THE IMPACT OF COVID-19 ON THE ISLAMIC MICRO FINANCING EDUCATIONAL INSTITUTIONS IN PAKISTAN AND POVERTY

Myra Imran Rafiq
Research Student,
Lahore School of Economics,
Punjab, Pakistan
Email: myraimran64@gmail.com

Muhammad Ahmed
Research Student,
Lahore School of Economics,
Punjab, Pakistan
Email: ch.m.ahmed99@gmail.com

ABSTRACT
Islamic Microfinancing Institutions (IMFI) are diverse mechanisms to empower the poor. Its implementation becomes all the more crucial in today's age and day, where the world, two years later, continues to free itself from the grip of the pandemic: COVID-19. Healthcare systems throughout Pakistan have been impacted, but the poverty level of the poor has exponentially risen. The poverty rate increased by 40%, whereas many secondary and tertiary sectors too faced the wrath of the virus, which led to a staggering decline in the country's G.D.P. by 4.8%, as per a report issued by the World Bank. By the end of this research, the objective is to discover and implement relief packages that are Shariah-compliant poverty reduction solutions and aid in compensating for the losses which COVID-19 led to. The study's findings hope to contribute toward a sustainable, better future for the IMFIs, and the positive effect they can have in alleviating poverty within the country (KPMG, 2020).

KEYWORDS
COVID-19, Islamic Microfinance, Poverty, Shariah compliance.

INTRODUCTION
The outbreak, which elicited from Wuhan, China (Nishiura et al., 2020), led to a state of public emergency being declared throughout the world. In Pakistan, on February 26 2020, the country's Federal Minister confirmed two cases, and eventually, as the situation exacerbated, lockdowns were imposed as protective measures. But, the most damage that such measures had was not on the elite but rather on the poor segment of

our society, one who was already facing the tyranny of poverty. Living standards decreased, and the real G.D.P. per capita too declined greatly; in this scenario, Microfinance institutions come as a vital tool that aids the poorer segment (Aslam, 2016). However, the brutal reality is that these entities, which fall rigidly in line with Shariah compliance, face a lack of capital, investment, and high costs, making it difficult to proceed with their operations (Aslam, 2014). In general, Microfinancing institutions provide financial services to low-income clients and are inclusive of consumers that are self-employed or working for others but lack access to banking and other related services.

When combined with the Islamic approach, they refer to the idea that in compliance with the Shariah law, such institutions will be able to operate and provide extended services to their vast range of clientele, and therefore become Islamic Microfinancing Institutions instead.. By compliance with Shariah Law the meaning is that their activities are in alignment with the Islamic Law. Microfinancing institutes are becoming a vital part of the state. Their role in reducing poverty is recognized throughout the world; they are an asset that has so far made positively affected the lives of many poverty-stricken individuals out there (Knack, 2020). The concept of I.M.F. is strongly in alignment with Islamic principles and is therefore deemed a socially responsible way of investment.

The ideology revolving around these Shariah-compliant entities is that they want to make people self-reliant – this becomes possible when credit is provided without collateral. The poor are not marginalized in society due to the fear of defaulting on their loans. This creates a productive cycle where the poor are empowered, poverty reduction strategies are put in place, and economic development becomes a reality. The following then give birth to improved financial systems, which consider the poor and include them in the bigger picture by making them feel like a part of the community rather than disenfranchised. However, while the possibility of reform does exist, it is to be noted that conventional Microfinancing systems do not take into account the needs of the majority of the population residing within Pakistan. Some of them charge interest, and this, from an Islamic point of view, is seen to be repugnant – this then refrains many from seeking help from such enterprises in the first place. This is precisely why the research paper aims to investigate the impact of the Islamic Microfinance on poverty and to what degree it can benefit the community.

LITERATURE REVIEW

Riba is an Arabic word for usury which implies charging high interests on loans, by banks and financial institutions, to its clients (the borrowers) for exactly the time frame they used that service (Iqbal, 2003). Islamic economic principles strongly prohibit and discourage Riba as the Quran mentions, “O believers! Be mindful of ALLAH and give up what remains of Al-Riba, if you are believers. If you do not obey this order, then ALLAH declares war against you from him, and his Prophet peace is upon him, but if you give up your interest, you can claim your principal amount. Neither should you impose harm (Due to interest), nor other should harm you". The Prophet (PBUH) included usury in one of the seven major sins **"**Stay away from seven mortal sins: Idolatry with Allah, engaging in occult magic, killing a soul that Allah has sanctified except for a just cause, consuming usury, usurping the property of an orphan, fleeing the battlefield, and accusing chaste but unwary believing women."

