DEVELOPING ENTREPRENEURSHIP THOROUGH ISLAMIC MICROFINANCE: AN EMPERICAL STUDY ON THE GEAR

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Abstract

Modern economists claim that fostering financing inclusion through microcredit and micro-financial institutions have great potential to improve the well-being of financial marginalized and destitute stratum of society. But, in Pakistan where the majority of the population adheres to Islam as their code of life, many are reluctant to impart the conventional microfinance institutes on the religious grounds. The paper argues that Islamic alternatives can replace interest-based institutions with equity-based products and participatory financing to develop entrepreneural opportunites, social transform, and hence economic development. It highlights the significance and comparative advantages of Islamic finance over conventional and claims that Islamic finance is a holistic, viable and dynamic approach for achieving the greater goals of development. Furthermore, the paper makes an empirical study of the operations of GEAR, an Islamic philanthrophic organization and reveals that Islamic microfinancial institutions can significantly contribute in ability and capacity building of the financial excluded and marginalized peoplethrough their specialized modes of participatory financing.

Key words: Economic Development, Elimination of Poverty and Capacity Building, Islamic Microfinance, Sustainable development.

1. Introduction

A critical element of development strategies has been to stimulate balanced growth with the sole objective to overcome the 'food malnourishment', poverty, lack of income opportunities, and economic disparity, and to create new employments and entrepreneurship to the potentials. There is a strong believe that small scale loans and credits, on favorable and flexible conditions is a road leading to out of poverty. And nowaday, the idea of microfinance is believed to be an effective measure. Study of poverty reduction through Microfinance shows significance impact of microfinance on poverty reduction (Imai, 2008). Hence, governments and policymakers are supporting the financing in 'Micro-Finance Businesses (MFB)'. Microfinance certainly plays an important role in providing safety-net and consumption smoothening empowering the poor and unskilled and providing social benefits towards living in a prosper way (Chowdhury 2009). Hence, microfinance Institution (MFIs) play dynamic role for transforming the economy as well as society and can open many economic and social possibilities such as extending the markets, reducing poverty and fostering economic and business activities.

Financing share in MBF accounts 31% of the total microfinance lending portfolio of micro-financial institutions (Niang and Ahmad 2009). There is small room in the discussion for the microfinance as an effective tool to alleviate the poverty and empowering the poor or financial excluded stratum of the society, and has made notable advances in social and welfare economics, theory of social choice and the study of the poverty. There are approximately over seven thousands (7000) micro-financing institutions worldwide, serving approximately 16 million poor people both in developing and developed world, the total cash turnover of microfinance institutions is around US$ 2.5 billion. The World Bank study shows that approximately seven thousand million human living under the poverty line i.e. their earning is unable to buy their minimum basic requirements. Almost one billion households, the one fifth of the entire world population, live under one dollar per day (Morduch J. 1999). And when we focus on the developing counties of the world the situation is more disappointing and disastrous. Almost half of the population in developing world is living on income less than US$2 per day. What could be the best solution to this cursed situation and misery problem?

Microfinance is a comprehensive term and it refers to the provision and supply of small scale loans, credit, saving accounts, and other financial services like insurance and cooperative to those who do not have access to the conventional financing and banking institutions. As majority of these poor cannot avail the mainstream financial services provided by the conventional banks because of their collateral requirements, microfinance institution tend to provide them money exclusive of these collateral conditions. The objective of microcredit or microfinance institution is to expand the outreach of their operation through the financial inclusion, i.e. banking for the poor.

The term Microfinance Institutions (MFI's) refers to a wide range of organizations dedicated for the provision of small-scale loans, credit and other basic financial services to poor and low-income people, these institution include non-governmental organizations, credit unions, cooperatives, private commercial banks, non-bank financial institutions and State-owned banks.

The trend for providing financial services was patronized by both domestic and the international donor agencies to those who are excluded by the conventional financing institutions. It is observed, almost everywhere in the world, that poor, despite having the entrepreneurship abilities, were financial excluded because of lack of guarantee, collateral and on the ground of many other reasons as well. Traditional financial institutions are reluctant to finance in these poor and destitute hence, these poor remains trapped in poverty trap due to financial exclusion. As the result, these poor remain unable to contribute in economic activities of the society and their siblings too; therefore the proportion of the population living under the poverty line continued to increase. This grief situation resulted in emerging the proposal of small scale lending or micro financing on easy and sympathetic terms to these poor. Therefore, microfinance is an approach to fulfill the financing need of the poor, as a tool for alleviating the poverty.

