A Value-based Sustainable Micro Financing for the Financial Inclusion of All Low-income Groups of Pakistan: A Proposed Business Model for Islamic Microfinance

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Abstract
A large portion of the overall population of the world in general and the Muslim world in particular is living lower than the poverty line. Statistically, as per latest approximations, in 2013, 10.7 percent of the globe’s population survived on below US$1.90 a day, paralleled to 12.4 percent in 2012. Seven wealthy people in the world possess more than the GDP of 41 oppressed countries in the world. This is equal to the gross income of 567 million people.
The ever-increasing gap between supply and demand has helped the microfinance industry to appear as a substitute to attaina rational portion of the financial services marketplace of the world. Subsequently, when usury was forbidden by the Muslims, the Islamic microfinance business appeared; a substitute for the conventional microfinance business.
This article analyzes literary works as well as the statistical perspective of the conventional microfinance industry and the Islamic microfinance industry. It also explores some prevalent models and products of the Islamic microfinance industry in the world in general and in Pakistan specifically.
Finally, this paper presents a sketch of the suggested business model for sustainable development and financial inclusion of all low-income groups of the Pakistani society.

Keywords: Microfinance, Financial Inclusion, Islamic Microfinance, Poverty, Pakistan

1. Introduction
The financial industry is as old as human’s commercial activities. In the 1970s, to address the issues related to the prohibition of usury in different religions, Islamic Financial Institution as first Islamic bank began to enter the banking

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industry of the world. Both the conventional banking system as well as the Islamic banking system (which forbids usury) caters only for the rich sector of society through their commercial services and banking products.

A large portion of the overall population of the world in general and the Muslim world in particular is living lower than the poverty line. On average, as per the latest statistics, in 2013, 10.7 percent of the world's population below US$1.90 a day, paralleled to 12.4 percent in 2012. That is lower than 35 percent in 1990 (World Bank, 2016). Seven wealthy people in the world possess more finances than the GDP of 41 oppressed countries in the world. This equals the gross income of 567 million people. Only in the Islamic world, which contains more than 1.2 billion people out stretched from Senegal to Philippines, the rate of poverty is sky-high excluding few states of Southeast Asia and the Middle East. Out of more than 1.2 billion Muslims, 470 million are at the lower most level of poverty and earning less than $2 each day. This is the situation in heavily populous Muslim countries like Pakistan, Bangladesh, Indonesia, and India(Akhter, Nadeem, & Jafri, 2011).

The major reasons for such worrying poverty levels are extraordinary illiteracy rate, deliberation of capital in fewer hands, interest-based financial systems, and defilement of human rights. In addition, the banking industry actually had not provided reasonable and reachable loan scheme to the poor sectors of the societies because they offer such services only to the entrepreneurs and businessmen in routine. This is the case with more than fifty Muslim countries and numerous other countries where Muslims are living worldwide (Obaidullah, 2008).

Eighty percent of the population of the globe has no entrance to commercial services due to extra ordinary costs of financing, excessive processing costs, a system of securities, and profit maximization (Obaidullah, 2008).

The "microfinance" industry comes into the picture to help the neglected sectors of the societies by offering their services and products. Microfinance de notes making small loans accessible to the deprived people (particularly those customarily and financially omitted from commercial services) with planned packages especially to meet their specific necessities and conditions(Akhter et al., 2011).

Microfinance, the term is called as identical with microcredit generally for the reason that the notion in progress as financing loan and credit facility to the deprived. On the other hand, the range of microfinance is even additional than loan or credit only because microfinance comprises commercial services for example micro-credit, micro-equity, micro-savings, micro-transfers, micro-insurance, micro-entrepreneur, and micro-investment etc.(Milana & Ashta, 2012).

2. Literature Review

2.1 Similarities and Dissimilarities among Conventional and Islamic Microfinance:

There are many commonalities in both types of microfinance. Equally, they are of claim, to contribute the virtuous for the public as a whole. Both claim backing entrepreneurship so that the deprived should take part in commercial events. Both claim to give emphasis on progressive and communal objectives. Both claim to establish financial inclusion. Both focus on the participation of the deprived. On the other hand, there are some dissimilarities between the two such as financing for parsimoniously dynamic, extraordinary costs of financing, excessive processing costs, a system of securities and profit maximization(Obadullah, 2008).