Islamic micro-finance is an essential component in poverty alleviation strategies. Conventional microfinance products may have successfully dealt with issues in Muslim counties. Still, it does not mean that their services entertain the needs of all Muslim customers. Foundations like Akhuwat use Islamic practices of interest-free loans and are subsequently serving as a vital source of eliminating poverty. Microfinance institutions have the power to ease the burden on the poor financially and when combined with Islamic concepts and teachings like "community" and "caring," can help out millions (Akhtar et al., 2009). The IMFIs are becoming much more popular among the new generation of Muslims. Observations showed how the financed clients are earning more than $3 per day now, have their children admitted to schools, and enjoy better living standards. Questionnaires from these clients suggested that microfinancing played an important part in increasing their income, ethics, awareness levels, and satisfaction (Aslam, 2014).

It is no surprise that the clients of these Islamic Microfinance institutes see a substantial rise in their household incomes and living standards. Moreover, increased asset holding was also observed amongst the clients. A specific area was observed for poverty, under the F.G.T. poverty measurement methods, before and after taking loans from IMFI's. Unsurprisingly, the results showed significant alleviation of poverty in the area (Mahmood, 2015). Security and Exchange Commission of Pakistan (SECP) and State Bank (S.B.P.) have been keen to provide relief packages and assistance to the Islamic M.F.I.s. To calm the effects of COVID-19, SECP allowed M.F.I.s to defer or reschedule payments, increased the deferment period by three months and permitted the IMFIs to accept client requests via SMS, emails, and calls. In 2020, under COVID-19, the S.B.P. also revised its four prudential regulations of 2014 for the IMFIs. One of these includes allowing clients to reschedule or grant deferment (by a year) if they are not able to service the markup amount (Aslam, 2016). Undoubtedly, COVID-19 has had an almost unrecoverable effect on world economies and financial institutes. Among these stands the IMFIs. The Islamic Microfinance sector saw a doubling of its customers from 2014 to 2019, increasing from 2.8 million to 7.3 million. However, the pandemic has reversed all of the growth resulting in decreased customers and a fall in the gross portfolio, which earlier increased by 400% from 2014 to 2019 (Aslam, 2016).

Our government and state services need to provide adequate financial assistance to these institutes to stay operational. These institutes play a vital role in eliminating poverty from our society. For example, in 2011 alone, 1400 MFIs assisted 94 million low-income families worth $87,650 million (Mahmood, 2015). Due to multiple factors, especially the pandemic, the living standards of our people have fallen, and if not for these Islamic microfinance institutes, they may keep losing. Our research aims to assist the poor via these Islamic microfinance institutes, abiding by the Shariah laws and providing a better framework for our society.

Overview of the Microfinance Sector in Pakistan

Microfinance can trace its origins in Pakistan to the 1970s when loans were given out to poor and rural farmers to help them financially (Mahmood, 2015). Then in 2000, The Central Bank produced the Microfinance Ordinance. The Microfinance Ordinance (2000) defines a Microfinance Institution (M.F.I.) as a company that accepts deposits from the public to provide microfinance services. This led to new microfinance banks emerging, such as Akhuwat Islamic Microfinance, Khushhali Bank, NRSP, etc.

There are three segments in the microfinance sector:

1. Microfinance Institutions (MFIs)
2. Microfinance Banks (M.F.B.s)
3. Rural Support Programs (R.S.P.s)

M.F.I.s and R.S.P.s are considered non-bank microfinance companies (NBFCs) because they cannot accept deposits, unlike M.F.B.s. The Securities and Exchange Commission of Pakistan (SECP) regulates NBFCs, whereas the State Bank of Pakistan (S.B.P.) regulates M.F.B.s. There are currently 11 M.F.B.s and 25 NBFCs consisting of 17 M.F.I.s, 4 R.S.P.s, and four other Institutions in the Sector (Pakistan Microfinance Review, 2020). These M.F.B.s and NBFCs cater their services to the poorer and marginalized segments of society (Pakistan Microfinance Review, 2020).

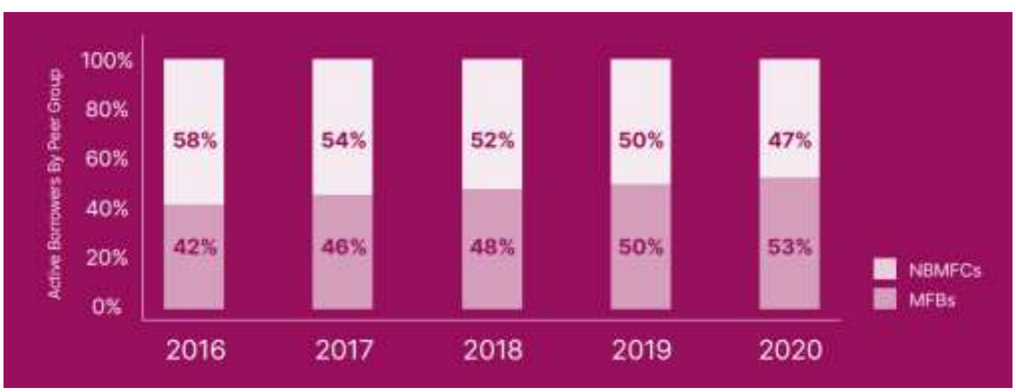

Figure 1*: (Source: Pakistan Microfinance Review, 2020)*

The above graph shows the number of active borrowers in the microfinance sector. In recent years, M.F.B.s have increased their share of borrowers and strengthened their industry position. In Gross Loan Portfolio (G.L.P.), M.F.B.s have a higher market share of 73% compared to 23% for NBFCs (Pakistan Microfinance Review, 2020).

