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MicroNOTE

ISLAMIC MICRO-FINANCE MODELS AND THEIR VIABILITY IN PAKISTAN

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SUMMARY

This MicroNote reviews the literature that exists on models being implemented in Islamic microfinance and explores the possibilities of implementing such models in Pakistan. The Note will set the context of Islamic microfinance in Pakistan and will look into the current models in operation in the country. The legal framework and other technical details will be evaluated to see whether the new models proposed are viable and sustainable.

OBJECTIVES

The objectives of the MicroNote are:

- To determine what models in Islamic Microfinance are being implemented in Pakistan;
- To point out other models being implemented around the world;
- To see what possibility exists for the adaptability of these international models in the current Pakistani scenario;
- To determine what current institutions exist in Pakistan that can aid in the growth of Islamic microfinance;
- To help practitioners on the way forward.

This Note is meant to be merely a starting point to explore new avenues in Islamic Microfinance. The MicroNote intends to stimulate debate on the possible models that can be implemented in Pakistan, or adapted to suit the Pakistan market.

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METHODOLOGY

The following sources were used in writing this MicroNote:

- **Literature Review**
  Existing research on Islamic Microfinance was reviewed to determine the models and their ideological base.

- **Interviews**
  Interviews of practitioners were undertaken to determine their concerns and ideas. In addition, the *Auqaf* Board was also contacted for information and input.

There are certain limitations to the methodology employed for this MicroNote. Islamic Microfinance practitioners are few in Pakistan, and it was not practical to access organizations outside of the PMN membership. Input is thus, restricted to the organizations mentioned in the MicroNote.

CONTEXT

It is imperative before an analysis can be presented that the definition of what a model constitutes, and the parameters within which the model would work, be determined. For the purposes of this MicroNote, an Islamic microfinance model is defined as the *distinct mechanism through which an Islamic financial product can be provided to the beneficiaries at the micro level*. A model can be differentiated from another by any of the following characteristics:

1. **Primary Islamic product to be provided:**
   The nature of a product is crucial in setting up a model. For example, it stands to reason that the implementation of a financing product will be different from a savings product.

2. **The source of funds:**
   This refers to how the initial fund is to be generated and then maintained over the course of operations.

3. **Intended beneficiaries:**
   The design of certain models can vary depending upon the targeted segment of society. Generally, as will be seen later, *Qarz-e-Hasan* loans can be given to clients below the poverty line while products such as *Ijarah* and *Murabahah* are directed towards established, if small scale, entrepreneurs.

4. **Role of all stakeholders involved:**
   Different models can propose different ways in which the stakeholders can interact with each other. This point will be emphasized during the discussion on the Akhuwat model.

5. **Delivery channel:**
   The method of delivery can distinguish one model from another. A mobile money model would therefore differ from a conventional model.

A BRIEF INTRODUCTION OF ISLAMIC MICRO-FINANCE PRODUCTS

Islamic Finance covers a range of products, such as credit products, financing products and insurance. However, for the purposes of this paper, we will focus on the products currently being offered by Islamic microfinance institutions.

- ***Qarz-e-Hasan*:**
  Literally meaning "benevolent loan", this is an interest free loan given out in good faith to those in need. There is no interest on these loans and the only extra cost that may be charged on these loans is the amount of money required to cover the administrative and processing costs.

- ***Musharakah*:**
  The borrower enters into a contract with the bank where capital is invested in a venture and the profits/losses are shared according to a predetermined ratio.

- ***Mudarabah*:**
  This is a contract between a financier and an entrepreneur where the financier provides the capital and the entrepreneur employs his managerial skills. The profits/losses are divided according to a pre-decided ratio.

- ***Salam*:**
  This is a forward contract where goods are paid for in advance on the promise of delivery of the goods to the buyer later on. Banks disclose beforehand that the goods are being bought with the intention of profit.