Following table sums up the potential dissimilarities in features and aims among the conventional microfinance and Islamic microfinance (Abd-el-Kader, I. B., & Salem, A. B., 2013).

Dissimilarities in Conventional Microfinance and Islamic Mcrofinance

Heads	**CMF**	**IMF**
Liabilities (Source of Fund)	External Funds, Client's Saving	External Funds, Saving of Customers, Islamic Sources of Charity
Asset (Funding Method)	*Riba* Based	*Shari'ah* Compliant Instrument

Funding the Deprived	Underprivileged are left out	Needy can be involved by incorporating in microfinance
Funds Transfer	Money Provided	Assets Transferred
Deduction at beginning of Contract	At Inception, Deduction of Funds	No deduction at inception
Target Group	Females	Group or Family
Purpose of Focusing Females	Enablement of Females	Comfort of Accessibility
Credit's Liability (financed to females)	Beneficiary	Beneficiary and Next of kin
Motivation for Employees	Financial	Financial and Spiritual
Social Growth Program	Materialistic developmental, moral and communal growth	Spiritual(consist of conduct, morals and communal)
Addressing the Nonpayment	Cluster/Focused stress and warning	Cluster/Epicenter /Next of kin Security and Islamic Code of conduct
Roles and processes	Foundedon totally synthetic doctrines	Grounded on *Sharia'h* doctrines
Percentage of usury	Guaranteed fixed rates of interest	Encourages sharing of risk among supplier of investment and
Revenue (Profit)	Targets at exploiting profit devoid of limitations	Targets at profit maximization but according to *Sharia'h* limitations

Correlation	Correlation of Creditor-Debtor	Correlation of associates, financiers and merchants, purchaser or retailer
Standard of interchange	No commodity rather cash is a mediocre of interchange	Asset-based financing, based on product trading & services

2.3 Islamic Modes of Financing in Prevailing Islamic Microfinance Models

Following are the Islamic modes of financing which are in operations by prevailing Islamic Microfinance Organizations in Pakistan and around the globe;

- ***Musawamah***
  CWCD retails through the model of retail outlet. It aims at Pakistan's countryside portions through selling grocery stuff to consumers on *Musawamah* (Muhammad, 2010).

- ***Murabaha***
  Arrangement of selling merchandises at the cost basis along with pre-agreed profit ration (Khaled, 2011). The margin of profit is navigable. The reimbursement has been made in portions. This type is in use for the financing of short-term (Najeeb Jamal, 2013).

- ***Musharakah***
  In this, more than one provider of capital and all investors put in variable percentage in lieu of profit-loss sharing with respect to their contribution of investment. For microfinance, the best appropriate method of *Musharakahh* is diminishing partnership concept or *Musharakahh Mutanaqisah* (Rahman, 2010).

- ***Mudarabah***
  Microfinance program and the microenterprise participate in such a way that the program contributes to the capital and the microenterprise participates in labor. The profit-loss is distributed with respect to a pre-decided ratio (Ahmad, 2002).

- ***Muzarah***
  This is principally a *Mudarabah* agreement in agriculture whereas the bank contributes to land or capital for a share of the fruitage in return (Aasmaan & Azhar, 2013).

- ***Salam***
  The mechanism of selling and purchasing goods through order positioned along with definite rations and complete cash payment in early payment. Bai Salam and Bai Salaf are alike to a forward contract (Chowdhry, 2006).

- ***Istisna***
  In this contract, acquirement of the stuff by description or order, in which price is remunerated gradually in harmony according to the evolution of a work accomplishment. This is very frequently used for home financing (Schumann & Johnston, 2009).

- ***Qardul Hassan***
  In the literal sense, it is a "benevolent loan", an interest-free credit handed over in virtuous faith to destitute. On these loans, there is no usury and extra charge might be indicted is money compulsory for managerial/processing costs (Chowdhry, 2006).

- ***Wakalah***
  Wakalah based model is used by numerous companies of Islamic insurance (*Takaful* companies). This model has the prospect to develop a substitute arrangement for Islamic financial institutions to deal with the mechanisms of Islamic microfinance and alleviate its natural peril (Khan, 2008).

