrian Arab Republic	17
17	Republic of the Gambia	21	48	Republic of Tajikistan	16
18	Republic of Guinea	20	49	Republic of Togo	28
19	Republic of Guinea Bissau		50	Republic of Tunisia	42
20	Republic of Indonesia	40	51	Republic of Turkey	49
21	Islamic Republic of Iran	31	52	Republic of Turkmenistan	
22	Republic of Iraq	17	53	Republic of Uganda	20
23	Hashemite Kingdom of Jordan	37	54	United Arab Emirates	
24	Republic of Kazakhstan	48	55	Republic of Uzbekistan	16
25	State of Kuwait		56	Republic of Yemen	14
26	Kyrgyz Republic	1			
27	Republic of Lebanon	79	1	India	48
28	Great Socialist People's Libyan Arab Jamahiriyah	27	2	Russia	69
29	Malaysia	57	3	Netherlands	100
30	Republic of Maldives		4	USA	91
31	Republic of Mali	22	5	UK	91

Annexure III Outreach of Islamic Microfinance, by Country					
Region	# of Included Institutions	% Female (Avg.)	Total # of Clients	Total Outstanding Loan Portfolio (US\$)	Avg. Loan Balance (US\$)
Afghanistan	4	22	53,011	10,347,29	162
Bahrain	1	n/a	323	96,565	299
Bangladesh	2	90	111,837	34,490,490	280
Indonesia	105	60	74,698	122,480,000	1640
Jordan	1	80	1,481	1,619,909	1094
Lebanon	1	50	26,000	22,500,000	865
Mali	1	12	2,812	273,298	97
Pakistan	1	40	6,069	746,904	123
West Bank and Gaza	1	100	132	145,485	1102
Saudi Arabia	1	86	7,000	586,667	84
Somalia	1	n/a	50	35,200	704
Sudan	3	65	9,561	1,891,819	171
Syria	1	45	2,298	1,838,047	800
Yemen	3	58	7,031	840,240	146
Total	126	59	302,303	197,891,882	541

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Annexure IV: Outreach of Islamic Microfinance, by Institution Type						
Institution Type	# of Institutions	Total # of Clients		Total Outstanding Loan Portfolio (Islamic)		Avg. Loan Size (Islamic)
		#	% of Total	US\$	% of Total	US\$
Cooperative	1	6,671	2	926,251	<1	132
Village Bank (Syria)	1	2,298	1	1,838,047	<1	800
NGO	14	125,793	42	41,421,580	21	303
Rural Bank (Indonesia)	105	74,698	25	122,475,158	62	1640
NBFI	3	4,293	1	1,893,207	<1	595
Commercial Bank	2	87,569	29	29,030,997	15	305
TOTAL	126	305,237	100	198,090,268	100	629

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⁹¹ CGPA, Focus Note No.49, 2008