Meanwhile, sometimes, international donor agencies, instead of using tradition sanctioning modes for developing projects in developing countries, where normally the bigger piece of the pie went to undeserving people, use the NGOs and MFIs to encounter the social and political problems such as, corruption, inefficiency and mismanagement of the officials. In this regard, for empowering the destitute and extreme poor, several schemes and models were initiated at different countries of the world by different institutions. Some of these models such as, the Grameen Model (20MillionUS$ borrowing to Appoximate 8Million People), Banco-sol Progressive Model, and Grameen La Riba Model played significant role in achieving the objective of provision of employment, sustainable development and enlightening the will for better living. These micro financing institutions have founded the human portfolio concept; an applied approach of portfolio theory of finance, where the concept of group lending methodology to be very effective in ensuring high repayment rates (or lower default rate) that eventually enable the lending institution to charge lower interest rate and still become profitable. There are mainly two types of contending perceptive approaches in micro-financing [Fisher, 2002]:

1.1 *The Welfarists*, having the social interest as their focus objective, the primary mission of Welfare perceptive is on poverty alleviation and empowering the poor, especially women. The welfarists centers on the depth strength of financial outreach and social impact, where micro-credit is just a mean to an end, and the focus is on the welfare and wellbeing of the poor. The well-known example of this kind of micro-lending institution and model imitated around the world is Grameen Bank in Bangladesh, where saving/deposit mobilization is not the common feature as it is in other conventional institution, but compulsory saving and collective guarantee as a collateral is the prerequisite to be able to take a loan; and;

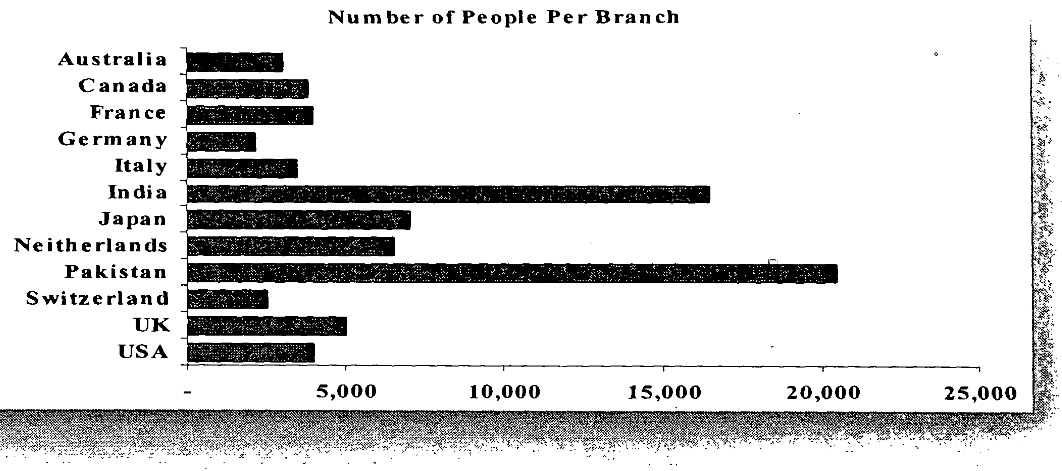
1.2 *The Institutionalists*, having financial interest as their main objective. This prototype extends the financial services to poor while simultaneously achieve financial stability. Experience of these businesses too has proved that poor are creditworthy and in some instances even profitable. Institutionalists focus on extensiveness of financial outreach, saving mobilization and financial sustainability by commercial means. "Bank of Rakyat", Indonesia; "BancoSol" in Bolivia; and "Association for Social Advancement", of Bangladesh are well known examples of these institutional microfinance providers.

Previous studies show that credit or commercial finance to "Active Poor" is more effective than the loan for welfare or wellbeing of the "Bonded Poor". Commercial finance is provided to "creditworthy economically active poor". Creditworthy economically active poor is a talented and potential poor willing to participate in economic activities or to start their own business but are excluded due to lack of collateral and asymmetric information problems or any reasons. Economically active poor are those whose basic needs are satisfied and would like to invest in business venture but don't have the capital. While, "Bonded Poor" or the poor of the poor, is the person whose basic needs are not met and they are held in various forms of labour bondage under which they are not compensated for their work. This bonded labour is a particular type of poverty and is beyond the scope of microfinance; an alternative legislative approach, such as land reform would be a better approach to deal with this type of poverty.