- ***Ijarah*:**
  This product is the *Shariah* compliant alternative to leasing, where the organization first buys the good to be leased, and then determines a repayment schedule over time.

- ***Takaful*:**
  A fund is set up which insures the members of the fund in case an unfortunate incident occurs.

MFPS' EXPERIENCE WITH ISLAMIC MICROFINANCE IN PAKISTAN

Pakistan is one of the most promising markets for Islamic Microfinance, with nearly 98% of the 180 million population being Muslim. However, even globally, Islamic Microfinance constitutes only 0.5%[1] of the microfinance sector and therefore, is considered to be in its embryonic stage. Steps have been taken in Pakistan that can take Islamic Microfinance to the next level. Although a number of MFIs now offer *Shariah* compliant financial products in the sector, the following two MFIs provide a fully Islamic financial product line.

Akhuwat

Akhuwat was set up in 2001, with the intention of providing *Shariah* compliant microfinance products to achieve growth and poverty alleviation. By 2011, Akhuwat had a gross loan portfolio of Rs. 355 million, which has been given out to 42,069 borrowers[2]. Akhuwat operates exclusively in urban areas and is concentrated in Punjab, although it has offices in KPK and Baluchistan as well but with marginal presence.

Over the past decade, they have been able to successfully set up a model that has certain distinct features:

- **Primary product:**
  The main Islamic Microfinance product that Akhuwat provides is *Qarz-e-Hasan* i.e.

[1] Karim et al. "Islamic Microfinance: An Emerging Market Niche." CGAP Focus Note no. 48. August 2008
[2] Source: PMN MicroWatch Issue 22 (Q4 – 2011)

interest free loans to their clients with soft repayment periods. Akhuwat does not offer loans based on the group methodology but rather lends on an individual basis. However, there is social collateral as many of Akhuwat's offices are set up in communities where the community vouches for its member. The PAR > 30 days to gross portfolio ratio is 1%[3], which shows very low levels of delinquency.

- **Funds:**
  Akhuwat's primary source of funds is donations, given to Akhuwat by individuals and other organizations supportive of Akhuwat's cause. Although the organization has managed to attain a funding base of its own, it still remains dependent on donations to help cover costs.

- **Beneficiaries:**
  The intended beneficiaries lie within the impoverished segment, with entrepreneurial capability and intent to set up their own businesses. Income transfers and cash are not doled out as charity, but with the intent to provide capital to potential entrepreneurs.

- **Roles of stakeholders:**
  The role of all stakeholders involved and the delivery mechanism is unique to Akhuwat. Since the word "akhuwat" means brotherhood, the model is developed on the concept of community. Most branches have been set up in mosques and churches, which the residents of the locality frequently visit. With the community acting as a guarantor for all its members, loans are granted on the basis of this brotherhood. This bond also comes to the fore when the community contributes back in the form of funds to the Akhuwat brethren.

Akhuwat has implemented its model to wide acclaim, primarily because of the simplicity of the model and the great dispersion of *Qarz-e-Hasan* loans. The loans, being interest free, enable the poor to repay without interest payments. The communal feel of the mosques and churches instills trust in both the employees and the borrowers, which has successfully translated in return donations from former borrowers.

Centre for Women Co-operative Development (CWCD)

Centre for Women Co-operative Development began the provision of microfinance in 1992, and has since grown in size and scale. CWCD's Gross Loan Portfolio stood at Rs. 128 million in December 2011 with total active borrowers of 7,214[4]. Of these, 2,525 borrowers have been given loans in groups while the rest have borrowed on an individual basis.

- **Primary product:**
  CWCD provides five Islamic Microfinance products:
    - *Salam*
    - *Istisna*
    - *Murabahah*
    - Diminishing *Musharakah*
    - *Ijarah*

  CWCD does not offer *Qarz-e-Hasan* loans and therefore all products have a profit margin for the organization.