⁹² CGPA, Focus Note No.49, 2008

Annexure V: Islamic Modes of Financing, Application and Procedure		
Islamic Mode of Financing	Application	Procedure
<p>MU RA BA HA : <i>Murabaha (مرا بحة) means a sale of goods by a person to another under an arrangement whereby the seller is obliged to disclose to the buyer the cost of goods sold either on cash basis or deferred payment basis and a margin of profit included in the sale price of goods agreed to be sold.</i></p>	<p>Murabaha is used for Credit Sale by the IBIs. The subject matter i.e. goods/assets are selected by customer and purchase by IBI and then sold to customer on deferred payment basis. The concept of agency is used in Murabaha. A third party or the customer is appointed as an agent to act on behalf of the IBI.</p>	<ol style="list-style-type: none"> 1. Signing of Master Agreement for Murabaha Financing between the client and the IBI. 2. Appointing an agent to purchase commodities on IBIs behalf by executing Agency Agreement, if required. 3. Client gives Purchase Requisition to the IBI whenever a commodity is required. 4. The IBI or the agent, as the case may be, purchases the commodity and takes possession. 5. In case of the agent, the agent informs the IBI after purchase that he has purchased the commodity on its behalf. 6. Physical inspection (if possible) by the IBI of the commodities. 7. The client makes an offer to purchase the commodity from the IBI or the IBI offers to sell the same at an agreed price (i.e. Cost +Profit). 8. Acceptance by the IBI/client and the sale is concluded. The ownership plus the risk of the commodity is transferred from the IBI to the client. 9. The customer pays the price as per the agreed upon schedule of payment.
<p>SALAM: <i>Salam (سلم) (advance payment against deferred delivery of goods) means a kind of sale whereby the seller undertakes to supply specific goods to a buyer at a future date in</i></p>	<p>Salam can be used for facilitating farmer customers who need working capital / running finance. The purchaser has an advantage of purchasing particular commodity at a relatively lower price. On the other hand, the seller gets early price of those items /</p>	<ol style="list-style-type: none"> 1. The Salam Agreement is executed between the client as a seller of commodities and the IBI as a buyer of these commodities. 2. The agreement describes complete specifications of the commodity, sale price and date and place of delivery. 3. IBI pays the full sale price to

Islamic Mode of Financing	Application	Procedure
<i>consideration of a price fully paid in advance at the time the contract of sale is made.</i>	commodities which have not been produced yet. This may help him meet the working capital requirements, etc.	client. 4. Client after receiving advance price can utilize the amount for for his needs. 5. At maturity, client delivers the commodities as per agreement.
ISTISNA: - <i>Istisna (استصناع) is a mode of sale, at an agreed price, whereby the buyer places an order to manufacture, assemble or construct, or cause so to do anything to be delivered at a future date.</i>	Istisna is a mode of financing that may be used for assets/goods which require processing/ value addition. It may be used for financing for farm buildings, machinery, fabrication and other types of assets that are used in agriculture sector. The payment of price will be as per mutual agreement e.g. full in advance, fully deferred to delivery, partially advance and partially at delivery, in tranches or full payment after delivery.	1. The Istisna Agreement is executed between two parties, one as a seller/manufacturer of goods and the other as a buyer of these goods. 2. The agreement describes complete specifications of the goods/assets or manufactured items sale price, date and place of delivery. 3. IBI pays price as per mutual agreement. 4. At maturity, client delivers commodities as per agreement.
I J ARAH: - <i>Ijarah (اجاره) is a contract whereby the owner of an asset, other than consumables, transfers its usufruct to another person for an agreed period for an agreed consideration.</i>	Contrary to trade-based modes of financing, Ijarah is an ongoing contract which has flexibility of increase in rental amount during the tenure. Ijarah is a very useful mode of financing specially for long term financing with the option to change the rental as per rules of Ijarah. Usually long-term assets are not feasible for trade based modes since the bench-mark changing scenarios do not affect the price in any manner, while it can be taken in consideration in Ijarah. In agri sector, the instrument of Ijarah can be used for almost all types of machinery and equipments financing needs	1. Signing of Undertaking to Ijarah according to which the client undertakes to take certain asset on lease from the institution upon arrival of the asset. 2. If required, the IBI and the client may enter into an agency agreement according to which the client would purchase asset on behalf of IBI. 3. After purchasing of a particular asset, the IBI and client execute an Ijarah Agreement in which they agree on rental and tenure. 4. The IBI, after agreement delivers the asset to the client for use. 5. At the end of lease period, normally the IBI and the client enter into a separate agreement

