



## International Conference on Islamic Microfinance Conference 13th June, 2011 at Islamabad - Pakistan



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icrofinance is considered to be a panacea against poverty. It is being used to fight out poverty in each country and region with different

demographics. Many regions have tailor made Microfinance programs to suit their own needs, culture and requirements especially in countries with large Muslim population. Microfinance is the inclusive financial system, which is the only way to reach large numbers of poor and low-income people. To get there 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.





## About Islamic Microfinance

The global Muslim population is now over 1.82 billion spread over all the six continents but the majority regions are North Africa, Sub-Saharan Africa, the Middle East, Central Asia, South Asia, and Southeast Asia. There are approximately 1100 Million poor people in these countries earning less than \$2 a day. While poverty in Muslim world is widespread as the access to financial services is either inadequate or exclusive. This can be gauged from poverty statistics vs. Microfinance clients and those using other banking facilities. One of the reasons is religious belief keeping people away from interest bearing financial institutions. Moreover existing Muslim borrowers of MFI,s do still have a preference for Islamic Microfinance products. They are banking with conventional MFI's as no Islamic alternative is available to them. Here arises need to set up specialized institutions to cater microfinance needs of Muslims. Islamic Microfinance is the provision of financial services to the poor subject to certain conditions laid down by "Islamic Jurisprudence" or "Shariah". Islamic microfinance represents the confluence of two rapidly growing industries: microfinance and Islamic finance. It has the potential to not only respond to unmet demand but also to combine the Islamic social principle of caring for the less fortunate with microfinance's power to provide financial access to the poor. Unlocking this potential could be the key to providing financial access to millions of Muslim poor who currently reject microfinance products that do not comply with Islamic law. Islamic microfinance is still in its infancy, and business models are just emerging like Mubaha (Sale Contract), Musharakah (Equity Participation), Mudaraba (Partnership), Ijara (Lease Financing), Bay Muajjal (sale on Credit or deferred payment sale), Bay Salam (Deferred Delivery Sale) etc.

Islamic finance refers to a system of finance based on Islamic law (commonly referred to as Shariah). Islamic financial principles are premised on the general principle of providing for the welfare of the population by prohibiting practices considered unfair or exploitative. The most widely known characteristic of the Islamic financial system is the strict prohibition on giving or receiving any fixed, predetermined rate of return on financial transactions. This ban on interest, agreed upon by a majority of Islamic scholars, is derived from two fundamental Shariah precepts:

Islamic Microfinance has the potential to expand access to finance to unprecedented levels throughout the Muslim world. The supply of Islamic microfinance is very

concentrated in a few countries, with the top three countries (Indonesia, Bangladesh, and Afghanistan) accounting for 80 percent of global outreach. Nevertheless, demand for Islamic microfinance products is strong. Surveys in Jordan, Algeria, and Syria, for example, revealed that 2040 percent of respondents cite religious reasons for not accessing conventional microloans.

## Need for Islamic Microfinance Awareness

The global Islamic finance industry is growing rapidly over the past 36 years; the industry has witnessed the development of over 500 Sharia-compliant institutions, spanning 75 countries. These institutions include 292 banks (fully Islamic institutions and those institutions with Islamic subsidiaries), 115 Islamic investment banks and finance companies, and 118 insurance companies. Today, the industry's total assets are estimated at US\$500.5 billion. Since 2006, nearly 80 Islamic financial institutions have been newly established or are being created. The 100 largest wholly Shariah compliant banks have posted an annual asset growth rate of 27 percent, outpacing the 19 percent growth rate of their conventional counterparts. Demand for Sharia-compliant investment portfolio management is increasingly being met by Islamic investment funds, which include private equity funds and approximately 250 Sharia-compliant mutual funds, with assets under management valued in 2006 at US\$16 billion. The Islamic bonds (sukuks)6 market is also growing since Malaysia's pioneering issuance of sukuks in 2001. The size of the sukuk market in 2007 was estimated at US\$47 billion, compared with US\$10 billion in 2005 (AME Info 2008). The Islamic insurance market remains in its formative stage of development, with an estimated US\$5 billion in premiums held in 2007 against a global insurance turnover of US\$3.7 trillion.