3. Research Methodology

Qualitative research method has been adopted by the researcher. Method of qualitative research is interrelated for gathering facts about the phenomenon, happenings and things occurred or existing recently (Sandeloski, 2016). The researcher chose this method to collect, describe, and analyze the recent studies on doctrine, values, and economic advancement. Researcher used this method to get related data from vulnerable books on doctrine values, religious values, social values and economic growth, development and advancement, research studies of past, articles from obtainable resources comprising research periodicals, virtual libraries and publications from diverse websites.

4. Conventional-Islamic Microfinance Industry in Pakistan

In the year 2017, there was development and growth in key sector indicators as per the up-to-date numbers released by the sector's association, the Pakistan Microfinance Network (PMN).The borrowing side has picked up significantly in the first six months of 2017. In June 2017, active debtors reached to the number of 5.2 million– an increase of 14 percent since December 2016. Augmented Gross loan portfolio is about Rs171 billion, increased by 25 percent from Rs137 billion. The size of the average loan stood at Rs44863, increased from 41663 in December 2016. Statistics issued by Pakistan Microfinance Network (PMN), on the front of the savings, the number of savers has surged to 25.2 million as of June 2017, increased by 9 percent from December 2016 level. There is higher growth in saving deposits, which have grown some 22 percent since end of December 2016 to Rs148 billion in the end of June 2017. That reflects in a higher average savings balance, which reached Rs5852 in 2017(PMN Review, 2017).

According to Pakistan Microfinance Network (PMN), the micro-insurance segment is not behind when it comes to growth. The number of policy holders has grown to 6.3 million as of June 2017, up 8 percent from December 2016. The sum insured has climbed to Rs168 billion, 12 percent higher compared to December 2016.

Progressively, microfinance is increasing its saturation from corner to corner in Pakistan. For its latest Micro Watch issue, the PMN accumulated data that has been reported from 39 Microfinance Providers (MFPs) – 11 microfinance banks, 12 microfinance institutions, 4 rural support programs, and 12 social sector organizations that deliver microfinance as a portion of a multi-dimensional service offering(PMN Review, 2017).

Besides, as of June 2017, the MFPs have extended microfinance exposure to 106 districts in Pakistan. The infiltration rate of microfinance is stated by PMN at roughly 25 percent, on the basis of an estimated possible market size of 20.5 million according to data released by the (PMN Review, 2017).
The MFPs have augmented the dynamic debtors among 2011 and 2016, and in the year 2017 as well the calculation is becoming larger. There are strategies to

double the coverage by 2020. So still, a lot of work should be done. The target market is still very enormous, and seemingly developing. A loan-book of over Rs400 billion is required to oblige 10 million micro debtors. In other words, equity must range at least Rs40 billion(PMN Review, 2017).

To serve the credit demand of 10 million borrowers, the MFPs need to disburse additional Rs220 billion over existing loan-book size. The recent launch of the Pakistan Microfinance Investment Company-PMIC, which is Pakistan Poverty Alleviation Fund-PPAF spin-off that is also funded by donors, can be instrumental in bridging that gap. But it likely will not be enough. Commercial banks will need to play a role, too. Perhaps the central bank can nudge them in the direction of creating micro financing opportunities (PMN Review, 2017). Summing up, 82% of the population of Pakistan is presently is unbanked, the magnitude of the prospective microfinance marketplace is expected to be around 30 million. These 30 million individuals are not only bankable, but also make less than Rs25, 000 a month(PMN Review, 2017).

5. Denunciation on Pakistan's Prevalent Models of Islamic Microfinance Organizations

Numerous deficiencies exist in the prevailing Islamic microfinance organizations. As a result, this has contributed towards the slow pace of growth of Islamic microfinance industry in comparison with conventional microfinance industry.