2. Poverty and Financial Sector of Pakistan

Poverty is reported to be highest in the rural area where more than 75% of the population is located. 1990s is regarded as one of the most disturbing period when the poverty trend began to rise. Poverty increased from 26.1% in 1990-91 to 32.1% in 2000-01 (Government of Pakistan, 2003). Banking penetration rate is also very low, only 26 million people having access in banks; the financial penetration in Pakistan is among the lowest in the world, 56% of adult population is finance excluded and another 32% informally served. In conclusion, branch penetration in Pakistan very low as shown in the following Figure.

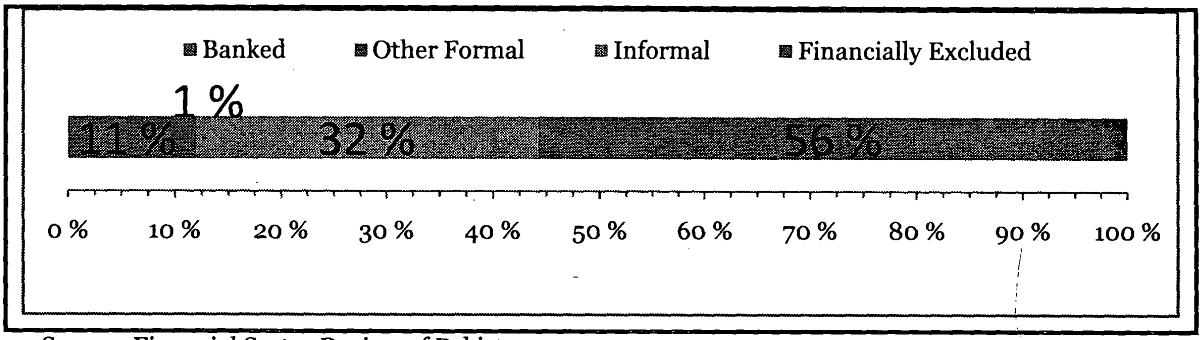
Figure 1: Banking Branch Penetration in Pakistan



Source: Finance Sector review 2009-10

Poor in Pakistan are also destitute of financing through the proper financial institutions. Figure 2 shows the various sources of finance in Pakistan.