Islamic Mode of Financing	Application	Procedure
	like tube- well; tractor or building and land financing, etc.	of sale through which the leased asset is sold to the client against an agreed price.
<p>MU S H A R A K A: <i>Musharaka means relationship established under a contract by the mutual consent of the parties for sharing of profits and losses arising from a joint enterprise or venture.</i></p>	<p>Musharaka can be used for financing needs from working capital to project finance, and from short term financing to term finance. Issuance of certificates and other kinds of financial needs can also be structured under this mode.</p>	<ol style="list-style-type: none"> 1. One or more entrepreneurs approach an IBI for the required finance for a project. 2. The IBI, along with other partners, provides complete or partial finance. 3. All partners, including the IBI, have the right to participate in the management of project. 4. Profits are to be distributed according to the agreed profit distribution ratio/formula, which needs not be the same as per their capital proportions. 5. Losses, however, are to be shared on pro rata basis. 5. At the end of the period, the principal with profit proceeds is to be distributed among the partners.
<p>MU D A R A B A: - <i>Mudaraba means an arrangement in which a person participates with his money (called Rabbulmal) and another with his efforts (called Mudarib) for sharing in profit from investment of these funds in an agreed manner.</i></p>	<p>Mudarba like Musharaka can be used for most of the financing needs.</p>	<ol style="list-style-type: none"> 1. Two parties execute Mudaraba Agreement by way of which they decide that one party will provide Mudaraba capital and other party manages the capital for a particular period. 2. Profit rate is to be decided as agreed between them. 3. Mudarib has management rights and, therefore, he will utilize the partnership capital in an agreed manner. 4. At the end of the tenor, mudarib will return principal and preagreed share of the profit to the Rabb-ul-Maal. If the business incurs a loss, it will be borne by Rabb-ul-Maal if there happens no negligence on the part of Mudarib. 5. Investor is not liable for the losses beyond the capital he has contributed.

Islamic Mode of Financing	Application	Procedure
<p>MU S A Q A T: - <i>(Irrigation) partnership is a partnership that depends on one party presenting designated plants/trees that produce usable products /items /goods /output to another in order to work on their irrigation in consideration for a common defined share in fruits.</i></p>	<p>This mode is applicable in agriculture sector in a very effective manner, especially for orchard financing. A specific or predetermined share of the enterprise output (e.g. a third or a half, etc.) will go to the provider for labor and enterprise. This will be clearly positioned in the contract.</p>	<p>Under this mode, multiple options are available based on the ownership of land/orchard, rental arrangements, labor, etc. Therefore, defining particular steps would require inputs from the stakeholders.</p>
<p>MU Z A R A ' A : - <i>(Sharecropping) is partnership in crops in which one party presents land to another for cultivation and maintenance in consideration for a common defined share in the crop.</i></p>	<p>Muzara'a is an acceptable legal contract suitable for financing agricultural operations. It can take several forms. For instance, contract based arrangement can specify that land and other physical factors of production for the enterprise could come from one party while labor could be provided by the other party. Incidence of a three-party Muzara'a partnership in which the first party provides land, the second provides a combination of required physical inputs, and the third provides labor.</p>	<p>For Muzara'a contracts to be legally viable, several critical conditions must be spelled out. They are as under:</p> <ol style="list-style-type: none"> 1. The functions and obligations of each individual or party in the contract must be clearly and unambiguously defined. 2. The location and characteristics of the land to be cultivated under Muzara'a must be clearly identified and submitted to the party that is to implement the operation. 3. The production goal of the enterprise must be defined in terms of end products i.e. crops or live stock to be grown. 4. The period in which the Muzara'a contract is to be effective must be defined. Method of distribution of output must be stated clearly in the contract.

Islamic Mode of Financing	Application	Procedure
<p>MUGH A R A S A : <i>- (agricultural) partnership is a partnership in which one party presents a treeless piece of land to another to plant trees on it on the condition that they share the trees and fruits in accordance with a defined percentage.</i></p>	<p>Mugharasa is a legal contract suitable for financing development of orchards/ trees. Under the arrangement, it is specified that land and other physical factors of production can come from one party while labor can be provided by the other party.</p>	<p>Mugharasa contract requires following conditions to be followed:</p> <ol style="list-style-type: none"> 1. The functions and obligations of each individual or party in the contract must be clearly and unambiguously defined. 2. The location and characteristics of the land to be cultivated under Mugharasa must be clearly identified. 3. The production goal of the arrangement must be defined in terms of end products. 4. The period in which the Mugharasa contract is to be effective must be defined. 5. Method of distribution of output must be stated clearly in the contract.

