



Available Online

Journal of Economic Impact

ISSN: 2664-9764 (Online), 2664-9756 (Print)

<http://www.scienceimpactpub.com/jei>

THE ROLE OF ISLAMIC MICROFINANCE IN POVERTY ALLEVIATION: EVIDENCE FROM PAKISTAN

Waqas Ahmad

University of Bolton, England, United Kingdom

ARTICLE INFO

Article history

Received: September 17, 2021

Revised: December 11, 2021

Accepted: January 10, 2022

Keywords

Awareness

Entrepreneurship

Islamic microfinance

Pakistan

Poverty alleviation

ABSTRACT

This study aims to develop and propose an Islamic microfinance model that can be used for poverty alleviation in Pakistan. Other than investigating poverty, other interrelated aspects were also considered in which entrepreneurship, conventional microfinance, and Islamic finance were included. Moreover, by moving beyond and further exploring, this research presents various uses of Islamic microfinance to reduce poverty. A set of primary data was collected through interviews to carry out this research. Initial findings of the study unveil that poverty exists concerning common perceptions such as lack of necessities, unemployment, poor health, and insufficient financial resources. However, child selling, unethical ways of earning such as begging, robbery, and incompetency of the skilled person were the findings representing poverty from totally different perspectives. Moreover, the studied results also reveal that few respondents were aware of the concept and use of conventional microfinance. Still, at the same time, all the respondents represented the forbiddance of interest. Findings also represent the unawareness about Islamic microfinance's concepts, practice, and importance. This research is helpful as it presents the idea and the use of Islamic microfinance for the impoverished people of Pakistan and how it can be a beneficial alternative for reducing poverty. Moreover, it also seeks the attention from the financial institutions in the Country that how the beliefs and expectations of poor people are important in reducing their poverty. The significance of this study broadens the scope of the neglected concept of Islamic finance generally and Islamic microfinance particularly.

Email: wa1cif@bolton.ac.uk

<https://doi.org/10.52223/jei4012205>

© The Author(s) 2022.

This is an open access article under the CC BY license (<http://creativecommons.org/licenses/by/4.0/>).

INTRODUCTION

Like in other underdeveloped countries, the poverty situation in Pakistan is among its major issues. This poverty has directly and indirectly affected the Country's political crisis and economic system. Consequently, it has given rise to the problems such as distribution of income, development of human resources, and Social Capital. Moreover, it also represents the vulnerability of poor people exposed to contingencies and stress because of unfavorable conditions from society, environment, politics, and economic factors (Adger, 2006; Blaike et al., 1994) in the Country. This vulnerability rises when factors like education, health, resources of materials, and household security interact with poverty. For poverty reduction, several methods and schemes by various types of financial institutions have been considered. This included microfinance institutions, microfinance sections of commercial banks, non-governmental organizations, and social welfare organizations. The diverse effectiveness of microfinance (Appah et al., 2012) has shown its capability of providing financial services in enhancing the living standards of financially marginalized people (Appah et al., 2012) such as poor farmers (Weber and Mushoff, 2013), unemployed young

entrepreneurs (Brau et al., 2009) and female members of society (Islam et al., 2012). Besides these genial facts, microfinance has also delivered undesirable results at household and business levels. Microfinance has been confronted at the household level, such as gender discrimination that made it less effective (Geleta, 2016). At the business level, microfinance's effectiveness was judged on its outreach to poor people by the institutions that showed the lower average number of microloans were disbursed (Hermes et al., 2011). This was due to the requirement of collateral which is not possible for every poor borrower to fulfill. These elements make the use of microfinance less efficient and prohibit its utility by poor people. Moreover, microfinance generates the surfaces of a financial network that offers various paths for enhancing efficiency like higher income and wages at the household level. Other than this, microfinance supports its borrowers in several ways, such as adopting new skills and increasing their competences, in using transitional goods and services like marketing and transportation due to the increase in productivity. They are aided with more enormous sustainable benefits. Therefore,

this research has integrated Islamic finance and its principles with the practical aspects of microfinance to enhance impoverished people's living standards.

Shariah is the legal system of Islam that compliments all aspects of human life like political, economic, social, business, religious, familial, personal, etc. (Kunhibava and Rachagan, 2011). In this uncodified body of law, money is not considered good of trade; therefore, Shariah forbids generating money from money; hence, Islamic finance is based on risk-sharing between the financial institutions and the clients (Çizakça, 2014). This illustrates that Islamic Finance has a comprehensive financial structure based on interest-free transactions that deal with property rights, the system of incentives, the distribution of wealth, freedom of economy, and the proper role of the government. Being a comprehensive financial system, the various types of Islamic finance benefit every aspect accordingly (Hanif, 2011). Islam encourages the perception of investment predominantly based on equity, and hence Islamic finance does not make any Muslim an insignificant creditor (Jaffar and Musa, 2014). According to Sadeq (1997), Islamic finance scholars have analyzed three broad categories of poverty alleviation and stated that by implementing each type, progress might be made in solving the dilemma of poverty. The positive measures of Islamic finance come in the first category that consists of growth of income, functionally distributed income, and equal opportunities for the members of society that result in high levels of income and its equal distribution. Preventive measures come in the second category that controls ownership and prevents businesses and economies from malpractices that lead to income concentration. In the last aspect, corrective actions look for the compulsory transfer of payments, recommended transfer payments, and the state's responsibility that helps correct imbalances in the distribution of income and wealth that enhance the needy's economic conditions in society.

According to Weber and Mushoff (2013), Brau et al. (2009), Nwankwo et al. (2013), and Mahmood et al. (2014), conventional microfinance has helped many people to improve their living standards. Besides this, some sources like financial institutions and consumers of traditional microfinance found it unresponsive and a cause of issues for them (Dalla Pellegrina, 2011; Hermes et al., 2011; Geleta, 2016; Washington and Chapman, 2014). The reason for these issues is that conventional microfinance does not follow the principles of Islamic finance. Since every problem has a solution, the principles of Islamic finance provide solutions to the issues of traditional microfinance. The combination of the power of microfinance and a wide range of social caring principles of Islamic finance as Islamic microfinance has provided access to financial services for less fortunate poor people.

Islamic Microfinance and its Effective Applications in Terms of Poverty Alleviation

Islamic microfinance, especially for underdeveloped countries, has become an increasingly popular mechanism for poverty alleviation. Table 1 represents the various Islamic microfinance programs implemented by financial institutions in several developing countries for poverty alleviation. Table 1 illustrates

the practical application of Islamic Microfinance in terms of poverty alleviation.