- **Beneficiaries:**
  CWCD focuses on existing entrepreneurs requiring capital to expand their business. While they do incorporate social values and gender sensibilities, the focus remains on enterprise.

3 Pakistan Microfinance Review 2010
4 Figures taken from MicroWatch Issue 22 (Q4 -2011)

- **Methodology:**
  CWCD has a primary focus on emerging entrepreneurs, and has thus shifted from a group lending system to individual loans. Since most products are structured to benefit small businesses, the loans are really intended for the benefit of the individual business. Potential borrowers apply for the products by presenting their business models. The exception to the rule is *Salam*, where the organization buys a farmer's crop before harvest at a pre-decided price.

PROPOSED MODELS

The above summation of the current state of Islamic Microfinance in Pakistan shows that the sector is still in its infancy. The range of products has been limited, with only credit products being offered, and the geographical availability of the products currently is heavily concentrated in Punjab. Funds also remain an issue. Therefore, there remains a gap in Islamic Microfinance in Pakistan that can be filled in by the following proposed models.

Waqf based Model

In Islamic literature, *waqf* means the dedication of a resource in the way of God. The nature of the resource can vary, from agricultural lands to the dedication of time or service by an individual. All of these resources can be declared as *waqf* as long as it is for a charitable purpose. Usually, *waqf* is visible in the form of community mosques, cash donations and dedication of land for charity purposes. The basis of the *waqf* based model is that the resources are given away as *waqf* and need to be utilized rightfully in order to bring about change amongst those who require them.

The first theoretical hurdle that must be crossed in this context is to establish that Islamic MFPs are a justified way of using *waqf* funds. Since *waqf* can only be used for charitable purposes, the beneficiaries of these resources must be those in need. Islamic MFPs meet the criteria in this regard because collateral is not required by most MFPs when they give out a loan. This brings access of credit or financing to the currently underserved.

Another concept to *waqf* is "*sadqa-e-jaariya*", a *sadqa* that is self perpetuating and bears fruit for generations to come. Planting a tree or teaching someone are popular forms of this, where one act perpetuates itself and brings prosperity to many over time. In the same vein, feeding the poor is indeed a noble cause, but helping them in acquiring a skill and thus earn a living is also a self perpetuating charitable act. Therefore, *waqf* used as a means of setting up a business can be seen as a "*sadqa-e-jaariya*", which justifies the use of *waqf* in microfinance.

Interest free credit line

The major benefit of the *waqf* model is an interest free credit line, where no interest is accrued at the source of the funds. There are alternatives to the *waqf* model in establishing an interest free credit line, some of which are listed at follows:

- ***Murabahah*:**
  This is a financial transaction where goods are sold by one person to another by declaring the actual cost of the goods and adding a profit margin on to it. Since the cost of the goods is declared, the dealing is just and a stable income stream is generated. It is a popular method for banks in Islamic countries in order to promote interest free transactions.

- ***Sukuk*:**
  Sukuk is equivalent to a bond in conventional finance. It is a financial certificate which can be used to raise capital by Islamic banks without having to engage in interest bearing certificates.

However, the problem with these alternatives is that these can only be practiced on a larger scale, something that is outside the realm of microfinance. Microfinance can hardly go to a large scale to implement these instruments. *Waqf* therefore is much better suited to the purpose of microfinance.

Waqf based MFI

In Habib Ahmed's paper on Waqf-based Microfinance (Ahmed 2007)[5], he presented the model for a *waqf* based microfinance institution. The model presented in this paper will be the model MFP with which we will compare all the existing models.

The Islamic MFP should be able to offer *Qarz-e-Hasan* loans and other products by setting up the mechanism to support all these activities. The MFP proposed is a comprehensive operation, offering savings products, credit and insurance at the same time. In order to ensure that all these products are offered, Ahmed proposes counterbalancing funds.