Annexure VI: Appearance of words in Holy Quran **قرض, بيع, صدقة, صدقات, ربنا, انفاق, زكوة, مال**

اية شمار	سورة	لفظ	اية شمار	سورة	لفظ	اية شمار	سورة	لفظ
54	سورة القصص	انفاق	3	سورة الانفال	انفاق	3	سورة البقرة	انفاق
39	سورة الروم	زكوة	36	سورة الانفال	انفاق	43	سورة البقرة	زكوة
4	سورة لقمان	زكوة	60	سورة الانفال	انفاق	83	سورة البقرة	زكوة
16	سورة السجده	انفاق	63	سورة الانفال	انفاق	110	سورة البقرة	زكوة
33	سورة الاحزاب	زكوة	5	سورة التوبة	زكوة	177	سورة البقرة	زكوة
35	سورة الاحزاب	صدقات	11	سورة التوبة	زكوة	195	سورة البقرة	انفاق
39	سورة سباء	انفاق	18	سورة التوبة	زكوة	196	سورة البقرة	صدقة
29	سورة فاطر	انفاق	34	سورة التوبة	انفاق	215	سورة البقرة	انفاق
47	سورة يس	انفاق	53	سورة التوبة	انفاق	219	سورة البقرة	انفاق
38	سورة الشورى	انفاق	54	سورة التوبة	انفاق	245	سورة البقرة	قرض
38	سورة محمد	انفاق	58	سورة التوبة	صدقات	254	سورة البقرة	انفاق
7	سورة الحديد	انفاق	60	سورة التوبة	صدقات	254	سورة البقرة	بيع
10	سورة الحديد	انفاق	71	سورة التوبة	زكوة	261	سورة البقرة	انفاق
11	سورة الحديد	قرض	79	سورة التوبة	صدقات	262	سورة البقرة	انفاق
18	سورة الحديد	صدقات	91	سورة التوبة	انفاق	263	سورة البقرة	صدقة
18	سورة الحديد	قرض	92	سورة التوبة	انفاق	264	سورة البقرة	انفاق
12	سورة المجادلة	صدقة	98	سورة التوبة	انفاق	264	سورة البقرة	صدقات
13	سورة المجادلة	صدقات	99	سورة التوبة	انفاق	265	سورة البقرة	انفاق
9	سورة الجمعة	بيع	99	سورة التوبة	ربا	267	سورة البقرة	انفاق
7	سورة المنافقون	انفاق	103	سورة التوبة	صدقة	270	سورة البقرة	انفاق
10	سورة المنافقون	انفاق	104	سورة التوبة	صدقات	271	سورة البقرة	صدقات
16	سورة التغابن	انفاق	111	سورة التوبة	بيع	272	سورة البقرة	انفاق
17	سورة التغابن	قرض	121	سورة التوبة	انفاق	273	سورة البقرة	انفاق
7	سورة الطلاق	انفاق	22	سورة الرعد	انفاق	274	سورة البقرة	انفاق
28	سورة الحاقة	مال	31	سورة ابراهيم	بيع	275	سورة البقرة	بيع
20	سورة المزمل	قرض	31	سورة ابراهيم	انفاق	276	سورة البقرة	صدقات
20	سورة المزمل	زكوة	75	سورة النحل	انفاق	277	سورة البقرة	زكوة
12	سورة المدثر	مال	42	سورة الكهف	انفاق	17	سورة آل عمران	انفاق
20	سورة الفجر	مال	31	سورة مريم	زكوة	92	سورة آل عمران	انفاق
6	سورة البلد	مال	55	سورة مريم	زكوة	117	سورة آل عمران	انفاق
11	سورة الليل	مال	77	سورة مريم	مال	130	سورة آل عمران	ربا
5	سورة النبينة	زكوة	73	سورة الانبياء	زكوة	134	سورة آل عمران	انفاق
2	سورة الهمزة	مال	35	سورة الحج	انفاق	38	سورة النساء	انفاق
3	سورة الهمزة	مال	41	سورة الحج	زكوة	39	سورة النساء	انفاق
2	سورة الذهب	مال	78	سورة الحج	زكوة	77	سورة النساء	زكوة
			55	سورة المؤمنون	مال	114	سورة النساء	صدقة
			37	سورة النور	بيع	161	سورة النساء	ربا
			37	سورة النور	زكوة	162	سورة النساء	زكوة
			56	سورة النور	زكوة	12	سورة المائدة	زكوة
			67	سورة الفرقان	انفاق	55	سورة المائدة	زكوة
			3	سورة النمل	زكوة	64	سورة المائدة	انفاق
			36	سورة النمل	مال	156	سورة الاعراف	زكوة