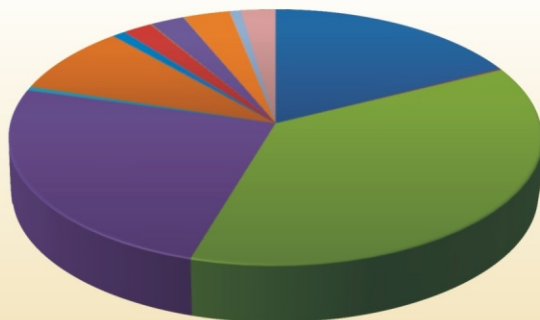


## OUTREACH OF ISLAMIC

## 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	1,640
Jordan	1	80	1,481	1,619,909	1,094
Lebanon	1	50	26,000	22,500,000	865
Mali	1	12	2,812	22,500,000	97
Pakistan	1	12	6,069	746,904	123
West Bank and Gaza	1	100	132	145,485	1,102
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	704
Syria	1	45	2,298	1,838,047	800
Yemen	3	58	7,031	840,240	146
<b>TOTAL</b>	<b>126</b>	<b>59</b>	<b>302,303</b>	<b>197,891,882</b>	<b>541</b>

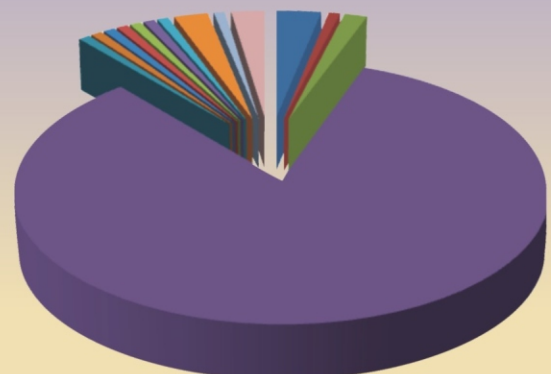
## ISLAMIC MICROFINANCE CLIENTS WORLDWIDE



- Afghanistan
- Bahrain
- Bangladesh
- Indonesia
- Jordan
- Lebanon
- Mali
- Pakistan
- West Bank and Gaza
- Saudi Arabia
- Somalia
- Sudan
- Syria
- Yemen

## TOTAL # OF ISLAMIC MICROFINANCE INSTITUTIONS WORLDWIDE

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## 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	1	2,298	1	1,838,047	<1	800
NGO	14	125,793	42	41,421,580	21	303
Rural Bank 1,640	105	74,698	25	122,475,158	62	1,640
NBFI	3	4,293	1	1,893,207	<1	595
Commercial Bank	2	87,569	29	29,030,997	15	305
<b>TOTAL</b>	<b>126</b>	<b>305,237</b>	<b>100</b>	<b>198,090,268</b>	<b>100</b>	<b>629</b>

### Islamic Microfinance in Pakistan

Islamic microfinance differs from commercial microfinance. Islamic microfinance requires that lenders not be enriched by their possession of wealth. If a microfinance enterprise is Islamic it does not profit from others' labor. There are no investors or paid managers. Accordingly, an Islamic microfinance association avoids the major pitfall to commercial microfinance: capture by profit seekers and abandonment of an anti-poverty mission.

The State Bank of Pakistan, which already has a legal and regulatory framework in place for conventional MFIs, also developed guidelines in 2007 for the rapid

expansion of Islamic microfinance. The guidelines stipulate four types of institutional arrangements for offering Islamic microfinance: via

- (i) the creation of Islamic microfinance banks
- (ii) Islamic banks
- (iii) conventional banks and
- (iv) conventional microfinance banks

The guidelines set forth requirements regarding licensing, appointment of Sharia advisers to rule on Sharia compliance, and segregation of Islamic product funds (and related documentation) by banks and MFIs that offer both conventional and Shariah compliant products.

### Microfinance Sector- Present Outreach and Potential in Pakistan

Type of Institutions	No. of Active Borrowers (Dec 2006)	Loan Portfolio Rs. Millions (June 06)
MFBs	371,073	2,736
Rural Support Programs	336,393	2,616
MFIs	202,401	1,142
NGOs	68,795	422
Commercial Institutions	12,861	279
<b>TOTAL</b>	<b>991,523</b>	<b>7,195</b>

## A Detailed Report on

**Objectives of this conference:** International Conference on Islamic Microfinance was held on June 13, 2011 at Faisal Mosque Auditorium, Islamabad with the aim of spreading updated knowledge on Islamic Microfinance to the stakeholders of this industry. Over the course of the conference, more than Six hundred participants utilized the opportunity to get an awareness about the widespread industry of Islamic microfinance from highly learned and experienced professionals and experts from all over the globe. The focused key features of this conference were:

- Promoting the Awareness of Islamic Microfinance among the masses including Govt. and Non Government Sector and Multilateral Donor agencies
- Recognizing Islamic Microfinance as sustainable system worldwide
- Promote Qarz-e-Hasan and Waqf Concept in Islamic Microfinance Sector
- Recognized Pakistan as World leader in Islamic Microfinance industry
- Gaining update on global practices on Islamic microfinance
- To entrepreneur support in order to respond to the industry's specific needs
- Creating more favorable environment for Islamic Microfinance at national and international level
- Fetching knowledge on the importance of sustainability with the objective of social performance
- Discussing Islamic microfinance as a social phenomenon instead of business oriented model

### **Benefits gained from the Conference:**

- Awareness of Islamic Microfinance system as sustainable and only solution for poverty alleviation
- Buildup the recognition of Islamic Microfinance system, for the encouragement of Practitioner/MFI's/ Donor agencies/ Govt. Institution
- A platform to start a dialog with multilateral donor organizations and Govt. Agencies
- Bringing the consideration of Islamic Microfinance to National and International donor community
- Providing innovative knowledge of the various aspects of Islamic microfinance
- Providing opportunities for collaborations/partnerships with donor agencies, Islamic banks and Islamic Microfinance Institutions
- Ensuring continued growth of Islamic Microfinance Institutes

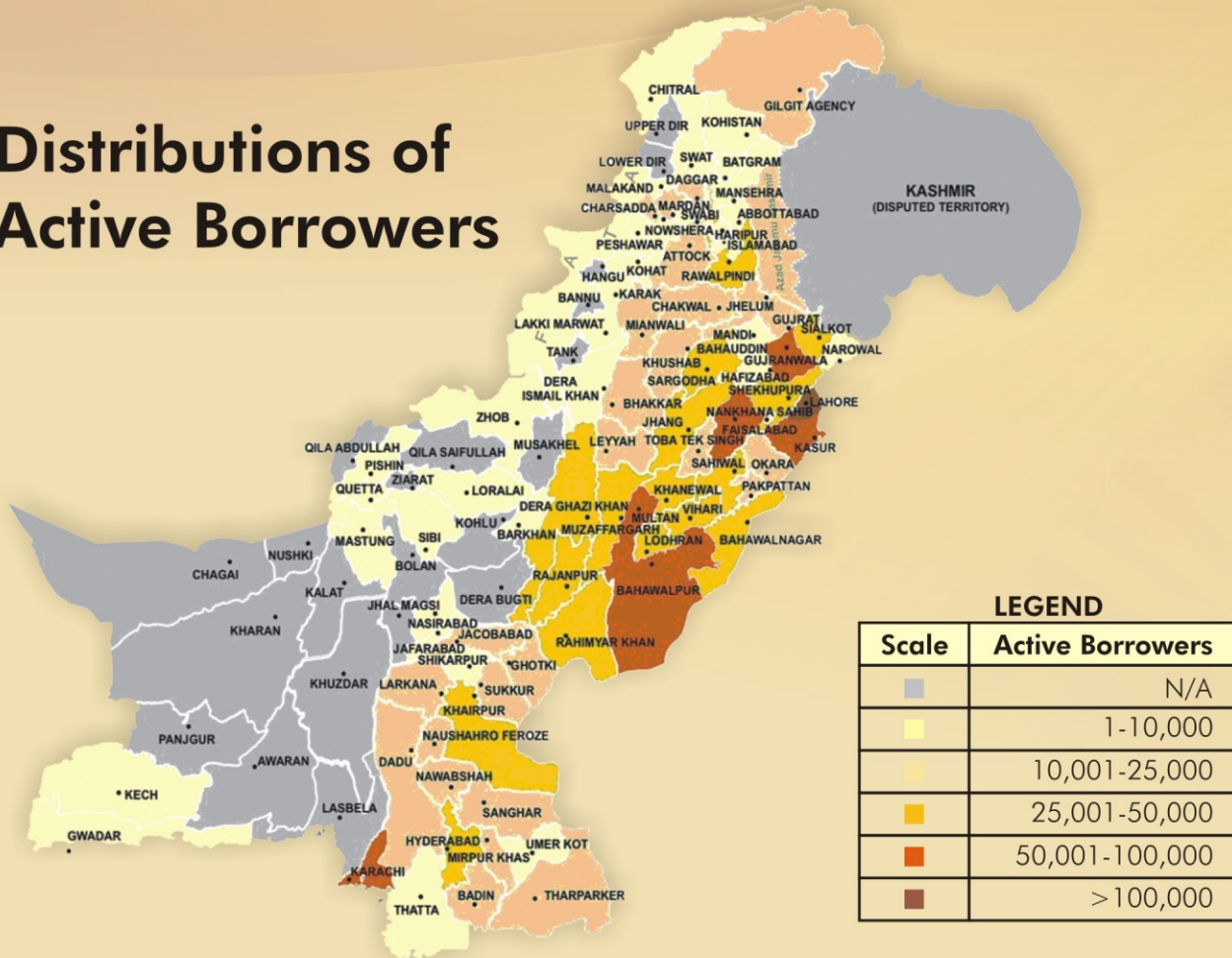
Right after the inauguration ceremony of International Conference on Islamic Microfinance held on June 13, 2011 at Faisal Auditorium, Islamabad, official proceedings were initiated in the main hall. Before that Dr. Amjad Saqib, Executive Director AKHUWAT was called on stage to deliver the welcome note to the audience. Mr. Akhtar Raza, Chief Manager State Bank of Pakistan was asked to come on the stage to inaugurate