A clear distinction needs to be drawn between the *Shariah* compliant products being offered and the targeted clients. The *Qarz-e-Hasan* loans are intended for people lying in the low band on poverty, from which expectation of return of the loan is not assured. The other *Shariah* products, such as *Musharakah*, are for people with potential for entrepreneurship. The *Waqf* funds serve the purpose of making *Qarz-e-Hasan* loans viable while the remaining *Shariah* products remain a sustainable venture on their own.

It would be highly instructional to reproduce the balance sheet that Habib Ahmed proposed for such an MFP – see TABLE 1.

TABLE 1: BALANCE SHEET OF A *WAQF*-BASED MFI

Assets	Liabilities
Cash (C) Assets (A) -Low-risk assets (F) -Micro financing (M) Loans- *Qard* (Q) Investments (I) [*murabahah, ijarah, salam, istisna, mudarabah, musharakah*]	Savings Deposits (D) *Qarz-e-Hasan* Deposits (Q) *Waqf* Certificates (S) *Takaful* Reserves (T) Profit Equalizing Reserves (P) Reserves/Economic Capital (V) Capital-*waqf* (W)

Source: Ahmed (2007)

The model proposed by Ahmed (2007) is complex. He proposed several counter-balancing mechanisms to ensure that all financial aspects are taken care of and remain compliant with the *Shariah* guidelines. In this instance, *waqf* will be a source of funds that can be used to extend loans and other Islamic products to the borrowers. Since Islamic finance essentially calls upon the MFP to share the risk of using capital with the borrower, a number of components have been introduced into the balance sheet. Profit Equalizing Reserves, for instance, is to be used in case an investment does not yield a profit.

The model has been designed so that the MFP is able to offer all kinds of products such as credit, savings and insurance. However, the primary function for the *waqf* cash is to be able to offer *Qarz-e-Hasan* loans.

Structure

There can be two alternate ways in which a *Waqf* model can be set up.

1. ***Waqf* funds from a State Department:**
   Provincial governments can choose to allocate a certain amount of funds to setting up microfinance operations in certain regions. While this option might

[5] Ahmed, Habib. "Waqf-based Microfinance: Realizing the Social Role of Islamic Finance." Written for the seminar on "Integrating Awqaaf in the Islamic Financial Sector." Islamic Research and Training Institute, Islamic Development Bank Group, March 6-7, 2007

provide a steady stream of resources if ever implemented, it is highly unlikely that the State will give patronage to microfinance institutions in this fashion. As will be evident later, *Auqaf* boards incur considerable expenses and are engaged in many initiatives such as educational schemes and loan funds. *Auqaf* boards even provide relief through cash transfers in face of a crisis, as was the case in the recent floods that hit Pakistan.

2. ***Waqf* funds directly from the populace:**
   Microfinance institutions can set up cash boxes and other donations for people to contribute towards of the institutions. While one cannot determine a definite amount that this activity can generate, it can be a source of income that an individual organization can utilize at its own discretion.

Waqf Estates in Pakistan

Waqf properties traditionally have been managed by the descendents and heirs of the saints or patrons of the *waqf* properties. To this day, great importance is attached to the heirs of these saints. However, prior to a proper legal framework, the heirs used the income generated by the *waqf* properties for their own personal benefit which, although allowed, was excessive. Therefore, the *Waqf* Properties Ordinance 1959 was introduced to bring such properties under a formal structure. It has now been devolved to the provinces where provincial governments oversee *waqf* properties falling under their jurisdiction. The provincial government is also responsible for the upkeep of the *waqf* properties and all related expenditures.

Insight can be gained into how *waqf* properties are being managed by looking into the budget of the *Auqaf* Board in Punjab.