The Teachings of Islam on the Issue of Poverty

The teachings of Islam are delivered through the Quran, which is the revelation from God and represents the foundation of Islamic epistemology or the thoughts on which every Muslim's whole life is based. Therefore, this illustrates that the factors such as economic, political, cultural, ideological, historical, etc., cannot be separated from the religion of Islam. Therefore, in Islam, it is not accepted that one can have exclusive rights to the available natural resources because God is the only one who has sovereignty over all and everything. This is mentioned in the Quran "To Him "God" belongs what is in the heavens and what is on the earth, and all that is between them, and all that is beneath the soil" (Al-Quran: 20:6). It is further commanded in the Quran that: "and give them (destitute) something out of the wealth that God has bestowed upon you" (Al-Quran: 24:33). These verses explain that the absolute owner of the overall wealth in this world is God and He "God" has the unquestionable right to favor anyone with His blessings. God made Man as His trustee by giving him His wealth on trust. It is acknowledged in the Quran as: "We did indeed offer the Trust to the Heavens and the Earth and the Mountains; but they refused to undertake it, being afraid thereof but man undertook it; he was indeed unjust and foolish" (Al-Quran, 33:72).

God himself has the first right to the wealth given to us, and as He does not need it, there are certain conditions prescribed by Him to utilize the wealth he bestowed to humanity. These conditions are based on the guidelines and injunctions of the God which Muslims must follow in their everyday lives. As God made man as His vicegerent and gave him the wealth on trust, Muslims would be accountable for their wealth and how it was utilized. For this, Islam has prescribed various ways to assess confidence. In this, one of the methods of wealth purification that is *Zakat* comes first. *Zakah* means alms which is provided in a wealth tax by which Muslims serve their God. According to Prophet Muhammad (PBUH), "Blessed is the wealth of a Muslim from which he gives to the poor, the orphans, and the needy travelers." In Islam, the significance of attaining blessings from God has always been emphasized by helping those in need. In the concept that everything belongs to Allah and being his trustee, social responsibility and accountability are essential. This tells that wealth is a means, not an end; therefore, making arrangements should be for community betterment by aiming to please Allah.

Moreover, responsibility and redistribution are the critical concepts acknowledged at the start of managing wealth in an Islamic way. Islam has made a criterion in which every Muslim individual pays *Zakat*. This criterion consists of the factors such as the shawl (one full year), nisab (prescribed rate), and Muslim *Baliqh* (adulthood), where someone owns wealth. The above discussion shows that managing wealth according to the Islamic point of view covers a much broader sphere in which society's lower and middle class are included. Moreover, it also illustrates that every individual must pay *Zakat* after attaining a certain level of wealth. This fulfills the fundamental responsibility of the poor and community by providing a helping shoulder to rest on.

Table 1. Poverty alleviation through Islamic microfinance.

No	Country/Region	Institution	Program/Scheme/Method	Effects of Program/Scheme/Method
1.	<ul style="list-style-type: none"> Bangladesh (Dhaoui, 2015) 	<ul style="list-style-type: none"> Islami Bank Bangladesh Limited (IBBL) Al-Ararfah Islamic Bank limited (AIBL) 	<ul style="list-style-type: none"> Rural Development scheme 	<ul style="list-style-type: none"> Reduced 18% of poverty Improved Education Health Employment Sanitation Increased per capita income
2	<ul style="list-style-type: none"> Malaysia (Alam et al., 2015) 	<ul style="list-style-type: none"> Amanah Ikhtiar Malaysia 	<ul style="list-style-type: none"> Integration of Islamic Microfinance and Maqasid Al-Shariah 	<ul style="list-style-type: none"> Fulfillment of necessities.
3	<ul style="list-style-type: none"> Malaysia (Ibrahim and Ghazali, 2014) 	<ul style="list-style-type: none"> Selangor Zakah Board 	<ul style="list-style-type: none"> Zakah 	<ul style="list-style-type: none"> It increased financial Capital fulfillment of basic needs that have improved mental health. Improved Attitude.
4	<ul style="list-style-type: none"> Indonesia (Adnan and Ajija, 2015) 	<ul style="list-style-type: none"> BMT MMU Sidogiri 	<ul style="list-style-type: none"> Bai'bitsamnil ajil (BBA) Mudarabah Qard-e-hassan 	<ul style="list-style-type: none"> Increased monthly income. Decreased number of borrowings from illegal money lenders.
5	<ul style="list-style-type: none"> Andaman Islands, India (Hassan, 2014) 	<ul style="list-style-type: none"> IWS_india 	<ul style="list-style-type: none"> Financing to the poor. Islamic Group Lending. 	<ul style="list-style-type: none"> Improved local common resources irrigation systems, other water resources, fishing pools, grazing land, and forests. It increased Human Capital.
6	<ul style="list-style-type: none"> South Asia (S.A.) Middle East and North Africa (MENA) East Asia and the Pacific (EAP) (Widiarto and Emrouznejad, 2015) 		<ul style="list-style-type: none"> Data Envelopment Analysis- Comparison Between Islamic and conventional Microfinance. 	<ul style="list-style-type: none"> Enhanced financial and social efficiency because of Islamic Microfinance.
7	<ul style="list-style-type: none"> Indonesia and Sudan (Obaidullah, 2015) 	<ul style="list-style-type: none"> Dompert Dhufa Republika Bank of Khartoum 	<ul style="list-style-type: none"> Pemberdayaan Pertanian Sehat IRADA Abu Halima Greenhouse project. Wad Balal livestock development. 	<ul style="list-style-type: none"> Increased food security employment opportunity of poor farmers. Decreased food prizes. Provided draught Power, manure, and transport. Increased foreign exchange.

The microfinance practice in Pakistan does not provide financial assistance to the people living in poverty. The reason for this is that the needy cannot fulfill the collateral requirement. Moreover, being the Muslims, destitute have restricted themselves from getting interest-based financial assistance which is strongly prohibited in Shariah.

The microfinance practice in the Country has shown that the industry has witnessed a growth and increased profitability (Riazudin, 2015). Along with this admirable performance, the Industry is also confronting a significant challenge of its sustainability because of the management of funds for the practice of microfinance. This has decreased the Industry portfolio and has impacted keeping the operational cost comparatively high. Consequently, it has inadequately affected the developmental objectives of poverty reduction. In support of the Industry, it was specified that imprudent lending had worsened the microfinance industry's discipline in the Country. In addition, due to natural calamities and improper infrastructure, the industry faces a high operational risk level.

To provide a solution to these issues, according to Riazudin (2015), there should be a financial system based on Sharia through which people living a destitute life can benefit.

Context of the Current Study

Respondents included in the current study were people living destitute life. These were either refugees or internally displaced people. The reason for migration for refugees was the war in their country (Afghanistan). In comparison, the cause of the movement of internally displaced people was climate catastrophe such as flooding, etc. According to the situation, the refugees were given places in camps in the rural areas. For the current study, rural areas of Khyber Pakhtunkhwa were approached. The concept of living in those rural areas was different from urban living. This included the infrastructure of the site. There were mud houses, inadequate sanitation arrangements, a lack of access to main roads, unavailability of health services, and low level or almost no availability of education.