Figure 2: ***(Source: Pakistan Microfinance Review, 2020)***

The above graph shows the outreach indicators for the microfinance industry. There was an increase in Gross Loan Portfolio (G.L.P.) despite the pandemic; however, the number of active borrowers decreased during the same period. But overall, there is still a positive trend showing the industry's growth in recent years. Pakistan is one of the few countries with completely different laws and regulations for M.F.B.s (Mahmood et al., 2017). This allows for microfinance services to be provided to the neglected segments of society through a conducive atmosphere.

The Situation of Poverty within Pakistan due to COVID-19

Poverty refers to the State not having enough resources to meet the basic needs of one's life. The World Bank describes poverty as:

"Being hungry, having no shelter, being sick, and unable to see a doctor, and not being able to access schools and other modes of literacy." ("Economic and Social," n.d.).

General poverty refers to poverty in almost all sectors of the economy. As in the case of Pakistan, 21.0 % population is much poor (Khan, 2011). We will, however, be looking also at absolute poverty, which is when individuals do not have access to the necessities of life. The economic measurement of poverty is the poverty threshold. The poverty threshold, poverty limit, poverty line, or breadline is the minimum level of income deemed adequate in a particular country (Ravallion, 1992).

COVID-19 has had a widespread effect on the socio-economic position of Pakistan, with there being a devastating impact on the increase in the poverty rate. Measures such as lockdowns and slumps in economic activity have affected the livelihood of more than 7.15 million workers and a projected increase of 33.7% in the poverty level (Rasheed et al., 2021). The "Special Survey for Evaluating Socio-Economic Impact of COVID-19 on Wellbeing of People" conducted by the Pakistan Bureau of Statistics (PBS) states that the pandemic has impacted at least half the employed labour force.

In 2020, Pakistan saw a negative growth rate of -0.47% (Finance Division Government of Pakistan, 2021); with an increase in the unemployment rates and overall business slumps, there was an increase in the level of poverty in Pakistan. According to the "Economic Survey of Pakistan 2020", an economic slowdown, rising inflation, and a low pace of job opportunities subsequently impacted the lowest income group earners of Pakistan (Moeen et al., 2021)

The situation in Pakistan's rural areas is different from that in the urban centres, with COVID-19 having a more significant impact on the poverty in rural areas. The rural areas already have a greater poverty incidence with 48 million rural poor persons against 9 million urban poor individuals. Migrant workers in urban areas also faced unemployment. They were unable to send back remittances to their families in rural areas, further increasing the poverty disparity within the country (Finance Division Government of Pakistan, 2021).

Inflation in Pakistan was at the highest level of 13% due to a rise in food, housing, and transport prices. The 13% annual inflation rate is the highest since January 2020, when recorded at 14.6%. ("*CORONAVIRUS - The situation in Pakistan", 2022).* This high inflation coupled with low unemployment and a falling G.D.P. creates a perfect recipe for poverty and a lower standard of living. Therefore, we must come up with solutions to alleviate this poverty.

Traditional VS Islamic Microfinance

Microfinance is a banking service provided to unemployed or low-income individuals or groups who do not have any approach to financial services. The prime purpose of microfinance is to make it possible for the poor to become self-dependent and self-reliant. Therefore, the central idea of Microfinance Institutions (M.F.I.) is to achieve social performance by reducing poverty. Islamic microfinance is acknowledged as an efficient tool for promoting entrepreneurship and facilitating the establishment of small businesses.

Islamic microfinance is a fusion of two fast- principles of caring for the underprivileged and meeting unmet demand with the power of microfinance growing industries, microfinance and Islamic finance. Therefore, it may combine the Islamic social to provide economic access to the poor.

The Islamic financial sector is based on Shariah. One of the famous rules of this system is the strict ban on interest (Riba). Therefore, Islamic microfinance institutions operate as profit-oriental. Like Islamic banks, these institutions can engender profits in three ways which are transactions, leasing, and direct financing to profit and loss sharing (SOAS, n.d.). In Islamic Microfinance, the rules of Shariah are fairly clear and elaborated in defining the nature of who is liable to pay zakat and who can benefit from it. The first and principal category of potential beneficiaries is the poor and the destitute (Obaidullah, 2008); Islamic Microfinance allows the poorest by savings schemes via Wadiah and Mudarabah deposits, money transfers through zakat and sadaqah, and insurance via the takaful concept, which is not in the Traditional Microfinance.