BUDGET OF PUNJAB'S *AUQAF* BOARD AT A GLANCE

S. No.	Details	Budget Estimates (Rs. in Millions)	
		2010-2011	2009-2010
1	Opening Balance	137.7	132.0
2	Income	928.5	837.9
3	Total Expenditure	793.7	737.2
4	Surplus	121.5	232.7
5	Development Budget	102.4	95.0
6	Closing Balance	19.1	137.7

Source: Punjab *Auqaf* Department Budget, 2010-11

The province of Punjab is home to many saints, and a large number of *waqf* properties are within the jurisdiction of Punjab *Auqaf* Board. It is therefore not surprising that *Auqaf* Board Punjab generates significant income from these properties: almost Rs. 1 billion for year 2010-11. The available funds for the year 2010-11 amounted to Rs. 1,066.2 million. It is thus evident that the well established tradition of charity in Punjab results in a big pool of funds for the upkeep and development initiatives of *Auqaf* properties.

The breakdown of the income reinforces this tradition of giving back.

A SNAPSHOT OF INCOME OF THE PUNJAB *AUQAF* BOARD

S. No.	Income Source	Budget Estimates (Rs. in Millions)	
		2010-2011	2009-2010
1	Rent	118.7	107.9
2	Lease Money	130.9	115.2
3	Cash Boxes	529.3	460.2
4	Shop Keeping	53.4	48.5
5	Total	928.5	837.9

Source: Punjab *Auqaf* Department Budget, 2010-11

More than half of the income generated in both years has been from cash boxes kept at the sites for donations. It cannot be denied that the people of this country have, without fail, given whatever they have for a charitable cause. The *Data Darbar* in Lahore alone has an annual income of Rs. 249.3 million.

All these figures establish the fact that there is a tradition of generosity and charity within the Pakistani public, who give out a huge amount in charity to *waqf* estates. While it is hard to establish that this can be a definite source of funds, the potential to utilize this channel nonetheless exists.

Viability

i. Strengths

The *Waqf* based Microfinance model has many advantages which include the following:

- *Waqf* based MFPs will be able to generate a considerable amount of funds through the cash *waqf*. This will enable the MFPs to provide *Qarz-e-Hasan* loans on a regular basis. *Qarz-e-Hasan* loans can be instrumental in setting up communities and businesses. It will also enable Islamic MFPs to expand in scale and reach out to many more by gaining geographical coverage.
- Many potential clients decline conventional microfinance loans due to their non-compliance with *Shariah* guidelines. The proposed model will invite more borrowers who have previously been avoiding conventional loans.

ii. Weaknesses

As with any novel endeavor, there are a few drawbacks in the implementation of these models.

- *Waqf* is not a sustainable source of funds. Although the influx of cash has been of considerable volume, yet it can be said with surety that not all of that cash will be placed with a single MFP, or for microfinance.
- No current legal framework structure exists that can redirect the funds collected by the provincial *Auqaf* boards to Islamic MFPs. The *Auqaf* boards currently use the money to maintain the properties under their jurisdiction.
- A fully functioning MFP, as described in Ahmed (2007), will require considerable cash reserves, which may not be possible for the MFP to do.

iii. Opportunities

Many opportunities lie ahead for the *waqf* model which, if properly utilized, can help address the concerns that currently exist in microfinance.

- This model can be a great tool in eradicating poverty since the purpose of the *waqf* funds is to help the poor. The features of the model enable it to make an impact in fighting poverty. Providing *Qarz-e-Hasan* loans would, in other cases, not be financially viable for MFPs.
- Islamic microfinance operates mainly in the province of Punjab currently. While Akhuwat has a branch in Quetta, KPK and Sindh are not being catered to by Islamic microfinance at the moment. These areas have potential for microfinance loans and especially *Shariah* compliant products.
- There is a need for Islamic microfinance. Islamic microfinance currently makes for less than one percent of the microfinance borrowers across the world. *Waqf* can give the impetus to Islamic microfinance to enable them to expand their operations, which are being held back by a lack of funds.
- To some extent, Akhuwat is currently running on *waqf* where the members of the community donate and become part of the organization. Similarly, CWCD already has strong product line that does not incur a loss for the organization. The *waqf* model will allow them to enhance and develop their organizations into more complete MFIs.

iv. Hurdles in implementing the model

There can be many hurdles in implementing this model.

