

Islamic microfinance: A success story from Pakistan

Poverty is a challenging and complex problem as it leads to hunger, poor health, a lack of quality education and a lack of peace. Important global institutions like the IMF, World Bank, Asian Development Bank, the IsDB, UN Development Programme, and central banks are trying their best to control poverty. Until 2019, the global poverty level was declining but due to COVID-19, it is expected to rise this year. Financial institutions and governments always look for a suitable financial model that can reduce poverty and bring prosperity but the financial crisis of 2007-08 taught the world a lesson: there is a dire need for a risk-sharing financial system, which brought Islamic finance into the limelight. This article is based on an interview by DR IRUM SABA with the senior management of Pakistan's NRSP Microfinance Bank (NRSP).



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The State Bank of Pakistan (SBP) has played a significant role in setting up Pakistan's Islamic microfinance industry by providing guidelines along with a legal and regulatory framework for Islamic microfinance. At present, there are about three Islamic microfinance institutions in Pakistan, and NRSP is the first Shariah compliant microlending and deposit taking products provider that secured a license from the SBP in December 2016 to provide Islamic microfinance services.

NRSP launched its microfinance bank in 2011 whereas the Islamic microfinance pilot project of the State Bank of Pakistan (SBP) was launched in 2014 to promote Islamic microfinance in Pakistan. NRSP has an Islamic microfinance window and to execute the experiment of Islamic microfinance solution, a spending plan of PKR500 million (US\$3.12 million) was provided to launch Islamic banking.

Most clients of Islamic microfinance institutions in Pakistan are financially excluded individuals who had not taken up financial services from any conventional financial institutions due to the involvement of interest. Hence, it has become evident that Islamic microfinance is an effective way to expand financial inclusion in Pakistan especially in the rural areas where people want to receive financial help only from Islamic financial service providers.

Opportunities for small-scale entrepreneurs have been created to assist them in establishing and growing their business. Through Islamic microfinance,

the people of Pakistan can afford better housing, education, and supply of more nutritious food. This is a major step to break the cycle of poverty.

Asan Mudarabah is a saving account based on the Mudarabah mode of finance without the conditions of minimum funds and monthly or quarterly dividend payments. The framework behind the NRSP Current Account is Qard-E-Hasan. The underlying Islamic mode of NRSP Islamic Certificate, a term-deposit with three months to five years tenure, is a profit-and-loss-sharing deposit on a Mudarabah basis.

Mukamal Mudarabah is another deposit product where the periodicity of profit distribution is monthly/quarterly/half-yearly. The deposit base of the NRSP Islamic Microfinance division is around PKR2.33 billion (US\$14.53 million).

The Ijarah mode of financing is developed mostly for leasing of agriculture equipment, motorcycles, auto rickshaws, and cars as well as mechanized farming.

NRSP's Fori Makan is a financing facility for the construction, renovation, and purchase of houses. The underlying mode of finance is diminishing Musharakah because it permits share ownership and sharing of profit in a proportionate manner.

The framework of Shariah compliance review and internal Shariah audit is sufficiently sound to guarantee that any income acknowledged from sources or disallowed by the Shariah would be credited into charity accounts and are by and large appropriately used.

The bank's Islamic microfinance products are based on Ijarah and diminishing Musharakah. In the case of Ijarah, the institution buys the asset and then leases it to the client. The important point is that the customer is not appointed as an agent

Table 1: Growth of NRSP Microfinance Bank's Islamic banking business (2016-19)

Year	2016	2017	2018	2019
Number of branches	1	10	26	40
Number of active customers	6,771	16,656	15,504	21,385

Source: NRSP Microfinance Bank Annual Report 2019

to buy the asset from the market. The institution buys it directly from the market and then leases it to the client. Some Shariah scholars do not appreciate the concept of appointing the client as an agent for the purchase of the asset therefore these institutions buy the assets.

In achieving the UN Sustainable Development Goals, Islamic microfinance institutions focus to reduce poverty by providing financial solutions to the lower class. Once the lower class climbs out of the clutches of poverty then there will be no hunger and the customers can have access to quality education and better health services. Financings are provided specially for green projects to make sure the Pakistan community get affordable clean energy and water as well as better infrastructure.

Islamic microfinance seems to have noticeably contributed to maximizing social benefits in Pakistan, especially by using asset-based transactions, risk-sharing models, and rigorous checks and balances to prevent unethical/non-Shariah compliant practices.

There is a huge potential for Islamic microfinance in Pakistan and with the commitment of the Islamic microfinance institutions, the sector can grow tremendously not only from the business point of view but also from the perspective of attainment of Maqasid al Shariah. (2)