قرض	زكوة
انفاق	صدقات
ربا	مال
بيع	صدقة

Annexure VII: Appearance of words صدقة , زكوة , ربا , بيع , صداقات , مال , زكوة , ربا , صدقة Words Wise

لفظ	سورة	اية شمار	لفظ	سورة	اية شمار	لفظ	سورة	اية شمار
انفاق	سورة البقرة	3	انفاق	سورة فاطر	29	مال	سورة الفجر	20
انفاق	سورة البقرة	195	انفاق	سورة يس	47	مال	سورة البلد	6
انفاق	سورة البقرة	215	انفاق	سورة الشوري	38	مال	سورة الليل	11
انفاق	سورة البقرة	219	انفاق	سورة محمد	38	مال	سورة الهمة	2
انفاق	سورة البقرة	254	انفاق	سورة الحديد	7	مال	سورة الهمة	3
انفاق	سورة البقرة	261	انفاق	سورة الحديد	10	مال	سورة الذهب	2
انفاق	سورة البقرة	262	انفاق	سورة المنافقون	7	صداقات	سورة البقرة	264
انفاق	سورة البقرة	264	انفاق	سورة المنافقون	10	صداقات	سورة البقرة	271
انفاق	سورة البقرة	265	انفاق	سورة التغابن	16	صداقات	سورة البقرة	276
انفاق	سورة البقرة	267	انفاق	سورة الطلاق	7	صداقات	سورة التوبة	58
انفاق	سورة البقرة	270	زكوة	سورة البقرة	43	صداقات	سورة التوبة	60
انفاق	سورة البقرة	272	زكوة	سورة البقرة	83	صداقات	سورة التوبة	79
انفاق	سورة البقرة	273	زكوة	سورة البقرة	110	صداقات	سورة التوبة	104
انفاق	سورة البقرة	274	زكوة	سورة البقرة	177	صداقات	سورة الاحزاب	35
انفاق	سورة ال عمران	17	زكوة	سورة البقرة	277	صداقات	سورة الحديد	18
انفاق	سورة ال عمران	92	زكوة	سورة النساء	77	صداقات	سورة المجادلة	13
انفاق	سورة ال عمران	117	زكوة	سورة النساء	162	بيع	سورة البقرة	254
انفاق	سورة ال عمران	134	زكوة	سورة المائدة	12	بيع	سورة البقرة	275
انفاق	سورة النساء	38	زكوة	سورة المائدة	55	بيع	سورة التوبة	111
انفاق	سورة النساء	39	زكوة	سورة الاعراف	156	بيع	سورة ابراهيم	31
انفاق	سورة المائدة	64	زكوة	سورة التوبة	5	بيع	سورة النور	37
انفاق	سورة الانفال	3	زكوة	سورة التوبة	11	بيع	سورة الجمعة	9
انفاق	سورة الانفال	36	زكوة	سورة التوبة	18	قرض	سورة البقرة	245
انفاق	سورة الانفال	60	زكوة	سورة التوبة	71	قرض	سورة الحديد	11
انفاق	سورة الانفال	63	زكوة	سورة مريم	31	قرض	سورة الحديد	18
انفاق	سورة التوبة	34	زكوة	سورة مريم	55	قرض	سورة التغابن	17
انفاق	سورة التوبة	53	زكوة	سورة الانبياء	73	قرض	سورة المزمل	20
انفاق	سورة التوبة	54	زكوة	سورة الحج	41	صدقة	سورة البقرة	196
انفاق	سورة التوبة	91	زكوة	سورة الحج	78	صدقة	سورة البقرة	263
انفاق	سورة التوبة	92	زكوة	سورة النور	37	صدقة	سورة النساء	114
انفاق	سورة التوبة	98	زكوة	سورة النور	56	صدقة	سورة التوبة	103
انفاق	سورة التوبة	99	زكوة	سورة النمل	3	صدقة	سورة المجادلة	12
انفاق	سورة التوبة	121	زكوة	سورة الروم	39	ربا	سورة ال عمران	130
انفاق	سورة الرعد	22	زكوة	سورة لقمان	4	ربا	سورة النساء	161
انفاق	سورة ابراهيم	31	زكوة	سورة الاحزاب	33	ربا	سورة التوبة	99
انفاق	سورة النحل	75	زكوة	سورة المزمل	20			
انفاق	سورة الكهف	42	زكوة	سورة البيئة	5			
انفاق	سورة الحج	35	مال	سورة مريم	77			
انفاق	سورة الفرقان	67	مال	سورة المومنون	55			
انفاق	سورة القصص	54	مال	سورة النمل	36			
انفاق	سورة السجده	16	مال	سورة الحاقة	28			
انفاق	سورة سباء	39	مال	سورة المدثر	12			