the sessions as the Excellency guest of honor. Justice Khalil ur Rehman, Head of Shariah Supervisory Board Munich Re Re-Takaful, Malaysia, Shariah Advisor AlBaraka Bank graced the podium as the chief guest. Mr. Syed Mohsin Ahmed, Chief Executive Officer, Pakistan Microfinance Network, Mr. Christopher Candland, Associate Professor, Department of Political Science and Director, South Asia Studies Program, Wellesley College, U.S.A, Dr. Shabbir Hussain, Managing Director, Helping Hand for Relief and Development (HHRD), Pakistan, Mrs. Farida Tariq, Chief Executive Officer, CWCD Pakistan were the speakers called to proceed the first session of the conference with Justice Khalil ur Rehman, Head of Shariah Supervisory



# Distributions of Active Borrowers



\* Geographical boundaries for new districts demarcated in 2004-06 have not been made available by Survey of Pakistan. The following districts are therefore, not shown on the map: Sehwan Sharif, Jamshoro (Dadu); Matyari, Tando Allahyar, Tando Muhammad Khan (Hyderabad); Shedadkot (Larkana); Mingora (Swat); Sherani (Zhob)

Board Munich Re Re-Takaful Malaysia, Shariah Advisor - AlBaraka Bank Limited as the session chairman. Mr. Syed Mohsin Ahmed, Chief Executive Officer, Pakistan Microfinance Network gave the "Overview of Microfinance/ Islamic Microfinance Industry in Pakistan". He presented Financial Exclusion, the Opportunity and Challenges of Islamic microfinance. He gave the solutions to overcome various challenges in Islamic

microfinance industry by focusing on Institutional strengthening, Legal framework for MFIs, Partnership between SBP, PPAF and PMN can address policy issues and thinking out side the box (BB, the missing middle, deposit mobilization, synergies /partnerships) etc. The topic of Mr. Christopher Candland, Associate Professor, Department of Political Science and Director, South Asia Studies Program, Wellesley College, U.S.A





was “Investor Capture of Commercial Microfinance and Lessons for Proponents of Islamic Microfinance.” He said that major finding of research on commercial microfinance is that the growth of microfinance has far outstripped its effective alleviation of poverty. The research indicates that ideological the orientations of proponents, the endurance of popular myths (i.e., widely believed but inaccurate claims), the authority of insider researchers, the financial and extra-financial profit-maximizing power of investors, and the activation of extra-economic social coercion drives the growth of microfinance. Dr. Shabbir Hussain Managing Director, Helping Hand for Relief and Development (HHRD) Pakistan spoke on the topic of “Islamic Microfinance: An Outreach Analysis in Global Perspective”. While addressing to the audience, he said that IMFIs have some distinguishing features for example Sources of Funds Other than external sources, can also use funds from zakah, awqaf, and other forms of charities, Use of funds (Mode of Financing), Sale based and hiring modes (murabahah, salam, ijarah), Profit-sharing modes (Musharakah and mudarabah, Amount transferred to the poorest and Islamic modes are sale based, the price of the asset is paid. Mrs. Farida Tariq, Chief Executive Officer, CWCD Pakistan highlighted the Challenges of Islamic Microfinance. She said the audience that the awareness about the modes of Islamic Finance is much needed in general public, government departments and equally in courts of law.