Figure 2: Financial Strand of Pakistan

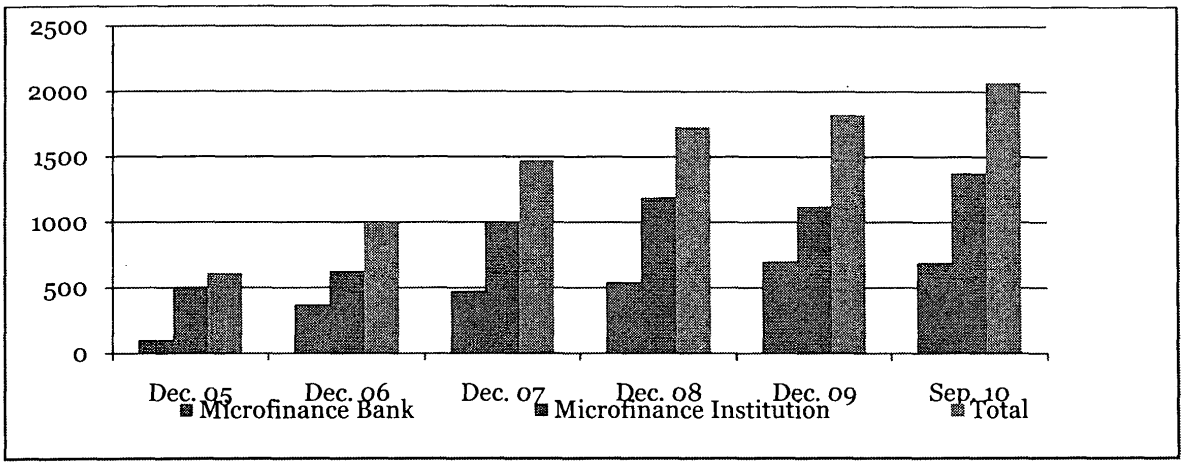


Source: Financial Sector Review of Pakistan 2009-10

3. Present Picture of Microfinance in Pakistan

Albeit decades long history, microfinance won meagre importance until the year 2001, when the Government of Pakistan ratified the Microfinance Institutions Ordinance (MFI Ordinance). Since then, microfinance has witnessed numerous innovations and growth and now it is gradually mainstreaming into the formal banking system. The microfinance sector is constituted of Non-Governmental Organizations (NGOs), Rural Support Programs (RSPs), Microfinance Banks and the informal methods (Ahmed S. N., 2008). In Pakistan, there are eight Microfinance Banks (MFBs) and the working of more than twenty registered Microfinancing Institutions (MFIs) showing the active participation and diversity. Five Microfinance banks, including Khushhali Bank Ltd., NRSP Microfinance Bank Ltd., The First Microfinance Bank Ltd., Pak Oman Microfinance Bank Ltd. and Tameer Microfinance Bank Ltd., disbursed a total of Rs 6.858 billion in July-January 2012, in infrastructure, education, health and skill building of the poor. A substantial sum of this investment is in rural and suburban area where more than 70 percent of the population is living. Both the operations and regulation of MFIs in Pakistan is recognized well and Pakistan has been ranked the global leader in microfinance regulations (The Economist Intelligence Unit (EIU) , 2010). The sector showed an increasing trend and growth of almost 43% in year 2007 and 2008. While, on the deposit side, 72% increase has seen on year on year basis. Microfinance is currently serving roughly 1.8 million of active borrowers, while there are 5 million potential or active poor still un-served. Microfinance is not reached to a majority of active poor and has only been able to tap a small fraction of the potential market. In Pakistan where poverty level is about 35% of total population, it can be revealed that only one out of 30 poor is served and microfinance has yet to make a foremost step forward to reach millions of un-served or underserved peoples who require a diversified approach and wide variety of microfinance products. SBP set out a target of 10 million to be achieved in 2015. Following figure illustrates microfinance sector growth over the recent years:

Figure 3: Outreach of Microfinance in Pakistan (Rupees in Millions)



Source: State Bank of Pakistan 2011

The micro-financing program facilitates the poor and financial excluded in many ways. For example, provision of small scale loans, small scale savings, collective insurance, training, education and facilitation for entrepreneurship, and effective utilization of resources. And above of all, the empowering the financially marginalized strand of the society to graduate from poverty and bounded labour by making them self esteemed and self sustained. There is no doubt that the growth and outreach of microfinance in recent past is outstanding but conventional microfinance, despite having many credits to its account, has also many concerns in a country where majority of the population adheres to Islam. In conventional micro-financing system, the organization lends money to the marginalized individuals on predetermined interest rate. This technique is based on the conventional concept that money is a financial commodity and paying a reward on the use of this commodity is justified. Whereas, in view of Islamic jurists, money is only a means of exchange of services and commodities and charging of interest is unjust, unethical, baseless and prohibited as per Quran and Sunnah. For a Muslim there is problem in conventional micro-financing system because the financing techniques in majority are interest-based. The paper argues that Islamic alternatives can replace interest with equity based products and encourage participatory financing to alleviate poverty, social transform, and economic development. Pakistan's rich expertise and a decades-long experience of Islamic banking and financial practices place it in superior position to adopt microfinance system which has many dimensions for overcoming the challenges of poverty and underdevelopment.

4. Islamic Microfinance

Conventional micro-financing is regarded as of limited scope in Pakistan on the basis of its operation on interest as its benchmark, and the interest charges by the micro-financing institution is higher than the market interest rates. For example, Rosenberg (2002, p. 11) found that microfinance charge high interest rates than the conventional banks. Burki (2006) found that Micro financing institutions charge interest rate around 18-35 % p.a. for commercial loans. There could be many reasons for charging this high rate of interest like: the managing and administrative costs of small loans are not in proportion to the loan, the transaction cost of managing a PKR 3000 loan may be more than PKR 3000, and interest on loan is the main source of micro-financing institution not only to cover the operational cost but also to pay its depositors. On the contrary, Islam prohibits interest of all kinds and promotes risk-sharing or profit and loss sharing financial transactions as interest is normally regarded as the most exploitative element for the poor, who already are destitute of incomes and resources. The financing on predetermined interest rate will push them into a dilemma whether to access to a conventional micro-financing institution for graduating from poverty or not. Obviously an active poor will look for a better alternative where his personal assets are safe from the fear of repossession. This prospect is exactly the sole purpose of present study. Present study introduces a synergy between Islamic finance and microfinance.