قرض	زكوة
انفاق	صداقات
ربا	مال
بيع	صدقة

Annexure VIII: Questioner for Survey

Name National Rural Support Program

Disburse Date Amount

NRSP

Enterprise LiveStock Agri/Inputs

Home Survey Form

Earning Members of the Family				Home Earnings			Home Expense	Expenses	Total Home Area					
S.No.	Name	Age	Occupation	Source of Income	Daily Income	Monthly Income	House Rent		Ownership <input type="checkbox"/> Own <input type="checkbox"/> Heir <input type="checkbox"/> Rent <input type="checkbox"/> Joint					
1	<input style="width: 80px;" type="text"/>						Food		No. of Rooms					
2							Electricity		Residing From					
3							Telephone		Walls <input type="checkbox"/> Mud <input type="checkbox"/> Bricks <input type="checkbox"/> Mixed <input type="checkbox"/>					
4							Gas		Roof <input type="checkbox"/> Gadar <input type="checkbox"/> Lintar <input type="checkbox"/> Wood <input type="checkbox"/> Bamboo <input type="checkbox"/>					
Non Earning Members of the Family						Total	Medicine		Drinking Water <input type="checkbox"/> Well <input type="checkbox"/> Motor <input type="checkbox"/> Outside <input type="checkbox"/> Tank <input type="checkbox"/>					
5							Clothes		Drainage <input type="checkbox"/> Open <input type="checkbox"/> Flush <input type="checkbox"/> No Arrange ment <input type="checkbox"/>					
6							Guest		Per Person Income					
7							Obituary/ Pleasure							
8							Animals Feed		1	Home Total Income				
9							Installment/ Committee		2	Total No. of Family Members				
10							Transportation		3	Monthly Expenditure				
11							Other Expenses		4	Per Person Income				
							Total							

From Whom Do you Borrow in Emergency Any Judicial Case Yes No

Detail of Assets Washing Machine Cycle Motor Cycle Sewing Machine Fridge Car/Tractor