In session II, Mr. Athar Azim Khan, Professor, Faculty of Commerce, University of Central Punjab Lahore, Khawaja Zakauddin,, President - Khud Kifalat Rozgar Trust, Former President, Sialkot Chamber of Commerce and Industry, Syed Qaiser Ali, Founder and President of Akhuwat Sindh, Dr Amjad Saqib, Executive Director, Akhuwat presented their papers on various topics. Mr.

Athar Azim Khan, Professor, Faculty of Commerce from University of Central Punjab Lahore gave his presentation on “Akhuwat: Redefining Microfinance” Giving the general perception of islamic microfinance he said that microfinance is considered a viable proposition to alleviate poverty Internationally but its sustainability is related to high interest rates. It is said that for those poor people who have entrepreneurial skills but they do not have access to finance can come out of poverty by using microfinance but microfinance should be provided to them at a very high financial cost considering that micro businesses are more profitable than other commercial businesses. The argument in favor of high financial cost is the importance of sustainability of Microfinance Institutions, which is related to high costs charged to the poor borrowers. It is said that many of micro credit borrowers fail in their businesses and lose their money. This results into high percentage of bad debts, which again needs to be covered by the high financial cost. Further, it is said that the experience of the world has proven that providing subsidized microfinance to poor does not work. Massive defaults are made and microfinance funds eradicate stopping the whole process. Experiences of providing lost cost microfinance to poor people have failed. This has resulted into making of such policies by fund providers, which require lending at high rates and pushing the poor to their limit. Akhuwat model is not less than a miracle as Ahuwat has proven all the existing viewpoints regarding microfinance wrong.

Malcolm Harper says that many wrongs written in his book 'What is wrong about Microfinance' are corrected by Akhuwat. Akhuwat has proven that poor borrowers are more trustworthy than the rich and it has achieved a phenomenal rate of recovery i.e. more than 99%. Some of the important attributes of Akhuwat model are absolutely opposite the general practices of the world.



Akhuwat has not only implemented this model but has seen a phenomenal growth in a short span of time. Akhuwat is also replicated this model with the help of local community.

It is also a common criticism on microfinance that loans are given for new businesses but are used for something else, hence the whole philosophy of providing microfinance to alleviate poverty eliminates. Although, Akhuwat also provides microfinance for other purposes such as rebuilding of houses or shops, repayment of extremely expensive loans etc., but majority of the loans of Akhuwat are to start a new micro business. This does not only ensure increase in the income of poor people but also makes repayment possible in most effective manner. The Theory of Communal Viability as the Akhuwat model is based on community participation. Those who have money pay, those who need money borrow, those who do not have money but want to participate work as volunteers, use that place for the purpose which belongs to the whole community.

Mr. Khawaja Zakauddin, President - Khud Kifalat Rozgar Trust, Former President, Sialkot Chamber of Commerce and Industry shed light on "Philanthropy and Big Businesses; Linking Microfinance with the Business Community". He told that under the Umbrella of Sialkot Chamber of Commerce, the business community of Sialkot is doing remarkable work towards development of the city and welfare of the people through self help basis culture. The business community especially the exporters of Sialkot have initiated and completed projects of public welfare and common interests such as Sialkot Dry Port Trust, Sialkot City Package, Sialkot International Airport, Child Labour Elimination Programme in Soccer Ball Industry, Sialkot Export Processing Zone, Quality Certification Programme, Sialkot Business and Commerce Centre, Sialkot Industrial Development

Centre, Sialkot Tanneries Zone, Khud Kifalat Rozgar Trust. Khud Kafalat Rozgar Trust, Sialkot is the brain child of Sialkot Chamber. Dr. Khurram Anwar Khawaja floated the idea in the year 2008. It gained strength from AKHUWAT and was registered on 30th June, 2010 under Societies Registration Act 1860. Akhuwat also provided practical Training and I must thank Dr. Amjad Saqib, Executive Director Akhuwat and his team for providing us operational guidance to run the Trust since its inception. The Trust provides Qarz-e-Hasna to the deserving persons without discrimination of color, caste and gender enabling them to become self employed by starting or enhancing their small businesses. Dr. Amjad Saqib answered the questions of the audience. Mr. Athar Azim Khan, Professor, Faculty of Commerce from University of Central Punjab Lahore concluded the session.