The subsequent are deficiencies of the prevalent Islamic microfinance organizations:
Methods of "women-only" and “Muslims-only”, time-wasting processing, extraordinary financing costs, extra processing costs, multifaceted tough systems of securities, approaches of “specific area” or “specific country”, limited or particular process of financing, methods of giver reliant and donations, restricted products range, undersized fabricated welfare capability, in effectual operative competence of business models, nonexistence of formation of microfinance branchless banking, deficiency of financial sustainability and practicality, less-productive management of risks, abandoned constituent of Islamic banking, lethargic and slow functioning of Islamic microfinance network in Pakistan in comparison with conventional microfinance network of Pakistan, below standard business expansion sustenance, massive size of conventional MFIs as compared to Islamic MFIs and so on (Rahman & Dean, 2013).

6. The Proposed Islamic Microfinance Business Model-PIMBM for Microfinance Providers- MFPs

6.1 *Zakat/Sadqat* Based Model

Islam strappingly inspires do nations from the contributor's viewpoint; it pursues to lessen dependency on donations from the recipient's view point and confines the remunerations of the stream to the deprived, to lowliest and the destitute, which are not in a situation to produce any earning and capital.

In order to understand Zakat/Sadqat based model, there is famous Hadith (Sunan Abu Dawood, Kitab al-Zakah, Book 9, Number 1637) which not only give emphasis to it but also validates how to project and implement a scheme of poverty mitigation with the help of financial enablement.

A person from *Ansaar* community approached to the Prophet (Peace Be upon Him) and begged from him. The Prophet (Peace Be upon Him) asked whether he had anything in his house or not? He answered that a wooden vessel for drinking water and cloth for wearing, or spreading on the ground. The Prophet (Peace Be upon Him) said that take along them to me. Then, the man took these objects to the Prophet (Peace Be upon Him) and the Prophet (Peace Be upon Him) took them in his hands and questioned the assemblage of companions that who will purchase these? A fellow said: I shall purchase them with a dirham. He (Peace Be upon Him) questioned two or three times: Who will deal with more than one dirham? Another man said: I shall purchase them for two dirhams. The Prophet (Peace Be upon Him) passed these to him and took the two dirhams and, delivering them to the man of the *Ansaar*, He (Peace Be upon Him) said: Purchase foodstuff with one dirham and provide to your family, and purchase an axe and take it to me. He then took it to him. The Prophet (Peace Be upon Him) fixed a handle on it with his own hands and said: Go, collect logs and sell it, and do not let me see you for a fortnight. The man went away and collected firewood and traded it. When he had earned ten dirhams, he approached him and bought clothing with some of them and foodstuff with the others. The Prophet (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 crushing poverty, one who is completely in debt, or one who is answerable for reimbursement and discovers it problematic to pay (Beekun, 2005).
The constituents of this Hadith can be perceived to put emphasis on the succeeding essential circumstances of an effective Microfinance program:

- **Admittance of the Deprived Ones to the Package**
  The Prophet (peace be upon him) was the spiritual as well as the political frontrunner of the Muslims and he was available to the underprivileged and the destitute at all times for spiritual, monetary, and economic support of individuals.

- **Vigilant Valuation of the Economic Health of the Deprived; Investigation Combined with Responsiveness; Persistence on Involvement and Recipient Stake**
  Numerous unsuccessful microfinance programs owe their let down to the scanty estimation of the customer's monetarist condition. Establishment of microfinance is not meant for somebody in need of communal security grids resultant in the capitals being spent away as a replacement being invested. The deprived come in incongruent classifications with variable requirements of consumption and fruitful investment and risk of negligence and failure to pay. Microfinance programs containing undiscriminating finance of the underprivileged, such as most government-managed ones are intended to fail. This is one of the foundations of microfinance "finest rehearses" that emphasize the government should have no role in the direct or indirect delivery of monetarist services and its role should be limited to providing a supportive and facilitating environs. Persistence on recipient stake is no doubt, a method to diminish ethical vulnerability and develop effectiveness.