In comparison, the living conditions of internally displaced people were worse than that of the refugees. These people were living nomadic life. There was total non-availability of necessities such as shelter, electricity, water, sanitation, etc. These factors represented the government's negligence due to which people were living miserable life. As these internally displaced people lived in a rural area, their concerns towards life and poverty were the same as those of the refugees living in camps. Still, the causes of poverty for each type of respondent were different. The sources of refugees' income were also other than the internally displaced people. The internally displaced people used to work as day laborers, beggars, or were self-employed. Whereas most of the refugees were employed and working for monthly wages. Other than this, some of them also had an additional source of income. As a tradition, all the male members of a refugee family worked to earn money, whereas internally displaced people did not follow this concept. For both types of respondents, there were no industries that could help them lower their poverty level. This unavailability of assistance has represented two aspects of the financial sector: the inaccessibility of poor people to the financial institutions (mainly a bank) and, secondly, unawareness about the concept and usage of Islamic finance.

Poverty

Poverty represents human rights injustice in which the unavailability of necessities includes food, health, clothing, shelter, education, and employment (Ravallion et al., 1991). The undesirable factors such as poor health, lack of knowledge, lower self-respect, moralities, and social exclusion give rise to poverty. Therefore, this represents the multifaceted reality of poverty (UNDP, 2013). Hence, there is a need to find out the main factors due to which poverty is caused. The aspects of poverty in one geographical location are different from another both at household and institutional levels. Therefore, health, age, death of chief wage earner, unemployment, family size, scarcity of work, and low wages are the factors that mainly cause poverty at the household level. On the other hand, at the institutional level, factors such as corruption, poor governance, and financial institutions cause poverty (Akindola, 2009).

Pakistan and Poverty

Being a vicious cycle, poverty in Pakistan has presented itself in many aspects regarding its causes. This included poorness, natural calamities, environmental degradation, and economic and social determinants. Among these, poor governance is an underlying fundamental cause of its existence. However, factors such as political instability, non-transparency in resource allocation, and weak capability of public have resulted in poor governance (Tariq et al., 2014; Haq and Zia, 2009). Other than the increased vulnerability of the destitute, businesses in the country have also experienced a low level of investments due to poor governance (Akram et al., 2011). Moreover, this poor governance has worsened the concept of social services from law enforcement agencies such as police and has also affected judiciary justice.

In a country like Pakistan, economic factors such as Gross Domestic Product and per capita income significantly influence its financial and human resource development. Therefore, one

cause of poverty in the Country is its declined gross domestic product growth rate (Fatima et al., 2011). However, this is because of the unsatisfactory performance of economic factors such as fiscal policy, subsidies, inflation, unemployment, and income inequality. Another reason for poverty in the Country is its debt burden on the relegated economy, which raised the inflation level and declined the GDP (Umair and Ullah, 2013; Awan et al., 2011). Being multidimensional, every cause of poverty has its factor, and similarly, in the rural areas of Pakistan, several factors have caused poverty accordingly. Agricultural land is a basic necessity for production, but access is crucial due to the unequal distribution of cultivated land; therefore, this represents another major cause of poverty (ADB, 2002; Miankhail, 2009). Other than this, factors such as infrastructure of the society, unsatisfactory level of human development, ethnic and sectarian conflict of destitute with tribal chiefs and landlords, feudalism and land tenure system have also empowered the poverty to strengthen its existence (Giampaoli and Aggarwal, 2010). As a result, many activities regarding the development of infrastructure have confronted specific resistances that have also contributed to increasing poverty (Awan et al., 2011). In addition to this, another factor that causes poverty in Pakistan is environmental degradation (Alam, 2010), and as a result, this factor has badly affected the health conditions in rural areas. Consequently, with poor health conditions, the rural population has decreased productivity (Khan et al., 2009).

METHODOLOGY

Research methodology presents a systematic way of solving problems (Kothari, 2004; Rajasekar et al., 2014); therefore, a qualitative research method was used due to the nature of the current study. The reason for selecting this method is to follow that process in which firstly the meaning of poverty would be created from the perspective of those people who are experiencing it and secondly to inquire as to the financial requirements of these people in terms of which type of financial assistance is suitable for different types of poor people. This would be done by having a face-to-face interaction with them, which will help access the meaning and in-depth understanding of poverty. The concept of poverty and Islamic microfinance would be contextualized.

Sampling

The sample of respondents constituted the population of the current study and comprised all those living in poverty. The decision to mention and consider themselves as destitute, living in poverty, was entirely based on their responses. According to the requirement of the current study, one of the volunteer techniques from non-probability sampling, snowball sampling, was used because, initially, social contact with one of the desired respondents was made. This helped the researcher identify other respondents by asking the first respondent and the process continued until the information from respondents started saturation.

Method of Data Collection

There are many ways to collect data, such as interviews, questionnaires, surveys, focus groups, observation, and

documents and records (Saunders et al., 2015; Kothari, 2004). As the current study followed a qualitative research method therefore based on the method's requirement, data was collected by conducting interviews. There are different types of interviews, such as convergent interviews (Dick, 2016), structured interviews, semi-structured interviews, and unstructured interviews (Saunders et al., 2015).

The process of convergent interviewing is characterized by a structured approach and initially unstructured content that provides in-depth information. The reason it is a structured process is that the analysis of collected data starts at the same time as collecting the data. Due to its characteristics of carefully selecting the sample and in-built data analysis process, convergent interviewing is time-efficient (Dick, 2016). Moreover, it assures reliability, internal and external validity, and objectivity of the collected data. The careful selection of samples ensures internal validity and reliability by describing the purpose and use of the interview to the respondent (Marshall and Rossman, 2014). Furthermore, due to the structured approach, convergent interviewing selects only those specific issues that are common among most of the respondents.

To fulfill the requirements and objectives of the current study, convergent interviewing was taken as a technique for collecting data. There were several reasons for selecting this

type of interview. Firstly, in-depth information was required from respondents to contextualize the concepts of poverty and Islamic microfinance among them. Secondly, because of its characteristic of initial content analysis, probing questions were developed based on provided information that helped reach the main concepts. Thirdly, convergent interviewing has reduced the biasness in data analysis because of the structured and systematic way of collecting and analyzing the data once the interview is concluded. Finally, it helped stop the interview process at that stage where ideas started getting saturated.

To save time, each interview was recorded during its completion. These interviews were then transcribed by listening to those audio recordings; while doing this, each audio recording was heard carefully again and again as a matter of precision because all information provided by the respondents was of extreme importance. The interviews were conducted in two local languages which were Urdu and Pushto. The audio recordings from both languages were firstly transcribed into Urdu and then to the English language.

