Islamic Banking and Finance Review

Islamic Social Financing Institutions: A Proposal for Achieving the Poverty Alleviation and other Objectives of Shari'ah

Mehboobul Hassan
Professor at King Saud University, Riyadh, Saudi Arabia.
E-mail: mehassan@ksu.edu.sa

Research Paper Information:

To cite this article

Hassan, M. (2016). Islamic social financing institution: A proposal for achieving the poverty alleviation and other objective of Shari'ah. *Islamic Banking and Finance Review, 3*(1), 12–28.
Crossref

Access this article online

Mehboobul Hassan

Article

https://doi.org/10.32350/ibfr.2016.03.02

Contact Information

INSTITUTE OF ISLAMIC BANKING (IIB)
UNIVERSITY OF MANAGEMENT AND TECHNOLOGY
C-II, Johar Town, Lahore +92-42-3521-2801-10 (Ext – 3418)

Volume 3 1437-H/ 2016
ISSN (E): 2413-2977
ISSN (P): 2221-5239

Journal
https://doi.org/10.32350/ibfr
Issue
https://doi.org/10.32350/ibfr.2016.03

This is an Open Access Journal

Published By
Institute of Islamic Banking
University of Management and Technology (UMT)

https://iib.umt.edu.pk/ibfr/home.aspx
ibfr@umt.edu.pk

Islamic Social Financing Institutions: A Proposal for Achieving the Poverty Alleviation and other Objectives of Shari'ah

Mehboobul Hassan[1]

Abstract

Majority of Muslims expressed unprecedented interest in Islamic Banking and Financial Institutions (IBFIs) believing that IBFIs, having the holistic approach of social-welfare behind their establishment, will harbor the rights of the poor and underserved people of the society, and will cater needs of poor on priority basis. But, the situation of poverty is so complex and distressing that no major change has come yet; a large segment of society is still unbanked and living under the poverty line. Poverty and underdevelopment are co-related issues are coping with these two issues is the prime objective in policies of all the developing and developed countries. Using a social welfare approach, this study theoretically demonstrates that, in today's challenging environment, where the government is confronting on geo-political conflicts, globalization, disruptions, human deprivation and poverty, the importance of establishment and promotion of Islamic social financing institutions have become more significant than the past. A financing institution with non-commercial approach can effectively address the socio-economic problems of individuals, communities and societies and can contribute to the achieving of poverty alleviation, socio-economic justice and human development better than the formal financing institutions. Islamic social financing institution operate with the holistic spirit of human dignity and socio-economic development approach for ending the hunger, economic inequality, illiteracy, unemployment, poor healthcare, financial inclusion and sustainable economic growth. It also provides the opportunity to the poor to employ their full capacity in economic productive projects and bring a substantial change in the state of economic and social conditions. This paper highlights the socio-economic problems of Pakistan, and proposes for expanding the horizons of Islamic economics by establishing Islamic social financing institutions.

Keywords: human development, Islamic social financing institutions, poverty alleviation, socio-economic welfare, sustainable development.

[1]Professor at King Saud University, Riyadh, Saudi Arabia
E-mail: mehassan@ksu.edu.sa

Introduction

1.1. Poverty as Global Issue

Societal challenges and violation of human rights are closely interlinked with poverty and poverty is one of the main problems of the developing countries like Pakistan. It is considered the most distressing economic and societal issues since the birth of human civilization. World Bank proposed a charter, called as MDGs 2000, for the elimination of poverty and securing the human rights along-with the increase the living standard of poor people. In this charter, eight goals were specifically set to be achieved till 2015 and to half the poverty level in the world till 2015 was one of these objectives. Poverty has so many forms and multiple dimensions that, despite the immense number of efforts, it is still present in all over the nations, regions and countries in the world. Muhammad Younas, the pioneer of Grameen bank, describes that "poverty exists, when someone is jobless, illiterate, homeless, or in the lack of capital and have insufficient food. Moreover, there are numerous indicators of poverty, consisting of low income, homelessness, unawareness, helplessness, short life expectancy, hunger, less production, unemployment, poor infrastructure, high maternal mortality rate, powerlessness, and poor social services like poor health, education, financial services and lack of clean drinking water.