- **Conversion of Belongings of the Recipient into Income-generating ones from Side to Side Rigorous Estimation (Based on Price Discovery from End to End Public Sale Process); Participation of Public in the Practice**
  Frequently the poor has high-market-value belongings, such as, property in a prime city site deprived of being capable to originate revenue or advantage from the asset. While possession of property ensures to deliver them with a safe guard in contrast to unpredicted difficulties, this is an inefficient and careless process of insurance. It is required here a method to convert the fruitless asset into a fruitful one that could produce income. The original asset is not misplaced but converted into an income-generating one. The rate at which the original asset calculated must be

reasonable and should not take the form of a subsequent suffering sale of harm of price to the supplier. Present-day finance theoreticians find the public sale system to be the most proficient method of detection of the essential rate or the reasonable worth. The participation of the larger public in the poverty alleviation program is also extremely appropriate for the accomplishment of the program. For various existing prosperous MFIs, the accurate approach is to encompass grass-root NGOs in the procedure.

- **Meeting of Basic Necessities on Urgent Basis and Investment of the Additional in a Fruitful Asset**
  Once again this emphasizes the necessity to take into account the consumption necessities of the customers before imagining them to generate capital. The understanding of the need for a public well-being and to tie the similar to microfinance at a later stage has come only freshly in the microfinance industry.

- **Direct Participation of the Program in Capacity Building in the Run-Up to Revenue Creation and Procedural Support to the Recipient; Assurance of Topmost Administration of the Program**
  This portion of the Hadith exhibits a distinctive form of assurance and participation on the part of the Prophet (peace be upon him) in the program of poverty mitigation. The participation could not be more straight and the assurance purer.

- **Procedural Support in the form of Communicating Mandatory Training to the Recipient for Carrying out the Business Plan/ income-generating Project; Observing from Side to Side Time-bound Timetable and Effect Valuation from End to End Feedback Mechanism**
  The requirement to create an operative relationship among economic support and methodological support is highlighted amongst microfinance specialists as not ever earlier. Also, the prominence of effect valuation can hardly be over underscored.

- **Translucent Book Keeping of Operative Consequences and Freedom to use Part of Revenue to Meet Higher Necessities**

Limpidity through careful book-keeping and appropriate documentation is an essential prerequisite of commercial dealings in the Islamic context. Such as the Holy Quran emphasizes: "O ye who believe! When you deal with each other, in transactions involving future obligations in a fixed period of time, reduce them to writing" and "Let a scribe write down faithfully as between the parties"(Al-Baqara-2:282).

The importance and implication of this verse are often not completely understood. Certainly, the absence of appropriate records and bookkeeping by recipients is the most important challenge threatening microfinance. Suitable bookkeeping and precise dimension of consequences of processes or earnings is a pre-requisite for profit distribution based mechanisms. They are no less significant for loaning procedures.

- **Resilient Dissuasion to Pursuing Donations**
  Financial enablement is the fundamental word that rules out reliance on charity, which is allowed only for the deprived and those overloaded with a debit or other responsibilities with no means of the imbursement in sight (Obaidullah, 2008).

Summing up, *Zakat*-based portion would only be applied in exceptional cases. MFPs should implement the policy to finance small businesses either in the shape of cash or sellable products from *Zakat* resources. The effort of Sadqat is in accordance with the true spirit of *Fi sabeelillah* and essence of *Mawakhat of Madina* and teachings of the Qur'an and Hadith.

6.2 Equity Based Financing and Commercial Model

Islamic finance experts have argued that equity-based financing's provision of by Islamic financial institutions will facilitate toward achieving social justice, economic growth, efficiency, and stability. Diminishing *Musharkah*, for example, is an equity-based financing instrument, is better than debt-based financing because of its flexibility and end result in the ownership of assets on the part of the customer. So diminishing *Musharkah* as an innovative mode of financing and should be a preferred instrument of financing by Islamic microfinance institutions.

Under this model, MFP should offer its products but not limited to the mode of diminishing *Musharkah.*

6.3 Further Financing Modes of Proposed Islamic Microfinance Business Model-PIMBM

The utmost appropriate kind of *Musharakah* for micro-financing might be the model of diminishing partnership or diminishing *Musharakah* (Rahman, 2010) but *Murabaha, Ijarah Muntahiya Bittmalik, Salam, Istisna and Mudarbah* and Takaful as micro *takaful* can also be opted for.

6.4 Collateral and Security Phenomenon

In Pakistan, in existing models of Micro Financing Institutions, the tools utilized for risk mitigation are usually Personal Guarantee, Cheques of future dates, Jewels, Mortgage, *Mosque* Reference and Principle of Lending to a Group or family. The same can be opted for with case- to-case dealing in the proposed model.