Both are mobilized with external funding and savings, but Islamic charities such as Zakat and Waqf are specific sources of funding/finance for Islamic microfinance. The main feature of Islamic microfinance is about the types of financing that need to eliminate investment interest, while traditional microfinance can accommodate interest-based financing. There is a great potential for Islamic microfinance to leverage social welfare, use zakat to meet basic needs, and enhance the ability of the poor to work harder. Therefore, Islamic microfinance institutions have as many instruments as possible in the forms of Islamic finance to inspect their operations.

The other feature is related to the transfer of funds by microfinance institutions. Traditional microfinance allows financial institutions to provide cash directly to their customers as loans. Islamic financial service providers cannot give some money to their customers as lending is strictly interdicted in Islam. Traditional M.F.I. mainly targets women for their empowerment, but in Islamic M.F.I., their target is the whole family (Ahmed, 2002) in order to make it easy for them to get loans, etc.

In the light of criticisms of the financing process of microfinance institutions, the overall intended impact of traditional microfinance has been questioned (Saad et al., 2013). Among these critics, poor recipients are charged high-interest rates (up to 30%) to make financial profits for these institutions. On the other hand, Islamic microfinance uses Islamic financial instruments based on Profit Loss Sharing schemes rather than a loan. The source of funds for the Traditional M.F.I. is their clients' savings, but Islamic M.F.I. mostly relies on Islamic Charitable Sources.

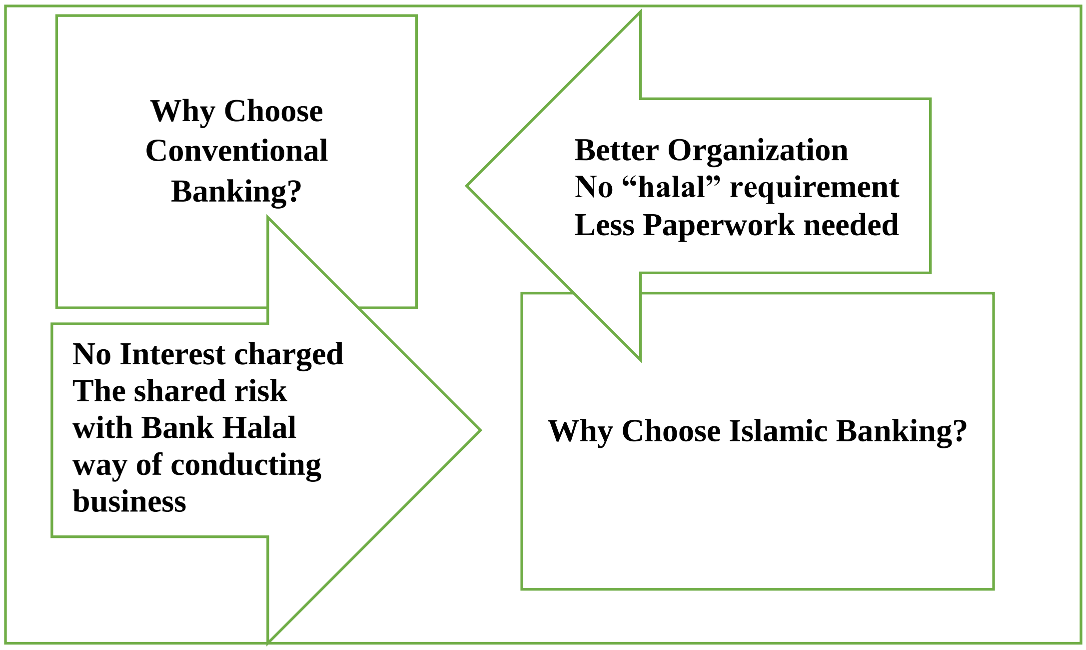

Figure 3: ***Choosing between Conventional and Islamic Banking***

Table 1: ***A Comparison of Traditional M.F.I and Islamic M.F.I***

The table below shows several characteristics that distinguish conventional microfinance from Islamic Microfinance (Ahmed, 2002).

	Traditional M.F.I.	**Islamic M.F.I.**
Source of funding	Clients savings	
Transfer of funds	Cash	Goods are transferred
Target	Women	All family members
Employees incentives	Monetary	Monetary & Religious
Criteria for loan	Interest rate	Profit-loss sharing Interest-free loan Islamic charity
Financing the poor	Poor are left behind	Poor are included through zakat and microfinancing
Modes of Financing	Interest-based	Interest-free

Past methods which have been Ineffective in Catering to Poverty

Pakistan has a Multi-Dimensional Poverty Index (M.P.I.) of 38.3%, making poverty alleviation a major priority. However, there has not been a linear decline in poverty; instead, poverty has fluctuated during the last three decades (Arif, 2012). In this section, an analysis will be conducted of the past methods and why they have failed in alleviating poverty in the country. Pakistan has had many poverty reduction policies, but none have truly succeeded. One primary reason for this is the lack of funding. Currently, poverty reduction programs are only allocated 2% of the national budget (Shaikh, 2020). With widespread poverty throughout the country, this is not enough to alleviate the problem.