- The model MFP proposed by Ahmed (2007) is a fairly complex ideal for the others to follow in Pakistan. The model includes all financial services that an MFP can possibly offer. However, in Pakistan, MFPs offering *Shariah* compliant products are mostly concentrating on credit products. While Akhuwat does offer insurance, it has packaged its credit product with a mandatory life insurance. CWCD is not offering insurance at all. Both of these MFIs are not mobilizing savings as a source of funds, as existing regulations do not allow them to do so. Therefore, it will be hard for these MFIs to follow the ideals set by the paper (Ahmed 2007) immediately and its implementation may be far off.

- The patronage of the provincially administered *Auqaf* boards would really help implement the model because the properties under the jurisdiction of these boards receive a lot of *waqf* in the form of cash through charity boxes at the mosques and shrines. To receive a portion of this funding source might be a tedious process and unlikely to come through.

Takaful Model

Takaful literally mean "guaranteeing each other". It is a *Shariah* compliant alternative to insurance. The technical details and modalities of providing *Takaful* to the consumers lies outside the scope of this MicroNote, but it is important to state the importance of initiating a model exclusively providing *Shariah* compliant insurance, rather than the packaged life insurance that comes with credit products in microfinance. Although initiatives have been taken time and again to set up *Takaful* in Pakistan, it has not been successful, especially at the microfinance level.

Past experiences

There have been attempts at setting up *Shariah* compliant micro insurance which caters to the needs of the community. Unfortunately, none of them have been successful so far. Many major hurdles have to be overcome before a micro insurance scheme can be successful.

In previous attempts at providing micro insurance for health purposes, processing claims have been a major problem, as insurance companies have been slow to adapt to the requirements of the new consumer base. There are two components to a health insurance plan – in-patient coverage and out-patient coverage. In-patient coverage was the only part that the micro insurance schemes covered, with patients required to spend 24 hours at a hospital in order to put in a claim. The people, belonging to the lower working class, attached a large opportunity cost to missing a day of work and therefore, they were unable to benefit from the scheme. Claims were rejected by the providers frequently which bore ill will in the client base.

Another reason for the limited success of these initiatives has been the limited focus on developing a relationship between the community and the MFP. All Islamic microfinance models require that there be trust between the clients and the organization. As in the case of Akhuwat, social and communal bonds have been instrumental in low delinquency and the success of the model. However, in the case of *Takaful*, practitioners have been unwilling to process claims of health insurance. The rejection of all these claims creates distrust amongst the community, and leads to less enthusiasm for *Takaful*. It is important to bear in mind that this community is one of the vulnerable segments of society. In order to reach out to this segment, a mutual trust is essential. Unless a model is able to inculcate this trust, success might be hard to find.

It is essential to ensure that these vulnerable people are insured against risks. A simple model is presented here that can be used as a possible emergency fund.

Insurance model: "*Boli*" Committee variation

This insurance model is a variation of the "committee" system, an informal method prevalent in Pakistan. In a committee system, all members of the committee pool in a specified monthly contribution to create a fund. Every month, one member gets the entire fund and the cycle ends when all members have had their turn once. This system is not a profit generating mechanism, but is meant to ensure that a member has access to a sizeable fund in a specified month. The order of receiving the money is usually done by drawing lots. For members receiving the fund early, it is an interest free loan while for the person receiving it last, it is a savings fund. In any case, each member receives an amount he would normally not have access to in a month.

The "*boli*" committee is a variant of the committee system. In the "*boli*" variation, the order of receiving the money is not decided through lots. Instead, members bid for the money each month. The lowest bid gets to take the money for that particular month. In this manner, the person with the smaller and more urgent need receives the money first. However, he receives the amount that he has bid and not the entire amount. Only the initiator of the committee is assured of receiving the entire amount as he gets the first turn.

