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
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)
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
Some successful examples are:

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

Total clients served by Islamic MFIs: 250,000
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
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
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
Support Given by Provincial Govt
Chief Minister’s Self-Employment Scheme (CMSES);

Revolving Fund of 2 Billion PKR
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 (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
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