

Factors affecting the growth of Islamic microfinance institutions In Pakistan

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the MS degree in Islamic Banking and Finance**



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DECLARATION

I hereby declare that no portion of the work that appears in this study has been used in support of an application for another degree in qualification to this or any other university or institution of higher learning.

This thesis is a presentation of my original research work. Wherever contributions of others are involved, every effort has been made to indicate this clearly, with due reference to the literature and acknowledgement of collaborative research and discussions.

The work was done under the guidance of Muhammad Mahmood Shah Khan, Director, Institute of Islamic Banking, University of Management and Technology, Lahore, Pakistan.

Shahid Safdar

Date: _____

In my capacity as supervisor of the candidate's thesis, I certify that the above statements are true to the best of my knowledge.

Muhammad Mahmood Shah Khan

Date: _____

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DEDICATION

I am heartily grateful to my supervisor, Muhammad Mahmood Shah Khan who made it possible for me to complete this research report.

I dedicate this humble and valuable effort to my parents, wife, brothers and daughters and all my family members whose hands always rise in prayers for my success.

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ABSTRACT

Pakistan is an under develop economy having a population of about 200 million. It is the six most populous country of the world with high level of poverty. The Government and social sector organizations are using many tools to alleviate poverty. However, despite many attempts have been done for the basic necessities of human, it is still growing in Pakistan rapidly. Micro Finance considered being the globally accepted as an important tool to alleviate poverty. Pakistan officially declared Islamic Republic of Pakistan has great potential of Islamic micro financing. This research study aimed to study and identify the factors that impact on the growth of Islamic microfinance sector in Pakistan. A questionnaire is employed to achieve the research objectives of the study. The data is collected from 60 high ranked individuals having number of years experience in the Islamic micro finance industry of Pakistan. One sample t-test and regression model is applied to examine the determinants of Islamic micro financing sector growth in Pakistan. The findings of the study revealed that structural issues of Islamic micro finance institutions, availability of Shariah complaint funds, availability of Islamic micro finance products, non-entrepreneurial approach of community, lack of regulatory and policy framework are the main problem areas hampering the growth of IMFIs in Pakistan.

Key Words: Islamic, Shariah compliance, Microfinance, Growth, Pakistan

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LIST OF ABBREVIATIONS

AJK	Azad Jammu and Kashmir
BISP	Benazir Income Support Program
CSR Funds	Corporate Social Responsibility Funds
CMSES	Chief Minister Self Employment Scheme
DFID	Department For International Development
FATA	Federally Administered Tribal Areas
FSS	Financial Self Sufficiency
FY	Fiscal Year
GB	Gilgit Baltistan
GDP	Gross Domestic Product
GLP	Gross Loan Portfolio
GNI	Gross National Income
GOP	Government of Pakistan
HHRD	Helping Hands for Relief and Development
ICT	Islamabad Capital Territory
IMFI	Islamic Microfinance Institution
IMFN	Islamic Microfinance Network
ISO	International Organization for Standardization
KAP	Knowledge, Attitude and Practices (Of Islamic Banking)
KPI	Key Performance Indicators
KPK	Khyber Pakhtunkhwa
LCPS	Low Cost Private School
MFI	Microfinance Institution
MFP	Microfinance Practitioner/Provider
MSME	Micro, Small and Medium Enterprise
NGO	Non-governmental Organization
NRDP	National Rural Development Program
NRSP	National Rural Support Program
OLP	Outstanding/Active Loan Portfolio

OSS	Operational Self Sufficiency
PMIFL	Prime Minister Interest Free Loan Scheme
PO	Partner Organization
PPAF	Pakistan Poverty Alleviation Fund
PPI	Progress out of Poverty Index
SBP	State Bank of Pakistan
SDF	Sungi Development Foundation
SECP	Securities and Exchange Commission Pakistan
SME	Small and Medium Enterprise
WASH	Water, Sanitation and Hygiene Promotion
WFP	World Food Program
WHO	World Health Organization

1. Introduction

Poverty is becoming the gravest dispute of the millennium. Billions of people around the globe are suffering in adverse condition. According to World Food Program (WFP), Asia is the continent with the hungriest people - two thirds of the total. The percentage in Southern Asia has fallen in recent years but in Western Asia it has increased slightly. Whereas Pakistan's new poverty index reveals that 4 out of 10 Pakistanis lives in multidimensional poverty. To reduce the level of poverty, the micro finance product and service done a lot (Islamic Micro Finance Report, 2014).