Agricultural Land Cow Buffalo Goat Yoke

Other Assets

Map: From Area Office to Home

Annexure XI: Fatawa of Jamia Usmania, Peshawar, Pakistan

Jamia Usmania
PESHAWAR PAKISTAN



الجامعة عثمانية
پشاور

Ref No: 1209/2009

تاریخ: 1209/2009

بِسْمِ اللّٰهِ الرَّحْمٰنِ الرَّحِیْمِ

الجواب وباللہ تعالیٰ التوفیق :-

اس میں کوئی شک نہیں ہے کہ ”مرابحہ“ ایک جائز معاملہ ہے جس میں ایک شخص کوئی چیز بازار سے کسی قیمت پر خرید کر اس کے ساتھ فروخت کرے۔ تاہم اس میں مقررہ شرائط کی رعایت ضروری امر ہے تاکہ خیانت، دھوکہ دہی اور جھوٹ وغریب سے اجتناب حاصل ہو۔

جہاں تک ایک ادارتی نظام کے حوالے سے کاروبار کرنے کا ارادہ ہو اس میں فتویٰ سے کام نہیں لیتا بلکہ مٹی تو انہیں دہانے دہانتے دوئے ایک دستوری لائحہ عمل ضروری امر ہے۔ جو باختیار علماء اور اقتصادی ماہرین پر مشتمل کمیٹی کے ذریعے ممکن ہے۔ آپ کے لیے یہ بھی مفید صورت ہے۔ کہ خیر بنک کے اسلامی بنک سے رابطہ کر کے لائحہ عمل کے تعین میں ان سے تعاون حاصل کریں۔

الجواب صحیح
مشفق غلام الرحمن
رئیس دارالافتاء
جامعہ عثمانیہ پشاور صدر

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فون: 091-5273561
فکس: 091-5272470

طابع کالونی نوشیہ روڈ
پوسٹ کس نمبر 1209 پشاور صدر

Annexure XIII: Fatawa of Jamia Darul Uloom Haqqania, Kora Khatak,
Nowshera, Pakistan

۷۶۰

حامد اوصلياً
الجواب وبالله التوفيق .

اسلام نے راجحہ کی صورت میں بیع کرنے کیلئے منافع کا کوئی خاص مقدار مقرر نہیں کیا ہے
منافع کا تعین عاقدین کے باہمی اتفاق رائے پر موقوف ہے، اگر کوئی بائع کسی طویل المیعاد
زیادہ وقت کیلئے قرض پر لینے والے مشتری کیلئے زیادہ منافع اور کم وقت کیلئے قرض پر لینے
والے مشتری کیلئے کم منافع مقرر کرے اور ساتھ قرض کی ادائیگی کا وقت پہلے سے طے شدہ
ہو، تو شرعاً اس میں کوئی حرج نہیں بلکہ یہ ایک مستحسن عمل ہے جس میں بائع اور مشتری
دونوں کا فائدہ ہے۔

قال العلامة المرعيني؟

الراجحة تعل مملكة بالعقد الأول بالثمن الأول مع زيادة ربح
(الهداية ص ۳۷۳)

وقال أيضاً - لا يرى انه يزداد في الثمن لاجل الاجل -

(ص ۳۷۳)

(والله اعلم بالصواب)