Process of Data Collection

The process of conducting an interview was completed step by step, starting with the development of research issues which referred to all those aspects that would be covered in conducting interviews and are as follows;

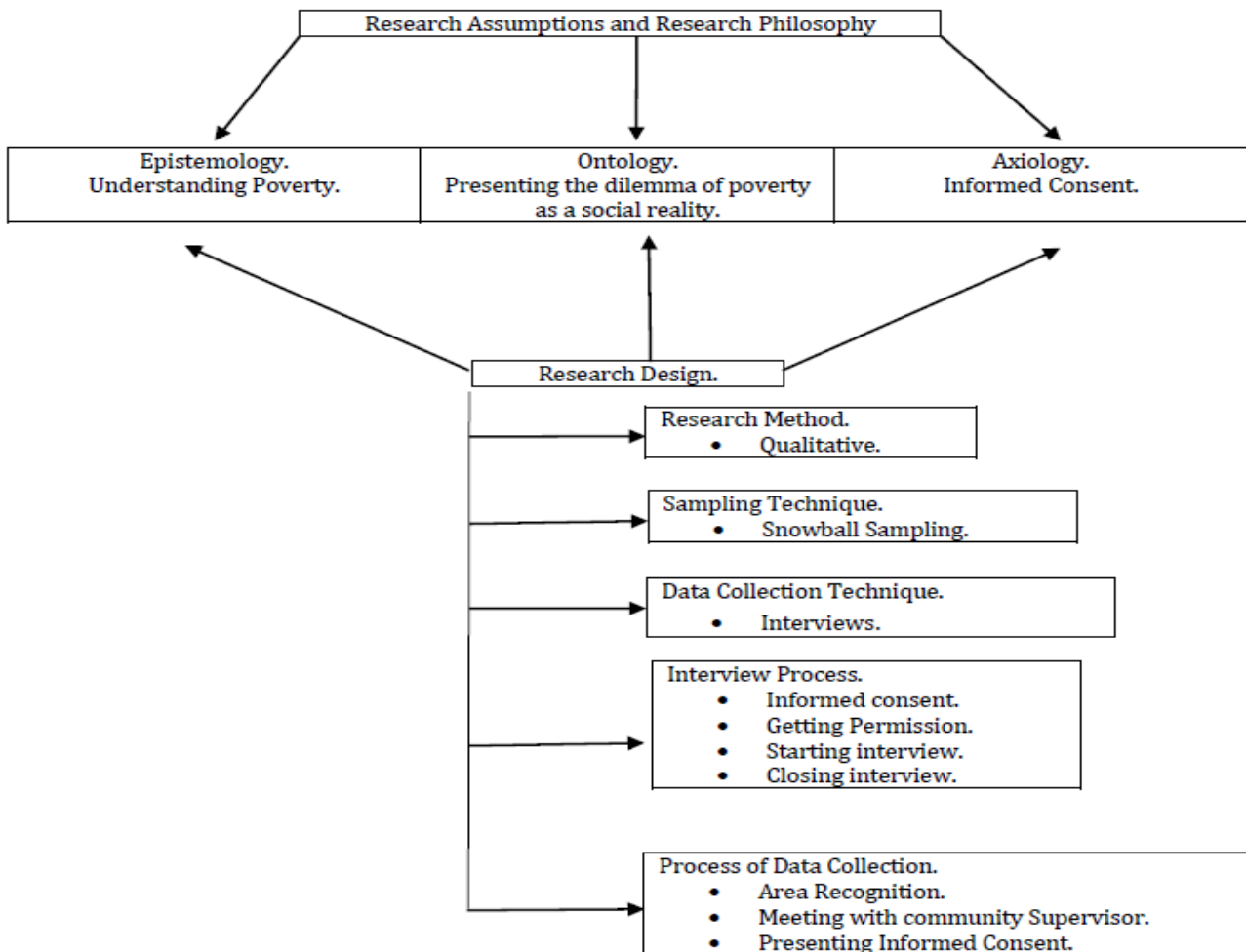


Figure 1. Research design.

Getting knowledge about the areas from where the data was collected and for the requirement of the current study, rural areas were accessed.

- 1) Due to the custom of rural areas, a community supervisor was contacted before starting the data collection. In rural areas, mostly the head of masjid (Mosque), mainly known as *Imaam*, are the community supervisors; therefore, they would be communicated with about the purpose of interviewing.
- 2) An informed consent process was developed for respondents in which the purpose of conducting the interviews was mentioned.
- 3) Determining the number of respondents was sorted out instinctively due to the inbuilt mechanism of convergent interviewing that suggested stopping collecting the data when saturation in information started occurring.

Conducting Interviews

The process of conducting convergent interviews comprised certain main phases (Dick, 2016). Firstly, in the introduction phase, an informed consent statement was delivered to the respondents in which the purpose, topic, use, and interpretation of data were mentioned. Undertaking this phase helped build rapport with the respondents, and once it had been done, an opening question was asked. As the requirement of the study was to gather in-depth information from the respondents regarding poverty and Islamic microfinancing, they were encouraged to provide as much information as possible. After this, probing questions were developed based on interviews conducted earlier. This phase was usually started after starting discussions, and it was essential to conduct initial interviews with most of the relevant respondents. In the next stage, the accuracy of the collected data was checked by summarizing the main points. Finally, the interview was closed after thanking and appreciating respondents' participation. Figure 1 represents the research design and assumptions of the current study.

RESULTS AND DISCUSSION

Analysis of Data

In this last step, the collected data and its interpretation were revised to overcome ambiguity. The Gioia methodology used a systematic approach to developing new concepts and grounded theory articulation (Gioia et al., 2013). The reason for describing it as a systematic approach is that before analyzing data, a data structure was constructed, which is then linked to the grounded theory. The construction of a data structure for the current study was developed in three steps: first order concepts, second order themes, and aggregate dimensions. Before progressing towards the first-order ideas, similarities and differences from the collected data were separated in the form of coding. The grouping of similar responses developed the first-order concepts. Whereas in the second-order theme, first-order concepts were categorized into subcategories. And in developing aggregate dimensions, main variables of the current facet were constructed using

different parts from the literature review. Figure 2 represents the data structure.

The process of analyzing the data consisted of three independent phases, Phase-I, Phase-II, and Phase-III. The analysis of Phase-I was itself consisted of several steps in which, at the start, all the interviews were transcribed and analyzed to code the data by breaking it down into related concepts and grouping the results into respective categories, which are information about the situation of poverty, its causes, and effects. After this, a focus was made on novel insights emerging from the collected data. This was done by in-depth analysis of the interviews, which led the investigation towards codification and categorization of all emerging aspects related to the use of Islamic microfinance. Focusing on emerging insights initially helped build new relationships between poverty eradication and Islamic microfinance and extended the existing literature. In the second phase of analysis, respondents' information was examined as to whether it can be related to the characteristics and use of Islamic microfinance. Whereas, in the third phase of analysis, it was identified how Islamic microfinance could be helpful in the eradication of poverty.