6.5 Proposed Islamic Microfinance Business Model-PIMBMs Risk Management Strategy

Proposed Islamic Microfinance Business Model-PIMBM intends to interact and introduce novel notions. All applications from all over the country would be received through union council offices without any fee of processing. These would then be examined and attested antiunion council level. Flawless security would be provided by one of the above guarantees. Thus there is an extremely small chance of operational risks. Hence, the operational efficiency in Proposed Islamic Microfinance Business Model-PIMBM is up to its optimum level.

As far as recovery management and credit risks are concerned, union council bodies should guarantee and attest each and every application and then pass it on to MFPs so that finally the funds or products would be released.

6.6 Product Line

We can observe that prevailing models of microfinance provide a limited range of products but Proposed Islamic Microfinance Business Model-PIMBM would provide customized products varying by case-to-case and from customer-to-customer.

6.7 Branchless and Interest-free Mobile Banking

MFP Finance model by default would operate on an interest-free mobile banking and branchless banking principle. Easy paisa shops, mobile banking and business involved in interest-free installment systems would reduce the costs of establishments of branches of MFPs.

6.8 Diminishing *Musharakahh*

In Islamic commercial jurisprudence, *Musharakah h*is being distributed in to *Shirkat ul Milk* and *Shirkat ul Aqd. Shirkat ul Milk* e.g. partnership by mutual proprietorship has dual structures namely *Ikhtiari* e.g. non-compulsory where the affiliation among the partners originates into presence at their own preference. The subsequent is *Ghair Ikhtiari* e.g. compulsory where the association arises into presence repeatedly deprived of any struggle. Where as, *Shirkat ul Aqd* e.g. is *shirkat* by agreement originates into presence with a joint deal (Akhter et al., 2011).

6.9 Three Major Steps in Diminishing *Musharakahh* Contract of PIMBM as the Major Mode of Finance:

- Joint ownership between MFPs and customer
- Lessee or Customer uses the share of MFPs
- Redemption of MFP's Shares by the client and reimbursement of rents

Diminishing *Musharakah* (DM) therefore, is a rent payment based method. It is usually considered for the acquisition of immovable assets, by way of sharing the sum paid for the asset. So the consumer demands MFPs to buy an asset on a division basis whereby the customer and MFPs pay for the acquisition of the asset. Then the customer settles for procurement the part of the ownership of MFPs. The usufruct or right to use is assigned to the customer, while the ownership of the asset remains to both the customer and MFPs in percentage to the sum funded by every party for the acquisition of the asset.

As merely one party, that is, the customer is consuming the asset, MFP has the right to claim rent payment for the share retained by MFP and used by the customer. In addition, the customer buys the portion of ownership detained by MFP on the once-a-month payment basis. With the reduction of the ownership proportion of MFP by payments from the customer, the amount of rent to be paid by the customer to MFP also declines and ultimately the asset is completely possessed by the customer and the possession of MFP terminates to exist.

6.10 Inclusive Strategy of Proposed Islamic Microfinance Business Model-PIMBM for Microfinance Providers- MFPs

The Islamic way of Economics, Business and Finance is for the people of all faiths. MFP should give priority to the neglected segment of society and to the followers of every religion and of every region.

7. The Achievable level

"I strongly believe that we can create a poverty-free world if we want to in that kind of world, the only place you can see poverty is in the museum."

These words said by Muhammad Yunas, who is the inventor of the Grameen Bank and "father of microfinance." The Grameen Bank, founded in 1983, by attaining 98% reimbursement rates from deprived in Bangladesh, he presented to the world that the poor can have access to financial services and established a trend in the international development community. Why not we?

8. Conclusion

The government, the individuals, the welfare organizations, and the microfinance providers should join hands together for achieving the uppermost level of financial inclusion, economic sustainability, poverty alleviation, and shared prosperity. If conventional microfinance in Bangladesh can bring a remarkable change, Islamic microfinance can also be a catalyst for the social development in Pakistan. This model not only contains the divine tool of Zakat for poverty reduction of community but also utilizes diminishing musharakah method for commercial viability.

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