والله



۸/ اپریل ۲۰۰۶ء
خادمہ دینہ بیگم
مفتی و مدرس

جامعہ دارالعلوم حقانیہ کورہ خٹک نوشہرا

Figure 23: World Poverty Level

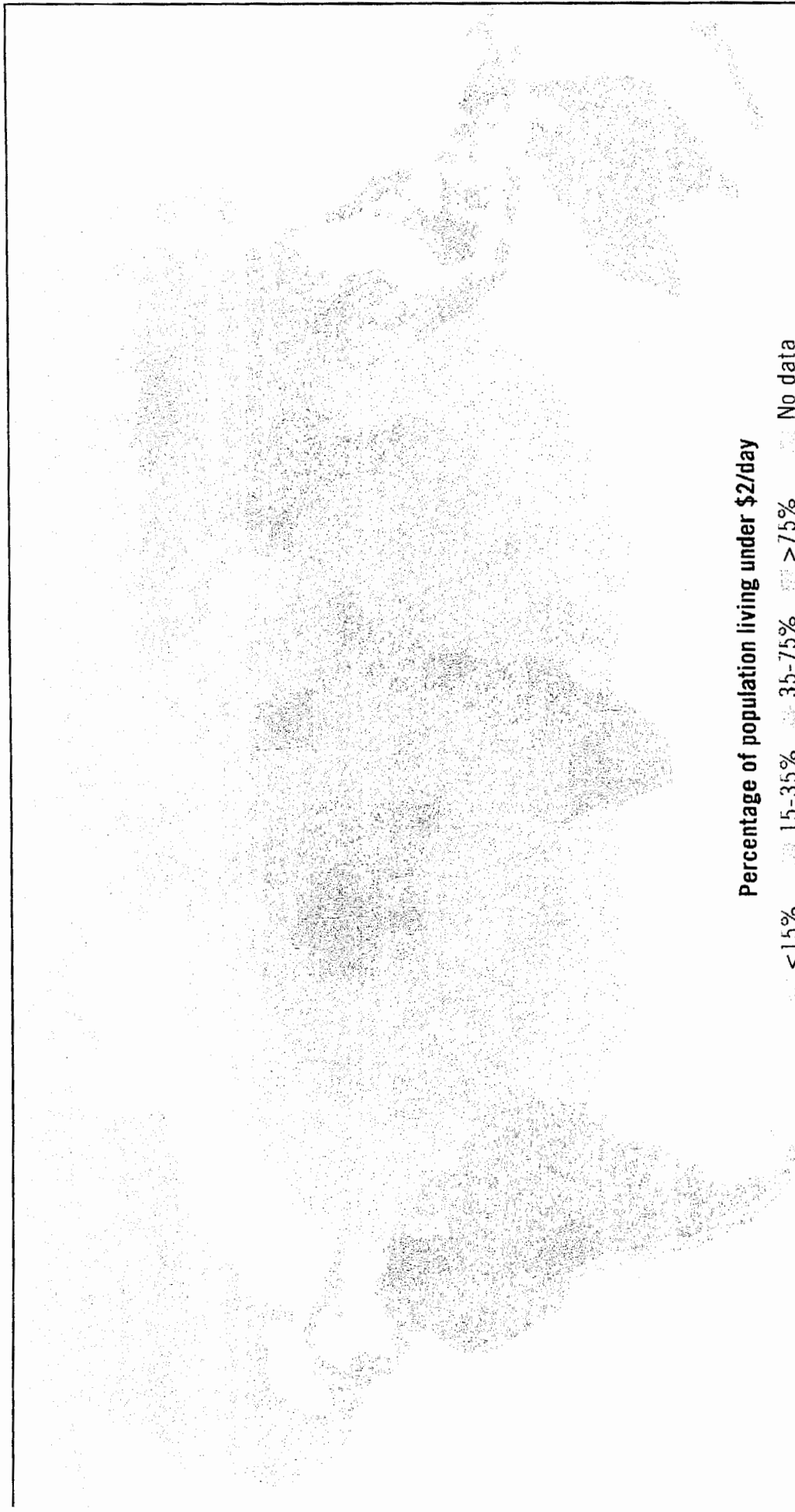


Figure 24: Access to Financial Services

Access to Financial Services



Source: Honohan (2007)

Source: Honohan (2007)

Statement of Authorship of MSc. Thesis

I, Mubashir Mukhtar, student of IIIE, MSc. Economics and Finance (Regd. No. 869-SE/MSc (EF)/S07) solemnly declare and affirm on oath that I myself have authored this thesis with my own work and means, and I have not used any further means except those I have explicitly mentioned in the thesis. All items copied from internet or other written sources have been properly mentioned and with a reference to the source of citation.

I am aware of the fact that my thesis can be cancelled at any time in case of giving a wrong statement.



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