Research Overview and Findings

Several reasons drove the researcher to carry out this research project. In the first instance, the previous personal experience helped select the research topic, which is poverty alleviation. Therefore, to understand the reality of poverty, a theoretical study was initially done by presenting a comprehensive and exploratory literature review. This included the definitions, types, and causes of poverty and literature related to entrepreneurship, conventional microfinance, Islamic finance, and Islamic microfinance. After this, an extensive study was carried out to acquaint the researcher with the reality of poverty. This was done by conducting interviews in which previous aspects of poverty were researched based on what was mentioned in the literature review. This helped the researcher contextualize the definition of poverty, which was one of the current research aims. Secondly, the motivation of the study stated that there is a need for development in the microfinance industry of Pakistan in which Sharia-based microfinance services may be provided to help people living in poverty. In this respect, the semi-structured interviews method was utilized to collect the data initially for achieving the aims of the current research and then to answer the research questions. The selection of the purposive samples of the population was made, initially looking towards the respondents from the previous work experience of the researcher and then by reviewing the sampling technique literature. The first factor found was that poverty does exist in its extreme conditions. These extreme situations refer to critical problems such as living in hostile situations. It was also found that other than financial aspects, factors such as war and natural calamities also cause poverty. The subsequent key finding was that respondents were unaware of the elements of entrepreneurship that basically existed among them due to a low level of education or illiteracy.

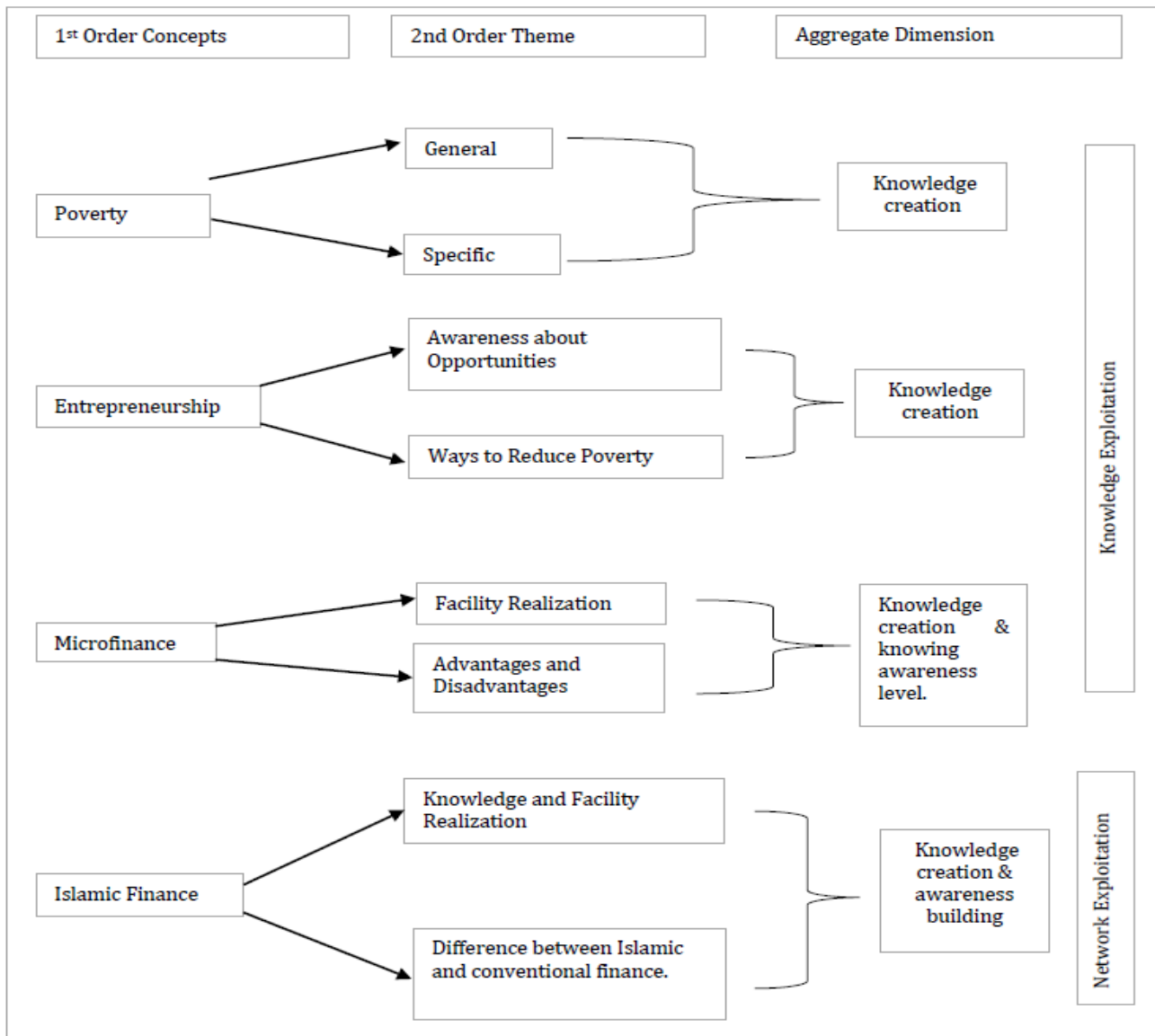


Figure 2. Data structure.

Moreover, the respondents' familiarity with banks and their functions and then specifically about the factor of interest showed was demonstrated in their unwillingness towards using the conventional banking services. The subsequent finding initially represented their overall unawareness about Islamic finance and then showed their positive mindset towards using Islamic microfinance as a tool of poverty alleviation. The results and findings of the current research have illustrated some of the fundamental aspects that need consideration in terms of implementation regarding Islamic Microfinance. It has been generally concluded that poverty does exist both in developed countries and under-developed countries. Therefore, the aspects of its causes in both countries are different at the household and institutional levels. As the current research explored poverty at a household level, reviewing the literature about poverty was also conducted accordingly. The responses regarding poverty helped the researcher classify into financial and non-financial aspects. This classification initially represented the multidimensionality of poverty (UNDP, 2013) supported by the literature. New elements were identified in

which poverty is mentioned as one where the state is such that business cannot be done, or it is a state in which there is no land. Additionally, being in a state of psychological or mental distress and living an aidless or socially deprived life supported the researcher in developing the understanding of poverty in a different way beyond the literature review.

The causes of poverty were the next aspect to be explored during the research. In doing this, it was found that ineffectiveness of government is poor governance and inadequate access to justice which include political instability, the weak capability of the public sector, environmental degradation or natural calamities, inflation, unemployment, landlessness, social factors such as low level of human development as well as structure of the society, poor health, and age of the chief wage earner in a family were those aspects which were initially reviewed in the literature and also confirmed by the research. Moreover, findings of these aspects corresponded to the three dimensions of poverty: fatalistic, individualistic, and structuralist. Other than this, results also indicated that poverty is mainly caused due to the structuralist

dimension in which low income and lack of education are included. The findings of the results also delivered new insights into the causes of poverty. This had enmity, being a borrower, being born into a low-income family, ignorance, idleness/laziness, migration and inter-displacement, the single earning person in a family, being orphan, and a large number of family members is disabled.