Each and every active poor needs a wide range of diversified and proper financial services at a discounted rate. Only a microcredit or microfinance is not always an answer to the need of poor. They need assistance for increasing their income, medical insurance, funds for asset building and reducing their financial liabilities. The marginalized individual or financial destitute who have no sources of earnings or means of repayments need other form of support or will look other kind of support or financing than conventional microfinance. There are different varieties of Islamic financing modes relevant to the nature and the period of project. The core Islamic principle (precisely said as Shariah compliance) behind the financing is that money is not an independent asset in itself, so it cannot earn a return (predetermined rate of interest) on its usage. In Islamic finance, there are many other principles that too are of particular importance, these include:

i. The project, principal activity of the business, for which financing is approved must be ethically as well as socially permissible. There should be no *Haram* activity, socially harmful or sinful, such as production of intoxicating commodity, gambling, and speculation. Furthermore, it is preferred that funds must be used for socially productive activity.
ii. There must be some risk-sharing among the financier and the entrepreneur regarding the project or business venture. Though financial risk must lie solely with the financer. Entrepreneur is not responsible for financial risk; rather he is liable for the success of the business. Predetermined rate of interest is forbidden and all its possible ways. This does not imply that money or capital is free of charge or Islam does not recognize the value of money usage. Rather a return out of the earning of the business is allowed, provided that the project, financed, has earned a positive return other wise, capital is responsible to bear the part of risk.
iii. Islamic *Shariah* impose a condition of *material finality* in each and every financial transaction; the transaction should be resulted to an economic activity in tangible form. Speculation, *Gharar*, or uncertainty is strictly prohibited.
iv. The transactions must be clear to the parties involved and there should be mutual consents obtained before the transaction is made.
v. Islamic *Shariah* does not permit short-selling; one cannot sale what he does not own. Having physical possession or ownership right before selling the commodity is must.

Furthermore, collateral-free loans that is compatible with the needs of potential or active micro-entrepreneur, is another significant point in Islamic financial system. Islamic micro-financing institutions can approve those feasible projects that were refused in conventional micro-financing institutions on the ground of insufficient collateral.

Islamic micro-financing institution, given the important role of financing microenterprises and active poor with the objective to alleviate the poverty and social transform/graduation of poor, can have potentially more varied items of the liabilities and assets accounts of its balance sheet.

Table 1: Microfinance Sector-Present Outreach and Potentional in Pakistan

Type of Institution	No. of Active Borrowers (2012)	Loan Portfolio(PKR Millions)
MFBs	887,176	18,172
Rural Support Programs	534,332	7,070
MFIs	640,015	6,760
Other MFIs	170,916	1,897
Total	2,232,439	14,782

Source: Micro Watch Pakistan 2012

On liability side, in addition to donations and charities from national and international agencies, as similar to conventional banks, Islamic banks get funds from religious institution of Zakat and Waqf and other forms of charities which have the long history since the origin of Islam. The institution of Zakat and Waqf, throughout Islamic history, has been integrated into micro-financing program for effectively improve the economic conditions of absolute poor and to alleviate the poverty. Both of these tools have been used for redistribution of wealth and income among the poor and rich spheres of society. Collections from Zakat and Waqf can be integrated into the micro-financing system to benefit the destitute and can be used for consumption, asset building, and production purpose to complement funds of Islamic MFIs [Ahmed H. , 2002]. And on the asset side of Islamic microfinance institution, as contrast of conventional MFIs, the different types of non-interest bearing financial instruments, as inability of capital for claim for return is important aspect of Islamic finance.

5. Islamic and Conventional Approachs of Financing and Investment

A central theme in Islamic finance is that money has no intrinsic value in itself; money is treated as a medium of exchange, transfer of value and measure and stock of value, as it is regarded in conventional economics. Each and every unit of money is exactly 100% equal in value to another unit of same type of money and the holder of money is not entitled to make an earning by simply handed over the money to another person. This means a Muslim is not allowed to charge earning on his savings/deposits in the banks unless the money is invested in a business venture. This compliance is applicable to Islamic mortgage as well.

The ideal mode of Islamic concept of partnership, which provide an alternative to interest-based modes are Profit and Loss Sharing and investment by holding a share in equity of the project/ business venture. Literally meaning of Mudarbah is to provide financing, as an investor, while remain sleepy in the business activities. The administrative works and management is the exclusive responsibility of working partner or entrepreneur. The investor may invest in form of cash or in form of physical asset, and is entitled to take profit on pre-agreed ratios. The loss of capital has to be bear by the investor solely. Hence, keeping in view the central theme of Islamic finance, the notable differences in characteristics and objectives between Islamic and conventional microfinance are as denoted in table 2.