The focus points of the panel discussion were the experience of Islamic Microfinance in MISFA Afghanistan, the strategy of Shore Bank for the strengthening and Developing Islamic Microfinance sector in Pakistan and Globally, the potential of Islamic Microfinance Institutions in Pakistan, how Islamic Microfinance be utilized for Disaster management & Relief Activities, sources of Funding for Islamic Microfinance Institutions is a big issue for the development of Islamic Microfinance sector, opinion and suggestion, NRSP had a wonderful experience of Islamic microfinance in KPK, the plan to replicate it in other part of the country, especially in NRSP Bank, the potential of Islamic Microfinance in Rural Support Programs, the role of donors in reducing poverty through Islamic microfinance, Assasah recently launched Islamic Microfinance operations in Kasur, the experience of Islamic Microfinance, the opportunities and challenges of Islamic Microfinance Industry, Islamic Microfinance potential in Azad Jammu and Kashmir. Mr. Ahmed





Alzamzami Cooperation With Arab Donors CAD, Program Coordinator Microfinance, Deutsche Gesellschaft für, Internationale Zusammenarbeit (GIZ) GmbH Yemen, Mr. Fadlullah Wilmot, Country Director Islamic Relief Pakistan, Ms. Shandana Khan, CEO Rural Support Program Network (RSPN), Mr. Khobaib A Vahedy, Country Head Muslim Aid, Mr. Waqas ul Hasan, Private and Financial Sector Development Advisor, UK's Department for International Development Islamabad, Mrs. Tabinda Jaffery, CEO ASASAH, Mr. Agha Ali Javad, General Manager National Rural Support Program (NRSP) participated in the panel discussion as the panellists while Mr. Azeem Iqbal Pirani, Regional Head Pakistan, FWU AG was the moderator of the panel and Qazi Abdul Samad, Shariah Advisor - The Bank of Khyber concluded the discussion being the session chairman.

In the technical session V, Mr. Edige Alpysbay Director, Kazakhstan Zakat Fund, Kazakhstan presented his papers on "Islamic Finance in Kazakhstan and the Zakat Fund", the topic of Mr. Mamode Raffick Nabee Mohamed, Founder/ Secretary, Al Barakah Multi-purpose Co-operative Society Limited, Mauritius" was Islamic Microfinance through Cooperatives" while Mr. Capt. Jamil Akhtar Khan, Managing Director, The Universal Insurance Co. Limited presented his papers on " MicroTakaful (An Islamic solution in Micrce Insurance, Mr. Qamar Iqbal, Director, Institute of Research & Social Development- Pakistan spoke on Islamic Microfinance for Flood Relief Activities. At the end of the conference Mr. Amjad Saqib gave the Practical Approach of Akhuwat's Qarz-e-Hasna Model though disbursement of Qarz-e-Hasna at Faisal Mosque. Mr. Zubair Mughal, Chief Executive Officer, AlHuda Centre of Islamic Banking and Economics, while delivering the ending remarks said that it is the need of the hour to promote the awareness of islamic microfinance among the community as it is rapidly growing market and since Pakistan is a developing country and has come across various natural disasters and adverse poverty plague. Every second person is spending his life less than the standard poverty line. As Pakistan is a fastly growing market in the filed of Islamic banking and finance, it is very important to recognize the flair of Pakistan in this sector as well.

Two Days Post Event Training Workshop on Fundamentals of Islamic Microfinance and Marketing Strategies was held at Margala Hotel, Islamabad on 14 June, 2011. On the first day of the training workshop, Mr. Qazi Abdul Samad, Shariah Advisor - The Bank of Khyber, Pakistan gave his presentation on Fundamentals of Islamic Microfinance and Introduction of Islamic Microfinance and Mr. Hamad Rasool Bhullar gave the lecture on the Introduction to Islamic Microfinance Finance. While on the second day of the workshop Mr. Hamad Bhullar, Mr.

Christopher Candland, Mr. Jassim Sheikh, Islamic Relief delivered their lectures to the participants. Certificates were distributed to the participants at the end of the workshop.

However, the conference was a huge success. It was organized in association with AKHUWAT. The



participants from every wake of life took interest in attending the event to enhance the knowledge of Islamic microfinance as the rapidly growing industry. The participants from Microfinance Institutions & Banks, Local and International Donor's Agencies, Rural Support Programs, NGOs and NPOs, Islamic and conventional Banks, Insurance and Takaful Companies, SMEs Sectors, Microfinance Professionals and Experts, Philanthropist and Investor, Regulators and Govt. Officials , Shariah Scholars and Experts, Presidents of Banks Conventional, Islamic and Microfinance, Donors, NGOs, Banks, Financial Institutions, Funders, Lecturers and many others marked the event as a success in the history of organized events on Islamic microfinance. The conference opened the doors for the donors, borrowers and others to identify Pakistan as the hub of the industrial growth.