Moreover, it was found that poverty is also caused due to war and social conflicts. Coincidentally, all the respondents in the current research were Muslims; among them, few referred to the causes of poverty non-materialistically by relating it to their religious beliefs and mentioned that the will of God causes poverty. Moreover, in the line of research about causes of poverty, it was also asked whether the respondents consider themselves as those living in poverty. Again, the findings indicated two types of response were comprehended in which initially it was found that all of the respondents were undoubtedly living a life in poverty. In contrast, it was also found that although living a life in poverty is a reality but as a Muslim and having faith in God does not make them poor.

In addition to realizing the poverty situation and its causes, some additional findings of its effects were also part of the research. Once more, this aspect of poverty allowed the researcher to understand poverty from two perspectives. Firstly, it was found that as a result of poverty, poor people sell their children because they cannot look after their terms of bearing the expenses. Due to poverty, skilled people became incompetent, and people living in poverty get increasingly destitute. Unethical ways of earning such as begging and robbery were the severe effects of poverty found during the research. In the second point, it was noticed that respondents themselves regarded poverty as a curse and dilemma based on these effects. The next part of the findings was about the awareness of respondents with regards to required facilities and opportunities within their location in terms of financial services, the difference between interest and profit, knowledge about banks and the types of loans provided by them, knowledge about conventional microfinance, knowledge about Islamic finance and their opinion about using Islamic finance in the form of microfinance for reducing their poverty. The findings of financial services initially helped the researcher understand the level of their knowledge regarding financial assistance and what kind of financial assistance can help them reduce their poverty. Therefore, education, employment, and financial aid were required facilities to increase the level of income. Among these, emphasis was given on financial assistance that any kind of financial facilitation can be helpful in this regard. The findings regarding awareness of opportunities in the area indirectly represented their perception of entrepreneurship. The corresponding results showed that literate respondents had an excellent understanding of the area they were living in. At the same time, an illiterate respondent was unaware of the same area.

The findings related to the difference between profit and interest illustrated that very few respondents were aware of the exact difference. Still, the main thing about this finding was that all the respondents knew about the forbiddance of interest in Islam. Moreover, respondents' responses about banks, their functions, and the types of loans initially indicated the reality that banks are for rich people where they keep their money. The bank takes care of that money, and secondly, it was also found that few of the respondents had awareness concerning the types of loans provided by banks. The findings of the perception of Islamic finance showed that the respondents were unaware of the concept of Islamic finance. In this regard, respondents were briefly informed about Islamic finance initially by telling them the difference between conventional and Islamic finance and then informing them of Islamic finance principles. After doing this, again, their perception was taken about the use of Islamic finance. A very positive attitude was found, illustrating that it would help reduce poverty.

The reviewing of literature about poverty and information gathered in the field initially presents the conceptualization of poverty which was the main aim of the current study. Moreover, after developing an understanding of related aspects such as entrepreneurship, conventional microfinance, and Islamic finance with the help of literature review and enhanced through the collected information, the researcher achieved the second aim of the current study, which was to develop an Islamic microfinance model that could be used for poverty alleviation. Moreover, the earlier discussion about entrepreneurship represented one important tool people may benefit from. According to their needs, this betterment was either made by the organizations (Si et al., 2015) or by the individuals (ASH, 2017). Based on the respondents' knowledge, it was analyzed that some were indirectly aware of the factor of entrepreneurship. As there was a lack of familiarity around the concept of entrepreneurship, to get the information about it, it was asked in the form of questioning what opportunities they can perceive in the area that can help them make their lives better.

Moreover, initially due to a lack of knowledge about conventional finance generally and Islamic finance specifically and then the unavailability of finance more widely, they were unable to utilize the concept of entrepreneurship to improve their lives by engaging in it. Therefore, the idea of entrepreneurship concerning the notion of the current study would help reduce the level of poverty in Pakistan. For this, there is a need for future work to be done, focusing research on how the concept of entrepreneurship with regards to Islamic Microfinance can help people living in poverty. Based on the findings as mentioned above concerning poverty, its causes and effects, and also about other related aspects, it is concluded that the proposed model of Islamic microfinance (Figure 3) can be used beneficially not only for reducing the poverty of respondents of current research, but it would also be helpful for all those people living in poverty.

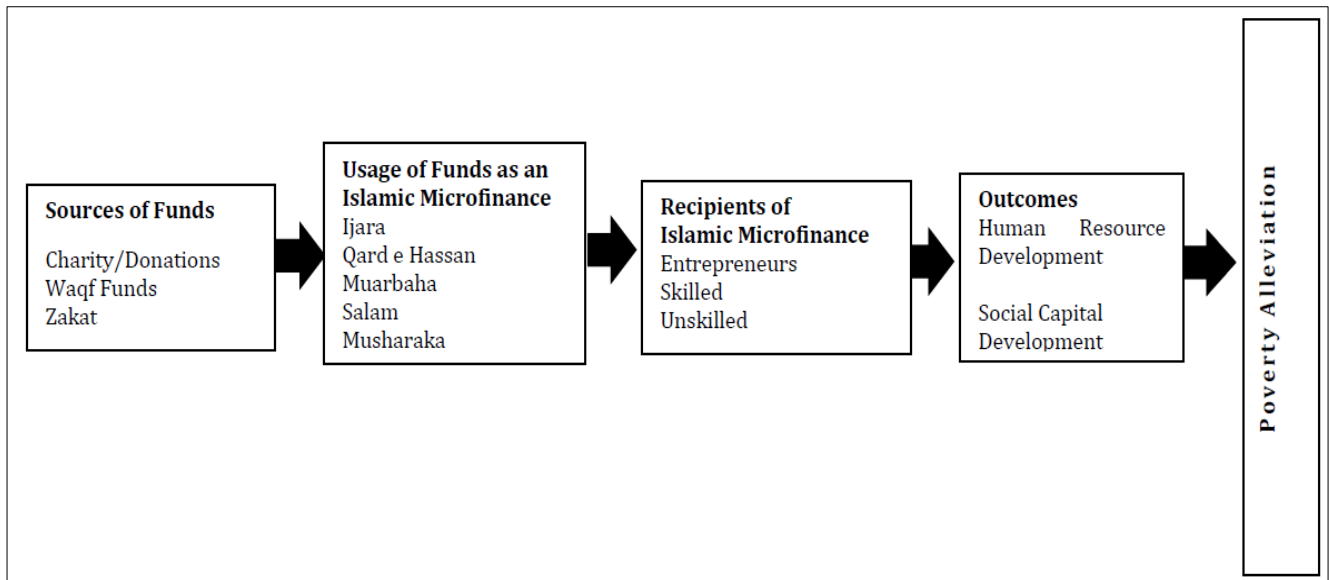


Figure 3. The proposed model.