The policies in place are not effective either due to policy gaps and poor implementation. Land reforms in the 1970s aimed to distribute land amongst peasants, only catered towards medium farm owners, and were not beneficial to the poorest of the poor as they were left out of the reforms. Pakistan does not have any policies to help rural non-farm workers, which make up about half of the rural workforce (Shaikh, 2020). In the 1990s, the Social Action Program (SAP) was launched to tackle poverty. Although the SAP was provided with adequate funding, it failed to reach its set targets due to poor policy implementation. There is also the case of weak institutions that cannot enforce their laws and programs. Their poor governance leads to inadequate monitoring, evaluation, and fragmentation of programs. Pakistan has also faced terrorism and a deteriorating law and order situation in the past decades. This means that the government has to spend its budget fighting terrorism instead of allocating funds to help the poor.

The Pakistani government has also neglected its social sector, with low budgets for education leading to an overall low literacy rate. Low education levels are linked to poverty (UNESCO, 2017). Along with this, there is no targeted approach to raising the living standards of the poor. Of all the children born in poverty, it is estimated that only 10% will be able to transition out of it (Shaikh 2020). Pakistan's annual population growth rate is 2%. The current weak economy cannot absorb the impact of this ever-growing labour force. This leads to a large chunk of the youth working on low wages and not upward economic mobility.

All of the factors mentioned earlier have led to high poverty rates. Despite the government putting poverty reduction policies in place, they are not enough to alleviate the issue. The neglect of social sector development, rise in political instability, terrorism, mismanagement, and weak economy all play a massive role in hindering poverty reduction efforts.

Some Proven Ways to Reduce Poverty Through Islamic Microfinancing Schemes

A few ways to reduce poverty via the schemes above are through measures such as ZAKAT being one of the pillars of Islam is an obligatory payment made by the rich of the society to ease the sufferings of the poor and needy. It helps limit absolute and relative poverty through the concept of equal income. Healthy circulation of wealth throughout society enhances people's living standards by creating incomes for the poor and needy, homeless, refugees, and migrants. Zakat aided in improving the standard of living of these households when their purchasing power was at the lowest rate due to inflation during the times of COVID-19.

WAQF or endowment is an essential element of the Islamic microfinancing sector. It includes donating a fixed asset, which helps create incomes for those it has been given. This Islamic microfinancing scheme has helped low-income households earn and meet their basic needs of life while protecting themselves from the general and sustained increase in the prices of goods and services during the COVID-19 period. Moreover, Waqf brought an evolution in the households' well-being by empowering the women to participate in creating incomes as many men lost their jobs due to the shutdown of the business activities in COVID.

QARD al-HASAN is a form of loan given for wealth-creating purposes. The borrower only repays the principal amount without any interest or share in the business's profit in which it has been invested. A cash loan is a form of social service that helps those in need of financial assistance create incomes by investing in lawful business schemes. During COVID-19, the unemployment rate rose to 4.65% due to the shutdown of economic activities in Pakistan. These loans encouraged the unemployed youth to set up their businesses, moving the economy towards recovery. The unemployment level begins reducing, further leading to the elimination of poverty from the society.

TAKAFUL, or cooperative insurance, is a mutual system of collecting a pool of funds by which those suffering from loss or mishaps are compensated. Members of the system contribute donations, in terms of cash or assets, to the pool in order to share the liabilities of those bearing the burden of loss. The division of losses and liabilities eliminates the burden on the poor or those just above the poverty line and circulates the responsibilities amongst the Muslim brothers. During COVID-19, a sharp drop in people's incomes and a huge increase in their expenses due to inflation had a disastrous effect on those already suffering from poverty. Takaful insurance schemes helped raise funds for those just above the poverty line to shield them from these unexpected circumstances created by the virus (“Islamic Insurance”, n.d.).

Islamic Microfinance Institutions in Pakistan

Pakistan is home to some exceptional IMFIs. There are currently 14 active microfinance institutes in the country, 6 of whom are Islamic, including Khushhali, Akhuwat, and the National Rural Support Programme (NRSP).

Akhuwat Microfinance Bank

Akhuwat is equipped with more than 800 branches over the country and around 5.1

million beneficiaries. It is a non-profit organization working tirelessly since 2001 to alleviate poverty in our society. Their mission statement reads, "Drawing inspiration from the generosity displayed by the Ansar, Akhuwat believes that if the same approach, where one affluent family embraces a less fortunate one, is adopted today, inequality will be eradicated from the world." The following data from akhuwat.org.pk show their exceptional work as of March 2022:

Progress Report till the month of March 2022

PROGRESS INDICATOR	TOTAL
Total Benefiting Families	5,240,968
Total loans disbursed – Males	3,018,831
Total loans disbursed – Females	2,222,137
Amount Disbursed PKR	164,837,755,026
Percentage Recovery	99.96%
Active Loans	714,866
Outstanding Loan Portfolio PKR	25,694,379,902
Number of Branches	858

Figure 4: ***(Source: Al Akhuwat Economy Review, 2022)***

NRSP Microfinance Bank

NRSP is another example of a remarkable IMFI at work. It commenced its operations in 2011 with a social mission of financially helping the marginalized community. With 150 branches and 316,231 clients, its achievements are compelling. Their specific Islamic banking program offers multiple financial schemes to its customers: NRSP Murabaha & NRSP Sala'm (Agricultural), Fori Makan, and Ijarah (lease contract) ("Islamic Banking", n.d.).