Islamic banking and finance has more than four decades old history; started in early 1970s and now successfully working in more than 70 countries of the world, having more than US$ 1000 billion as its assets and are meeting the needs of individuals as well as corporate clients both in Islamic and non-Islamic world. But the poverty-focused strategic plan, as used by micro-financing institutions, is relatively new in Islamic banking and finance. As discussed in previous sections, the operational mechanism of microfinance institution goes well with the poor, whose is inability of physical collateral exclude him from financial borrowing from conventional banks, and where group-based micro lending acts as social collateral and lessens the asymmetric requirement problem that exists in financial intermediation, Islamic microfinance institution can regulate the conventional microfinance operations according to the Islamic principles and values.

Table 2: Comparison of Islamic and Conventional Microfinance

Particulars	Islamic Microfinance	Conventional Microfinance
Balance Sheet (Liabilities) Sources of funds	Savings of Clients, Donations, Islamic Charity, Zakat and Saqaha	External Funds
Balance Sheet (Assets) Modes of Finance	Islamic (Profit and Loss Sharing) Financial Instruments	Interest based loan
Financing Outreach	Poor are finance included	Only Active poor are included and the poor of the poor are
Mode of Fund Transfer	Capital or Capital Instruments/ Machinery	Cash is Given/Sanctioned
Interest or any other deduction Subtraction/Deduction at Inception of Contract	No deduction at inception of contract	Interest is deducted
Target People/Stratum of Society	Family/ Individual/ No Bias Discrimination	Women/Biased
Objective of Targeting People	Overall Development/Graduation from Poverty	Targeted/Partial Development
Liability in case of Default/Failure of Business	No threat/Lower Responsibility to Entrepreneur or Borrower	High Threat/Responsibility to Borrower
Incentive for Worker	Ethical and Religious Plus Cash	Monetary

Though the operational mechanism of Islamic and conventional microfinance Institution will be similar, there would be a qualitative difference among them, based on the nature and scope of the micro-financing institution. The main qualitative difference is on the basis of business operations. Conventional micro-financing institutions are working on the basis of interest-based loan, while Islamic micro-financing institutions will work on risk-sharing basis. The following section will elaborate few key points and prospects of Islamic micro-financing institution.

Table 3: Application of Islamic Financial Mode to Microfinance

Mode	**Applicable to**	**Cost of Capital**	**Risk Sharing Formulae**	
			Entrepreneur	Institution
Ijarah	Renting Fixed Assets	Moderate	High	Moderate
Istisna	Do	High	High	High
Istijrar	Operational Liquidity/ Working Capital	Moderate	Moderate	Moderate
Mudarbah/ Musharkah	Investing in form of: Fixed Assets, Working Capital	High	Low	High
Murabahah	Financing in form of: Fixed Assets,	Moderate	High	Moderate

	Working Capital			
Qar-e-hasanah	All type of non-profit projects	Not Applicable	Not Applicable	Not Applicable
Salam	Working capital	High	High	High

6. An Empirical Study on "Generating Employment Alternative for self-Reliance (GEAR)"

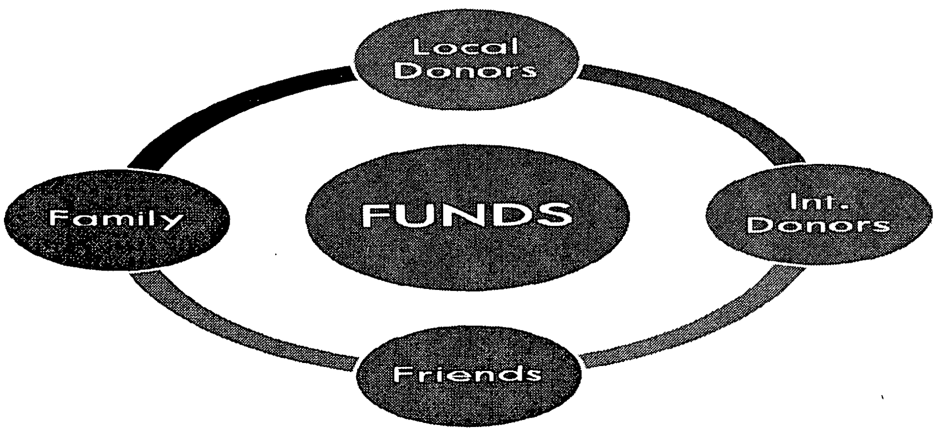
GEAR, is a non-profit and non-government organization. It was founded in 2010 and registered with the local government in 2012 with the core purpose of helping the financially marginalized and deprived people of the society to stand on their own feet through self-employment. It is a self esteemed and philanthropic organization founded by a group consisted of teachers of local universities and employees in private firms in Karachi city. Despite its very short history, GEAR has performed well in provision of micro level advances and loans to the marginalized and financial excluded people of the society. From the contribution of five members with the initial amount of PKR 40,000 in 2008 the GEAR has quickly grown to PKR 3.5 million in 2012. It has disbursed nearly PKR 7.5 millions and the recovery ratio is more than 95%, which is very successive as compared to other NGOs.