CONCLUSIONS

To alleviate poverty, several models of Islamic microfinance have been proposed. Among those, certain deficiencies make them less likely to be adopted. This included the integrated waqf-based Islamic microfinance model (IWIMM) presented by Haneef et al. (2015) and the composite Islamic microfinance model (Dar et al., 2013). The first drawback of integrated waqf-based Islamic microfinance (IWIMM) is using a single source of funds, only the Waqf funds. Secondly, the minimum use of these funds is Islamic takaful insurance, project financing, and human resource development. Whereas, in the composite model of Islamic microfinance, Qard e Hasan, Waqf training, Zach, and Sadqa are included as charity-based Islamic microfinance instruments that can be used for poverty alleviation. The shortcoming of this model is that Zakah and Sadqa are only restricted to the abject poor (people who lack necessities of life). In contrast, originally, Zakah could be provided to several poor people. Moreover, Qard e Hasan is restricted only for the chronically poor (economically active people than the abject poor); however, like Zakah, it can also be delivered to any needy person. Therefore, based on these deficiencies, a comprehensive model of Islamic microfinance is needed to be developed for literature. Specific sources of funds can be used in various ways to reduce poverty. Academically this piece of research has widened the literature initially by adding certain new aspects in the conceptualization of poverty. These unique aspects were child selling, unethical ways of earning, which included begging and robbery, a nomadic life because of migration and inter-displacement, being a borrower, and last but not least, the gender balance of families. Additionally, the proposed Islamic microfinance model has filled the knowledge gap left by the previously proposed models of Islamic microfinance, which were waqf based Islamic microfinance model (IWIMM) for poverty alleviation presented by Haneef et al. (2015) and composite Islamic microfinance model presented in the global Islamic financial report, 2013 (Dar et al., 2013) Initially by adding various sources of funds such as Zakat and donations or

charity and then the addition of multiple modes of Islamic finance has overcome the shortcomings in the waqf based Islamic microfinance model. At the same time, the branch of various uses of Islamic microfinance in the form of different modes has fulfilled the deficiency presented by the composite Islamic microfinance model and has broadened the use of the proposed Islamic microfinance model.

Moreover, the addition of a proposed Islamic microfinance model has not only enabled awareness of the use and significance of Islamic microfinance, but its implementation will also raise the level of wellbeing as well. Thus, in this way, the current study has contributed to the implication that the use of the proposed Islamic microfinance model will support the sustainability and stability of the microfinance industry of Pakistan that was worsened by imprudent lending. The comparative analysis of conventional and Islamic microfinance regarding poverty alleviation is another contribution of the study. The findings helped to understand how the distinguishing features of each mode of Islamic microfinance can be used for each of its users to reduce poverty. The arguments mentioned above mention how various modes of Islamic finance can be used effectively in Islamic microfinance to fulfill the required financial necessities of different respondents to reduce their poverty. Thus, this indicates how the provision of Islamic micro-financial services will initially help contribute and maintain the proper distribution of wealth and then will also be helpful for the government and financial institutions to perform an appropriate role concerning poverty alleviation, in addition to this as there exists a clear difference between both economic systems (Usmani, 2004; Ibrahim, 2007) which is based on eternal guidance by *Sharia*, and which is unfamiliar. Moreover, this argumentative discussion has not only provided the concept of using Islamic microfinance but also highlighted the indirect perception of respondents about entrepreneurship. These were the respondents who knew the idea of generating income from alternative sources. Initially, due to a lack of awareness and secondly, due to the non-availability of such financial resources, they could not benefit themselves. Therefore, the financial

facilities provided based on the proposed Islamic micro finance model will justify the strategies of poverty alleviation in Islam: positive measures, preventive measures, and corrective measures (Sadeq, 1997).