Khushhali Microfinance Bank

Khushhali, the four times Best Microfinance Bank Award winner, is yet another IMFI striving to minimize poverty in Pakistan. Established in 2000, its vision is to be the leading Micro Financer for small firms and low-income households via Islamic practices and Shariah Law.

They have started remarkable projects such as a Skill development program for women in Haripur, Providing clean drinking water to the people of Chiniot, Stitching Training for Women in Sahiwal, Education Support for students of Kot Addu, etc. Their services range from providing particular loans (Khushhali Apna Makkan, Khushhali Pasbaan loan, Khushhali Niswan, etc.) to insurance schemes such as Sehat Khushhali and Khushhali Takaful (Khushhali Microfinance Bank, 2021).

To What Extent Have the Above Entities Been Successful in Their Poverty-Reducing Approaches?

The entities mentioned have attained some success in reducing poverty amid COVID-19.

Khushhali Microfinance Bank

Khushhali bank's main aim is to reduce poverty amongst those whose total income is less than the minimum taxable limit through microfinancing schemes that have been successful during the past few years. Khushhali Bank is a part of Pakistan's Poverty Reduction Strategy and its Microfinance Sector Development Program. Firstly, these programs positively impacted income-generating activities, such as agriculture, animal raising, etc., operated by low-income households. Through microfinance, these households were able to earn high profits, due to a sharp increase in their agricultural sales, by enhancing their agricultural equipment and consuming branded fertilizers. Secondly, the programs also had a special effect on the education and health of the poorest borrowers. Better health aided in reducing the number of absences and increasing the number of labour hours.

On the other hand, higher education enhanced the standard and quality of income-generating activities. Altogether, betterment in health and education contributed to creating more profits leading to a reduction in poverty. Thirdly, these schemes also helped empower women to set up their businesses to contribute to earning the incomes for the households just above the poverty line. In conclusion, Khushhali microfinance bank has successfully reduced poverty through its contributions to income-generating activities and enhancements in the health and education of low-income households (Khushhali Microfinance Bank, 2021).

Mobilink Microfinance Bank

MMBL's main objective is to develop the skills of its clients by offering them free access to the Learning Management System, which consists of video-based business fundamentals and financial literacy content in Urdu, which is accessible through smartphones. MMBL women empowerment program organized in the six major cities of Pakistan successfully trained 300 women borrowers enabling them to contribute to the G.D.P. of the economy by setting up their businesses ("MMBL's female borrowers", n.d.).

These measures were successful in poverty alleviation and prosperity creation in the economy. This program also helped upgrade the minor domains, such as education, health, mentorship, technology, etc., amongst the women, which enhanced the women-led enterprises and reduced poverty. Moreover, MMBL's livestock loan has completely transformed the lives of low-income households in rural areas that own the livestock animals ("Livestock Loan", n.d.). The program taught the households how to enhance dairy production through new advanced methods. This led to an increase in the dairy production of these households, further leading to an increase in their incomes and reducing poverty.

Furthermore, the access to capital provided by the bank along with customized financial literacy training has also successfully contributed to the improvement in the quality and productivity methods of the small-scale businesses leading to increased total revenues and higher profits. So altogether, MMNL has also been successful in reducing poverty through microfinance programs.

NRSP Microfinance Bank

NRSP's Microfinance and Enterprise Development Programme (MEDP) provides services to men and women in rural areas, satisfying farmers' credit and insurance needs through crop and livestock-related loans. These objectives automatically contribute to the poverty alleviation cause. The credit is being provided to generate profit and build assets as the majority of the poor clients are lent so that they can buy advanced agricultural inputs, such as branded seeds and improved machinery, to increase their incomes and reduce poverty.

The enterprise development schemes have also been successful in decreasing poverty by generating high revenues through advanced lift irrigation and land-levelling methods. Moreover, the opportunities provided to enhance incomes of households just above the poverty line, through vocational training and enterprise development training, also had a positive effect on reducing poverty as a lot of borrowers were successful in setting up their businesses. The financial management, business development, natural resource management, and livestock management training were also successful as they aided in improving the quality and standards of these small-scale businesses, making them earn higher profits. The households that received these training pieces were able to pull themselves out of poverty through improvements in their income-generating activities. According to findings, there has been a reduction in poverty from 42.67% to 29.33% due to microfinancing in recent years in Pakistan, and all these measures by NRSP prove that the entity was highly successful in its poverty-reducing approaches by upgrading the skills of poor households and encouraging them to produce more to earn more.

