

# OUTLOOK AND FUTURE PROSPECTS FOR ISLAMIC MICROFINANCE IN PAKISTAN

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# MICROFINANCE

- An important strategy for poverty alleviation
  - Promotes self-respect and self-reliance
  - Focus on women and most vulnerable
  - Need for Islamic Microfinance
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# CURRENT STATUS OF ISLAMIC MICROFINANCE GLOBALLY

- ❖ 126 institutions in 14 countries
- ❖ 36 percent is located in GCC, 35 percent in South West Asia & North Africa and 23 percent in Asia
- ❖ Concentrated only in three countries
- ❖ Islamic MF Constitutes Only less than 1 Percent of Micro Finance Industry ( 1.2 million clients)

# ISLAMIC MF IN PAKISTAN - I

- ❖ Micro Finance and Islamic banking (IB) were initiated at the same time (2001) in Pakistan

Individually both industries grew significantly ; IB constitutes 10 percent of overall banking industry while MF is meeting 9 percent of its potential demand

- ❖ Islamic Banking (formal sector) growing..... but slowly
- ❖ Islamic MF is far behind

# ISLAMIC MF IN PAKISTAN - II

❖ Some successful examples are;

- Akhuwat
- Wasil Foundation
- Islamic Relief
- Al-Huda
- Islah Foundnation
- Zad-e-Rah etc.

❖ Total clients served by Islamic MFIs: 250,000



# ISLAMIC MF IN PAKISTAN - III

## Opportunity :

- Financial exclusion of more than 80 percent
- Various Surveys indicated Preference of MF clients for Islamic MF

# MODEL FOLLOWED BY ISLAMIC MICROFINANCE INSTITUTIONS

- Qarz-a-Hasan
  - Murabaha
  - Salam
  - Mudarabha - Musharika
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# OBSTACLES IN GROWTH OF ISLAMIC MICROFINANCE

## Supply Side

- ❖ Suppliers are not convinced with the commercial viability
- ❖ Limited product profile
- ❖ Lack of adequately trained and skilled human resource
- ❖ Lack of integration among players

## Demand Side

- ❖ Perception issues prevail on demand side
- ❖ Lack of awareness among masses





# PROVISION OF VARIOUS OPTIONS-INCENTIVIZING THE PRIVATE SECTOR TO ENTER THE MARKET - POLICY ENVIRONMENT FOR ISLAMIC MF IN PAKISTAN

1. Full Fledged Islamic Microfinance Banks (IMFBs) under the MFI ordinance 2001
2. Islamic Microfinance Services by Full-fledged Islamic Banks
3. Islamic Microfinance Services by Conventional Banks
4. Islamic Microfinance Services by Conventional Microfinance Banks (MFBs)

# QARZ-E-HASSAN MODEL OF AKHUWAT

- Akhuwat pioneers interest-free (qarz-e-hasan) micro-finance in Pakistan, by creating a low cost micro-finance paradigm with minimal operational costs.
- Akhuwat has successfully established a model that fully reinforces the assumption that client sustainability is as important as organizational sustainability.
- The organization's mission is to alleviate poverty by empowering socially and economically marginalized segments of the society through interest-free micro-finance and in the process harnessing their entrepreneurial potential and enhancing their capacity through economic and social guidance.
- Akhuwat envisions a poverty free society built on the principles of compassion, brotherhood and equity.

# GROUND-BREAKING METHODOLOGIES EMPLOYED BY AKHUWAT

- Credit Pool or Qarz-a-Hasan Pool – Revolving Fund
- Loans given out of this pool are interest free
- Intermediation through faith institutions – Mosque and Church
- Spirit of volunteerism
- Converting borrowers into donors
- Linking with formal Islamic banks

# SCALE AND IMPACT

- Akhuwat has successfully opened 170 branches all over Pakistan and served over 350,000 beneficiary families.
- There are currently over 200,000 active borrowers
- Its presence in 120 cities of Pakistan speaks highly of its sustainable growth model and viable operations.
- Akhuwat has disbursed more than PKR. 5 billion over a period of 12 years, with a phenomenal recovery rate of 99.8%, staying true to its mission of helping the under-privileged with interest-free system.
- Presence in all four provinces, GB & AJ

# TAKING AKHUWAT TO SCALE

Support Given by Provincial Govt  
Chief Minister's Self-Employment Scheme  
(CMSES);

*Revolving Fund of 2 Billion PKR*



# SALIENT FEATURES CMSES



- First ever interest free loans project on such scale.
- Loan size ranges from Rs. 15,000 to Rs. 50,000.
- Loans are given for businesses and setting small enterprise only.
- Graduates of PVTC, TEVTA and technical/vocational institutions are preferred.
- Loans are disbursed in mosques/church to ensure transparency and participation.
- There is no mark-up or interest on these loans.



# SALIENT FEATURES CMSES



- Loans are disbursed in 140 locations of 30 districts of the province
- Loans are given after due scrutiny and appraisal according to an eligibility criterion, on first come first serve basis.
- Till July 2013 more than 190,000 loans have been disbursed.
- This is the largest interest free small loans scheme in Pakistan jointly ventured by a Government agency and a civil society organization.

# LOAN DISBURSEMENT METHODOLOGY





A Loan Disbursement Event in a Mosque





A Loan Disbursement Event in a Mosque





Akhuwat Event in a Mosque (Chiniot)





Akhuwat Event in a Mosque (Lahore)





Akhuwat Event in a Mosque (Lahore)





Akhuwat Event in a Mosque (Mithan Kot)





Akhuwat Event in a Mosque (Rajan Pur)





Akhuwat Event in a Mosque (Choti – D.G Khan)





Awareness Event in a Mosque





A Loan Disbursement Event in a Mosque













**BUSINESSES**

































AKHIL WAT





















AKHUWAT





# RECOMMENDATION AND WAY FORWARD

- Supply side
- Demand side
- Role of stakeholders – Govt. of Pakistan, State Bank of Pakistan, International agencies, Islamic bank.
- Research and Development – New products
- Introduction of Savings, Leasing and Insurance
- Raising awareness and Marketing

THANK YOU