REFERENCES

- ADB, 2002. Poverty in Pakistan issues, causes, and institutional responses. (Report No 070302). Islamabad, Pakistan: Asian Development Bank Pakistan Resident Mission.
- Adger, W.N. 2006. Resilience, vulnerability, and adaptation: A cross-cutting theme of the international human dimensions program on global environmental change. *Global Env. Change*. 16, 268-281.
- Adnan, M.A., Ajija, S.R., 2015. The effectiveness of baitul maal wat tamwil in reducing poverty: The case of Indonesian Islamic microfinance institution. *Humanomics*. 31(2), 160-182.
- Akindola, R.B., 2009. Towards a definition of poverty: Poor people's perspectives and implications for poverty reduction. *J. Dev. Soc*. 25, 121-150.
- Akram, Z., Wajid, S., Mahmood, T., Sarwar, S., 2011. Impact of poor governance and income inequality of poverty in Pakistan. *Far East J. Psychol. Bus*. 4, 43-55.
- Alam, M.M., Hassan, S., Said, J., 2015. Performance of Islamic microcredit in perspective of Maqasid Al-Shariah: A case study on Amanah Ikhtiar Malaysia. *Humanomics*. 31(4), 374-384.
- Alam, S., 2010. Globalization, poverty and environmental degradation: Sustainable development in Pakistan. *J. Sustain. Dev*. 3, 103-114.
- Appah, E., John, M.S., Wisdom, S., 2012. An analysis of microfinance and poverty reduction in Bayelsa State of Nigeria. *Kuwait Chapter Arab. J. Bus. Manag. Rev*. 1, 38-41.
- ASH, 2017. Empower Women. Arzu Studio Hope. Available: <https://arzustudiohope.org/empower-women-page/>. Last accessed 20th Jun 2017.
- Awan, A., Asghar, N., Rehman, H.U., 2011. The impact of exchange rate, fiscal deficit and terms of trade on external debt of Pakistan. *Aust. J. Bus. Manag. Res*. 1, 10-24.
- Blaikie, P., Cannon, T., Davis, I., Wisner, B., 1994. At risk. *Nat. hazards, people's vulnerability disasters*. pp.21
- Brau, J.C., Hiatt, S., Woodworth, W., 2009. Evaluating impacts of microfinance institutions using Guatemalan data. *Manag. Financ*. 35 (12), 953-974.
- Çizakça, M., 2014. Risk sharing and risk shifting: An historical perspective. *Borsa Istanbul Rev*. 14, 191-195.
- Dalla Pellegrina, L., 2011. Microfinance and investment: A comparison with bank and informal lending. *World Dev*. 39, 882-897.
- Dar, H., Azmi, N., Rahman, R., Malik, R., 2013. Global Islamic Finance Report. GIFR 2013. Available: http://www.gifr.net/gifr_2013.htm. Last accessed 20th Mar 2021.
- Dhaoui, E., 2015. The role of Islamic microfinance in poverty alleviation: Lessons from Bangladesh experience. (MPRA Paper No 63665) Tunasia: Munich Personal RePEc Archive.
- Dick, B., 2016. Convergent interviewing essentials. Chapel Hill Interchange. Accessible <http://www.aral.com.au/resources/coin.pdf>
- Fatima, G., Ahmed, A., Rehman, W., 2011. Fiscal deficit and economic growth: An analysis of Pakistan's economy. *Int. J. Trade, Econ. Financ*. 2, 501-504.
- Geleta, E.B., 2016. Microfinance and women's empowerment: an ethnographic inquiry. *Dev. Pract*. 26, 91-101.
- Giampaoli, P., Aggarwal, S., 2010. Land tenure and property rights in Pakistan. (4) USA: USAID. pp. 1-5. Available at: https://www.land-links.org/wp-content/uploads/2016/09/USAID_Land_Tenure_Pakistan_Issue_Brief-2.pdf
- Gioia, D.A., Corley, K.G., Hamilton, A.L., 2013. Seeking qualitative rigor in inductive research: Notes on the Gioia methodology. *Organ. Res. methods* 16, 15-31.
- Haneef, M.A., Pramanik, A.H., Mohammed, M.O., Amin, M.F. Bin, Muhammad, A.D., 2015. Integration of waqf-Islamic microfinance model for poverty reduction: The case of Bangladesh. *Int. J. Islam. Middle East. Financ. Manag*. 8(2), 246-270.
- Hanif, M., 2011. Differences and similarities in Islamic and conventional banking. *Int. J. Bus. Soc. Sci*. 2, 166-175
- Haq, R., Zia, U., 2009. Does governance contribute to pro-poor growth? Evidence from Pakistan. Pakistan Institute of Development Economics. PIDE working papers-52. pp. 1-26.
- Hassan, A., 2014. The challenge in poverty alleviation: role of Islamic microfinance and social Capital. *Humanomics*. 30(1), 76-90.
- Hermes, N., Lensink, R., Meesters, A., 2011. Outreach and efficiency of microfinance institutions. *World Dev*. 39, 938-948.
- Ibrahim, A.A., 2007. The rise of customary businesses in international financial markets: an introduction to Islamic finance and the challenges of international integration. *Am. U. Int'l L. Rev*. 23, 661-664.
- Ibrahim, P., Ghazali, R., 2014. Zakah as an Islamic micro-financing mechanism to productive zakah recipients. *Asian Econ. Financ. Rev*. 4, 117-125.
- Islam, J., Mohajan, H., Datta, R., 2012. Aspects of microfinance system of Grameen Bank of Bangladesh. *Int. J. Econ. Res*. 3, 76-85.
- Jaffar, M.A., Musa, R., 2014. Determinants of attitude towards Islamic financing among halal-certified micro and SMEs: A preliminary investigation. *Procedia-Social Behav. Sci*. 130, 135-144.
- Khan, H., Inamullah, E., Shams, K., 2009. Population, environment and poverty in Pakistan: linkages and empirical evidence. *Environ. Dev. Sustain*. 11, 375-392.
- Kothari, C.R., 2004. Research methodology: Methods and techniques. New Age International, Publishers, New Delhi.
- Kunhibava, S., Rachagan, S., 2011. Shariah and law in relation to Islamic banking and finance. *Bank. Financ. Law Rev*. 26, 544-557.

- Mahmood, S., Hussain, J., Matlay, H.Z., 2014. Optimal microfinance loan size and poverty reduction amongst female entrepreneurs in Pakistan. *J. Small Bus. Enterp. Dev.* 21, 231-249.
- Marshall, C., Rossman, G.B., 2014. *Designing qualitative research*. Sage Publications.
- Miankhail, S.B., 2009. Causes & consequences of poverty in Pakistan. *J. Managerial Sci.* 2, 43-74.
- Nwankwo, O., Olukotu, G.A., Abah, E., 2013. Impact of microfinance on rural transformation in Nigeria. *Int. J. Bus. Manag.* 8, 99-106.
- Obaidullah, M., 2015. Enhancing food security with Islamic microfinance: Insights from some recent experiments. *Agric. Financ. Rev.* 75, 142-168.
- Rajasekar, S., Philominathan, P., Chinnathambi, V., 2014. *Research Methodology. Knowledge management techniques for risk management in I.T. projects*. DOI:10.4018/978-1-5225-8389-9.ch002.
- Ravallion, M., Datt, G., Van de Walle, D., 1991. Quantifying absolute poverty in the developing world. *Rev. Income wealth.* 37, 345-361.
- Riazudin, R., 2015. *Pakistan Microfinance Review (PMR) 2014 Launch event organized by the Pakistan microfinance network. Microfinance and Financial Inclusion in Pakistan*. Islamabad. State Bank of Pakistan, pp. 6.
- Sadeq, A.M., 1997. Poverty alleviation: An Islamic perspective. *Humanomics.* 13, 110-134.
- Saunders, M., Lewis, P., Thornhill, A., 2015. *Research methods for business students (7th New ed)*. Res. methods Bus. students. 7th ed. England: Pearson. pp.124.
- Si, S., Yu, X., Wu, A., Chen, Shouming, Chen, Song, Su, Y., 2015. Entrepreneurship and poverty reduction: A case study of Yiwu, China. *Asia Pacific J. Manag.* 32, 119-143.
- Tariq, M., Idrees, A., Abid, M., Samin, T., 2014. Rationale effect of poverty in Pakistan. *Int. J. Res. Bus. Mgt.* 2, 1-12.
- Umair, M., Ullah, R., 2013. Impact of GDP and inflation on unemployment rate: A study of Pakistan economy in 2000-2010. *Int. Rev. Manag. Bus. Res.* 2, 388-400.
- UNDP, 2013. *Poverty Reduction and UNDP*. New York: United Nations Development program.
- Usmani, M.T., 2004. *An introduction to Islamic finance*. 5th ed. Netherlands: Kluwer Law International. p10-11.
- Washington, M.L., Chapman, Z., 2014. Impact of microfinance on entrepreneurial activity in emerging economies: Panel data from Argentina, Brazil, Colombia & south Africa. *Int. J. Entrep.* 18, 59-67.
- Weber, R., Musshoff, O., 2013. Can flexible microfinance loans improve credit access for farmers? *Agric. Financ. Rev.* 73, 255-271.
- Widiarto, I., Emrouznejad, A., 2015. Social and financial efficiency of Islamic microfinance institutions: A Data Envelopment Analysis application. *Socioecon. Plann. Sci.* 50, 1-17.

Publisher's note: Science Impact Publishers remain neutral with regard to jurisdictional claims in published maps and institutional affiliations.



Open Access This article is licensed under a Creative Commons Attribution 4.0 International License, which permits use, sharing, adaptation, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if changes were made. The images or other third-party material in this article are included in the article's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the article's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder. To view a copy of this license, visit <https://creativecommons.org/licenses/by/4.0/>.