The very first activity of GEAR was to provide sewing machines to four women in Korangi area in Karachi, on Qarz-e-Hasana (interest-free lending). This initiative helped four women to start their independent tailoring businesses earning about four to five thousand rupees a month.

Funds provision to GEAR: Initially, the members provided the funds from their own sources. Every member contributed according to his capacity with an objective to help his financial excluded and marginalized brethren. It basically started from friends circle locally. And nowadays, after keenly examining the operations of GEAR, funding is being provided from local and international donors. Still there is no proper source of income of the GEAR. The member approach to the local and international individual donors and ask for funding the GEAR operations. This is a revolving fund which creates a multiplier effect. Nevertheless this is a short-term measure for the start-up cycle.

Operational Expenses: Keeping the operational costs as minimum as possible, meetings are held at members' homes, in a very economic and simple style. All members bear the transportation and other costs by themselves, GEAR does not provide any remuneration or reward against the services rendered by the members.

Figure 5: the Fund Generating Structure of GEAR



Operational Mechanism: All members, including operational team, work without remuneration and work including identification of candidates, interviewing, and inspection and visiting the business places of borrowers, designing business models, etc. The operational team performs all these tasks and considers expenses incurred from their own resources as their contribution to GEAR pool of Sadaqa-e- Jariah.

Sustainability: In the long run, GEAR is working on a plan to convert the GEAR model of social business into a more sustainable, revenue generating model to bear its own expenses and funds for self-employment initiatives, rather than depending fully on donations. The plan includes creating GEAR-branded self-employment model e.g. GEAR Kiosk, GEAR Vegetable and Fruit Cart, etc. which will be provided to GEAR partners to execute. These GEAR-branded business initiatives will be promoted as advertising and sales promotion tools for local and multinational companies and the advertising revenue earned will become the resource of GEAR for funding business initiatives of our partners.

Affordable Contributions: Short-term fund-raising through convenience of contribution through lifetime membership program. Anyone can become a member of GEAR by paying a lifetime fee of PKR 500. The contribution goes into the revolving fund for creating self-employment of GEAR partners. The convenience based contribution model can raise big funds e.g., 50000 members contributing PKR 500 each. This will amounted to PKR 25million which will create 1000 self-employment and a multiplier effect of 10,000 families in 10 years.

Focus on Women and Family: Together with male partners, GEAR focuses on women and the entire family to put them into self-employment in especially designed areas. In this connection, partnering with Industrial Homes and Training Centers for skill development like sewing, secretarial work, etc. is also taken up as project. Training cost is also put into social investment and GEAR partners are expected to contribute in the pool of financial resources after earning and income generation activities based on the skill developed.

Strategic of GEAR: Partnership with Allied Services to improve the life of GEAR partners

GEAR goes into strategic partnership with other Social and Educational Institutions to improve the life of its partners catering to services as health and medical facilities, skill development in preparation of self-employment, religious, moral, and spiritual insights development and such other areas of vital importance.

Business Model Support Methodology

1. Potential candidates are identified by members and their friends and family circles and referred to GEAR.
2. GEAR volunteers meet and visit the candidates at their home and collect information covering family composition, present income, number of family members being supported, school going children and their needs, history of self-employment, potential trade in which they need support, amount of fund needed, etc. GEAR volunteer fills prescribed application form with necessary details and submits the form to the core team for further interview of the candidates and approval.
3. Funding is strictly done for the sake of core purpose i.e. creating self-employment so as not to deviate from the core purpose of GEAR. GEAR also avoids funding of businesses which are non-Islamic and injurious to health and harmful to the society e.g. selling cigarettes, pan, gutka, arms and alcoholic drinks shop etc.,
4. Core Team meets on weekly or fortnightly basis and interviews all the recommended candidates. A consensus is developed in the presence of the volunteer.