The model can be replicated in a formal micro insurance structure, with the micro-finance institution acting as the initiator of the committee. The insurance provider will always be profitable as the initiator will always profit from this arrangement. It will therefore be a sustainable option in the long run.

Viability

i. Strengths

This *Takaful* model has many advantages which include the following:

- As with the *waqf* model, it is a *Shariah* compliant way of providing insurance, for which there is a great potential market in Pakistan.

ii. Weaknesses

Like any new endeavor, there are a few drawbacks in the implementation of these models.

- *Takaful* requires a certain amount of funds to become viable. This would require capital, which remains a challenge in setting up *Takaful*. The additional stipulation in *Takaful* is that the unused funds need to be returned to those who made the contribution. Therefore, *Takaful* needs a larger initial fund than required in conventional insurance.
- There are more risks at the micro level because of the vulnerability of the segment that is targeted. The impoverished segment tends to have more health claims, for example, due to the fact that they tend to live in an unhygienic environment. It is exacerbated by the fact that people living below the poverty would rather work through an illness than take the day off. Due to their frequent health issues, their claims tend to be rather high. Practitioners are currently unwilling to take on such a huge responsibility.

iii. Opportunities

Many opportunities lie ahead for Islamic Microfinance models in the times ahead.

- Natural calamities have increased in Pakistan in the past few years. It is also feared that the rains and floods in Sindh can become a regular feature. In this unfortunate scenario, *Takaful* can be a way for communities to generate funds and insure themselves.
- The implementation of *Takaful* can help an organization set up a sustainable model. While *Qarz-e-Hasan* loans are crucial for people below the poverty line, this model can cater to the more settled entrepreneurs. As in the model set up by Habib Ahmed for use of *waqf* funds, insurance can help the existing clientele secure itself from shocks. It can help strengthen the *waqf* model and both of these models can be implemented in conjunction with each other.

iv. Hurdles in implementing the model

There can be many hurdles in implementing this model.

- Due to the greater risk associated with *Takaful* at the micro level, it is hard to find auxiliary functionaries to cooperate with the model. In the case of providing health insurance, clinics and local insurance practitioners have been unwilling to provide the coverage required for this model to be successful.

CONCLUSION

It is evident that there is a great need for financial services in Pakistan that are *Shariah* compliant, especially at the micro level, where *Shariah* compliance is seen as a prerequisite before financial services are used. However, the provision of the services has been lacking and there is a need to fill in the gap. Islamic microfinance is suitable for Pakistan not only because of the predominantly Muslim population of the country but also because of the focus on the creation of a just economic system.

There are two clear levels at which the Islamic Microfinance model can operate: *Qarz-e- Hasan* loans given out to the poor in order to provide them an impetus for sustainable living, or financial products for clients, especially emerging entrepreneurs, on a profit sharing basis. The *Waqf* model makes it feasible for MFPs to give out *Qarz-e-Hasan* loans while the profit sharing products are sustainable ventures on their own.

Takaful at the microfinance level would require much to be done before it can be rolled out and become successful. Supporting services such as proper medical facilities and effective monitoring needs to be in place so that the claims made by the clients can be paid out promptly and there is no trust deficit between the clients and the *Takaful* providers. Since Islamic microfinance models all require an element of trust between the practitioners and the people, it is imperative that the functioning of the MFP is smooth and this trust is developed without any obstacles.

Although the models have great potential in meeting the needs of the people and contributing to their development, the modalities of the implementation are debatable. The health services in the case of *Takaful* leave much to be desired. In the case of *Waqf* funds, there can be *Shariah* issues pertaining to the way *Waqf* funds are accessed.

Nonetheless, this is a great opportunity for practitioners to tap into a new market where the demand for Islamic products is considerably high. Already the number of institutions exploring *Shariah* compliant product lines has increased, especially as MFPs seek to enter regions where such considerations are important to clients.

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