PAK-OMAN Microfinance Bank

The bank offers a range of microcredit and micro-savings products and services and aspires to become an engine of job creation for the underprivileged segments of our society to reduce poverty. Like other microfinancing banks, it provides convenient and straightforward loan schemes to low-income households or households just above the poverty line to encourage them to set up their income-generating sources, which help reduce poverty. Due to these schemes, there has been an approximately 13.34% reduction in poverty in recent years in Pakistan.

The company offers group lending, individual lending, deposits, and vehicle loan products, thereby helping clients with their microfinance needs and encouraging them to set up small-scale businesses. These businesses help reduce the poverty of one household but also aid in creating jobs that further enhance the living standards of low-income groups and reduce poverty. The unemployment rate has reduced to 4.70% in recent years in Pakistan, and these microfinancing schemes have a significant role in creating these jobs. So apparently, along with other microfinancing institutions, Pak-Oman bank has also successfully created jobs and reduced poverty in Pakistan.

Akhuwat Microfinance Bank

Akhuwat has been trying for the past few years to create a poverty-free society by empowering socially and economically marginalized segments of society through interest-free microfinance loans and education. Through Akhuwat Islamic Microfinance (A.I.M.), the bank disbursed over 26.5 billion interest-free loans to the underprivileged and impoverished members of the society, which helped them in setting up their businesses and raised them a better standard of living ("Akhuwat Islamic Microfinance", n.d.).

The program was extremely successful as, according to a report by the Institution for Public Opinion Research, the bank was able to alleviate poverty amongst one million and three hundred thousand families across Pakistan (IPOR, 2016). According to statistical findings, 81.3% of the clients considered themselves poor before the loan and the percentage of poverty reduced to 29.3% after the loan. The programs by the bank, not only aid in increasing the incomes of these households but also made it possible for them to raise their consumption which in turn led to the betterment in the standard of living of the people just above the poverty line. So altogether, Akhuwat has been successful in reducing poverty, especially amongst the special members of the society.

Table 2: ***A success summary of a few Islamic Micro financing Institutions***

Banks	Success Rate
KHUSHHALI MICROFINANCE BANK	✓ KMBL closed a tremendous deposit base of 88,649,714,527, hence securing customers' finances during the COVID-19 pandemic. ✓ 900+ health insurance products sold in less than ten months to curb the effects of Coronavirus ✓ Declined the poverty rate from 42.67 percent to 29.33 percent ✓ The non-poor percentage has increased to 62.72 percent
MOBILINK MICROFINANCE BANK	✓ Female employment rose to 25% in recent years. ✓ Poverty has been reduced by 3.05% due to microcredit programs
NRSP MICROFINANCE BANK	✓ Pakistan Microfinance Network (P.M.N.) of NRSP aided 329,975 poor households. ✓ Advanced agricultural inputs, such as branded seeds and improved machinery, increased incomes ✓ Poverty reduced by 13.34% in recent years in Pakistan.
PAK-OMAN MICROFINANCE BANK	✓ Job creation for the underprivileged segments of society ✓ The employment rate amongst the disabled increased to 3% in Pakistan ✓ Overall unemployment rate reduced to 4.65% in Pakistan
AKHUWAT MICROFINANCE BANK	✓ Benefitted 5,240,968 families ✓ Total disbursed loan 164,837,755,026 ✓ Poverty reduced by 21.6%

What has Pakistan done during COVID-19?

In the wake of the COVID-19 pandemic, the government of Pakistan provided various relief funds to the lowest income groups. A package of Rs 144 billion was approved, under which Rs 12000 were given to12 million low-income families. The Benazir income support program budgetary allocation has also increased from Rs 102 billion in FY2016 to Rs 180 billion in FY2020. Other funds given are discussed in the table below.

Table 3: ***Pakistan's initiatives to alleviate poverty during COVID-19***

Institute	Act
Kafaalat Programme,	Monthly cash stipends of 2000 rupees will be handed out to at least 7.0 million women all over the country living in poverty.
Pakistan Poverty Alleviation Fund	Has successfully disbursed Rs 224.64 billion to its Partner Organizations in 144 districts.
Pakistan Bait-ul-Mal (PBM)	Offers assistance to destitute widows, orphans, and needy persons irrespective of their gender, creed, and religion through its current district-level establishment.
Workers Welfare Fund	During July-March, FY2020 utilized Rs 2,426.31 million on 35,594 scholarship cases while Rs 432.27 million was disbursed as Marriage Grant (@100,000/- which benefitted 4,323 workers' families. W.W.F. has also disbursed Rs 476.00 million as a Death Grant (@500,000/-) to 952 cases of mishaps of workers all over the country

RESEARCH OBJECTIVES

1. To assess the impact of the Islamic Microfinance system in raising the living standards of the poor and consequently eliminating poverty in the low-income segment groups and households residing in Pakistan, especially owing to COVID-19.
2. To shed light on the contribution such systems have in providing financial services to the poor, empowering them, and consequently leading to sustainable development in the economy.
3. Understand the role COVID-19 has had to play in the Microfinancing sector of Pakistan.
4. The suitability of Microfinancing Institutions as viable components in alleviating Pakistan's poverty.
5. To identify a variety of financial and non-financial services the following institutions provide and their compliance with the Shariah Law.
6. Such entities have contributed to empowering the poor and the main target groups they serve.