5. Funds relating to approved candidates are released to the respective volunteer who organizes the self-employment activity with necessary tools, raw material purchases, infrastructure investments, etc. Funding is not done to the candidate in terms of cash rather it is done in terms of self-employment creation under the supervision of GEAR volunteer.
6. GEAR volunteer monitors the activity by visiting the GEAR partner initially once a week and later with the smooth execution at least twice a month and submits a verbal or written report with pictures and video of the activity.
7. GEAR volunteer visits the GEAR partner to collect their respective contribution back to GEAR revolving fund. GEAR partners are expected to deposit their contribution back before 10th of every month.
8. For genuine reasons (lack of business, family issues, etc.), contribution may be made with the flexibility.

Feedback to the Donor

GEAR provides monthly feedback to the donor in terms of an overall operational and financial report. It is also done for specific GEAR partners who have been funded by some donors. An operational progress report together with financial status is also provided to such donors.

Creating Domino Effect of Employment

In Baldia Town, a sub-urban area in Karachi vicinity, five individuals were provided financial assistance in the form of Qard-e-Hasana. These gentlemen used the financial assistance to purchase used denim from scrap markets in Karachi give to their labour to ripe all the brass components out of it, like buttons, rivets and zips, which is later melted, solidified and sold. Furthermore the denim is cut and shredded and sold to textile firms who recycle it ... Each of these gentleman is in turn providing employment to tens of others, creating a domino effect of employment in Baldia town. Few others were provided Qard-e-Hasana to establish vegetable and fruit carts, and another gentleman setup his tailoring shop. The beneficiaries have begun to return their installments which will be used by GEAR to assist more deserving folks next month onwards.

The Result of Inspiration from GEAR

Inspiration and learning from GEAR has led PAF-KIET students to generate employment (in most projects) or solve one of the most critical problems for poor from the society.

In the beginning, the support from GEAR enabled around 30 students to help 6 families to stand on their feet. This beginning was a trigger point of a chain reaction which spurred in the semesters which followed. Through this platform around 160 families have been helped, with an amount of PKR 1200,000 (approx), during the course of 4-5 semesters. Most of these projects are related with generation of source of self-employment for the needy. The entire experience is transforming the lives of not only poor families but also changing the mindset of the students as they realize the true problems faced by the poverty struck population. Furthermore they realizes that being among the economically stable ones what responsibilities toward society they hold and value of the psychological rewards which are reaped in the process of creating solutions of the social ills, is also realized. The success so far has sparked the management to involve all departments in the process of involving students to solve the problems of the society. In the forth coming semester this project will be done by other departments at PAFKIET as well, subsequently increasing the quantum of impact by many times.

7. Conclusion

Present study concluded with the understanding that there are enormous growth opportunities for Islamic microfinance in Pakistan because the conventional institutions are not suitable for many due to interest, as well as, they are unable to provide any collateral or guarantee against the money borrowed. On the other hand, Islamic modes are based on the conception of the paradigm shift; from profit earning to generating employment and financial inclusion. Islamic institutions participate in real business and foster the real economic activities in the society. In Islamic finance, the entrepreneur is free from the fear to lose his own/private assets in case of failure of project. Islamic institution is partnering in the business hence a better monitoring system for the operation of the business is also achieved. The operations of GEAR show that Islamic modes of finance are more appreciated by the needy and financial excluded people for helping them in self sustainable.

Like many non-profit organizations, GEAR too has areas for improvement. It has focused intensely in Karachi district only while comparatively poverty in all its intensity and devil faces is prevailing in rest of the Karachi's vicinity. Therefore, GEAR needs to expand its catering as there people are ignored by the conventional microfinance. Furthermore Islamic finance is not limited to Muslims only and many Islamic financing institutions are not focusing on non-Muslims, GEAR should cater them for their financial needs. And at the last but not least, GEAR should develop her own sources of income generating, as till now it is dependent on member and the donors' contributions. GEAR should develop a model to generate its own income on permanent basis so that it can help the poor and needy of the society without financial constraints.

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