RESEARCH METHODOLOGY

This paper provides a descriptive analysis of Islamic Microfinancing Institutes and their potential as poverty alleviating tactics. Various articles, Hadiths, books, and papers have been reviewed diligently to prepare this. The paper also sheds light on relevant secondary data collected from existing research papers, websites, and survey reports.

DISCUSSION

How can Islamic Micro-Financing Institutes in Pakistan be made successful?

Islamic Micro Financing Institutes (M.F.I.s) can be made successful in Pakistan by taking a much broader view of the relationship between the M.F.I.s and their clientele than an ordinary lender and a borrower. The poor section of the society that these M.F.I.s are targeting has its own needs and risks, and any strategy of poverty alleviation and human resource development exercised through these institutes should be more holistic and should have at its heart the spirit of enabling this clientele to take control of their economic potential eventually.

This would entail but would not be limited to changes in how financing works. It is helpful to visualize this market in stages: from the very poor who are at the risk of having their basic needs unmet and are consequently unable to be active in the economy through subsequent stages of socio-economic development. Firstly, financing should be done not on the basis of material collateral but on social collateral. Instead of having the requirement of assets as guarantees, these loans should be given through a system of individual guarantors who know these borrowers and trust them to repay the loans.

Following the first financing stage, M.F.I.s should take measures to enable their clients to use these funds to achieve their true potential. This would mean that these projects should be financed in cases where they do not have access to necessities like housing or a clean water supply. At the next stage, they should be provided access to education and vocational training to have the skills required to translate these funds into profitable economic ventures. Furthermore, the M.F.I.s should conduct the assessment and evaluation of their client's business ventures to help them create sustainable businesses and mitigate risks. Another way of ensuring risk minimization and protecting the poor from economic shocks could be joint issuance through micro-takaful. Understandably, providing these services at the level of an individual is cost-prohibitive, ad to counter this problem, M.F.I.s may provide these services at a collective level, such as providing shared machinery and irrigation channels for subsistence farmers in a geographically contiguous zone.

Once after the initial financing and capacity development, these businesses and startups should be provided further opportunities for financing and investment through financial services available to other businesses. M.F.I.s should have the ability to finance the losses and the gaps in returns from these investments from funds such as Zakah and Sadaqah so that they can sustain their financing regimes. This approach means that the M.F.I.s see their clients as mere borrowers and business partners, making their relationship much broader and holistic. If M.F.I.s see themselves as partners and investors in these ventures, there is a much greater chance of these ventures being successful and getting the returns they seek as profiting entities.

RECOMMENDATIONS

The pandemic has strained not only global health systems but has also greatly posed a threat to draining economic resources of their potential and plunging low-income group levels of the society into poverty. The central feature of the economic lives of the poor is greatly governed by a combination of low incomes, volatility, and unpredictability (Morduch, 2021). Coping with such extenuating circumstances is made easier when financial services are at hand, especially those of Islamic Microfinancing Institutions.

The IMFIs should be used for the betterment of the world and in compliance with Sharia law. The problem is that even if this is the case, there are other, more pressing hurdles, such as economic ones, which can make effective implementation of IMFI frameworks difficult to attain success. For this, the country's government is responsible for developing infrastructures such as streets, hospitals, and schools, so that Islamic products such as Waqf, Zakat, etc. As discussed above, it can flourish with minimum hassle.

The challenge is that although the Securities and Exchange Commission of Pakistan does keep a close eye on protecting consumer sovereignty, adequate enforcement is still necessary. IMFI serves the poorer segment of the community. Still, it is ultimately regulation that is the backbone behind deciding who gets what (Javid, 2015) – the greater the regulation, the greater the cost. It is, therefore, the State's responsibility to provide for its marginalized citizens.
Some of the recommendations which we propose are:

- State regulation of IMFIs through the enforcement of the law,
- Development of the State's infrastructure to promote business activity in the region, stimulate economic growth, and
- The investment of capital into the country reduces the chances of default or insolvency.

The pandemic provides an opportunity to promote inclusivity of those segments currently on borderline poverty and facilitate their needs effectively. But, this can be possible solely when there is enough capital investment in Pakistan – more financial investment, along with reducing the risk of default and transaction costs, are all feasible methods. The idea of Islamic Financing is not only to provide lending; rather, it caters to many different streams such as extending savings, simplifying the process of credit approval, and providing standardized financial services. This will be exceptional in meeting the needs of the borrowers, and that too without taking any riba, interest, or fees.

Society benefits, poverty alleviates to a certain extent, and the low-income groups feel included rather than disenfranchised and marginalized. As the Quran says, "And whatever you spend, He will replace it; and He is the best of the providers" (Ch 34:39). Therefore, spend in the way of Allah (S.W.T.) towards the common good, and the rewards will multiply.

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