One of the major causes of the poverty and many other societal problems is lack of access to finance to feed-up the basic needs for livings of the poor. Around two billion (around 38%)of the world population do not have access to the formal financial services; 73% poor of the world population are unbanked, or they do not use banks because of costs, travel distances, and often-burdensome requirements involved in opening account in formal banking and financial institution.

The economists and policy makers, equally, believe that the access to financial services is the pathway towards developing the entrepreneurship opportunities, creating new business possibilities, and eases the curses of poverty by creating new job opportunities and employments, and eliminates the income and economic inequalities at gross root levels of the society. Financial exclusion and poverty are closely interlinked and are considered among the real problems of economy both in the developed and developing worlds. In most of the countries, financial services are available only to a limited number of the population and a large segment of the bankable adults do not have access to the banking and financial institutions for meeting their financial needs.

Bringing the unbanked into the banking network is the key agenda at every forum of the discussion and has taken the attention of scholars, policy makers and economists. United Nation launched comprehensive program for developing the policies for financial inclusion and the year 2005 was celebrated as the International Year of Microcredit. Building an Inclusive Financial Sector was the main agenda to achieve the Millennium Development Goal (MDGs) of the UN. Financial inclusion of individuals, entrepreneurs and small scale firms has become the central focus of many local, federal and international authorities and government policies and debates. Especially, Microcredit and Micro-takaful financing for the small and individually owned businesses are the catchphrase for the policy makers and the authorities. Microcredit and Microfinancing were the focused policy tools emphasized in the Millennium Development Goals (MDG 2000), in which all the member countries of UN agreed to bring the poverty to half the total population by the year 2015. Un Secretary General, Mr. Kofi Anan in the year 2003 announced the year 2005 as the international Year of Microcredit while addressing in the following words: “the stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. We can and must build inclusive financial sector that help people improve their lives” (Annan, 2005).

Dissemination of Financial Inclusion Indicators was among the top endorsements of the G-20 leaders of Seoul 2010 Summit. World Bank too addressed the financial inclusion issues in its second series of the Global Financial Development Report (WorldBank, Global Financial Development Report, 2013). This increased interest of the academia and the authorities in this socio-economic issue. Finally, financial inclusion is now one of the main themes of policy and regulatory debates and applied researches, and the agenda of government policies and plans.

1.2. Poverty in Islamic World

Islamic world exhibits the poor level of economic and social livings. Short life expectancy, hunger, less production, unemployment, poor infrastructure, high maternal mortality rate, powerlessness, poor health, education, financial services and lack of clean drinking water, financial illiteracy and underdevelopment are some the contributing elements in this picture. More than 2/3 population of the Muslim world consists of the young adults and this large workable human resource can a power generating hub for the Muslim world if employed properly in the economic activities.

In the South Asian Muslim countries, especially in Pakistan and Afghanistan, the picture is much darker. In both of these countries respectively, only 13% and 10% of the adult population has account in scheduled banking and financial institutions. A large part of the population is deprived of employment, the right to work, adequate standard of living, health care and education, triggering poverty; the biggest challenge to socio-economic development. The stark reality is that the number of young population in both of these countries counted as much as 70% or more of the total population. So, in very reserved measurement, more than three quarter of the population have no accounts or other kinds of financial transaction with the banking or financial institutions (WorldBank, 2016). Absolute poverty in its all vicious faces in the developing world especially in the Islamic countries is prevailing, or in other words it can be said that poverty is remained un-addressed issue or it was addressed without an Islamic approach. Financing to poor was not considered as right of the poor, rather it was considered as benevolence from the banks and authorities to the poor. UN claimed in year 2015 review report that global poverty rate fell below 10% as compared to 37.1% in 1990. In other words, approximately out of 2,800 million in 1990, now only 702 million people are living under $1.90 per day. This progress is declared as "best news in the world today" by World bank Group President (WorldBank, Global Financial Development Report , 2015). But the other side of the picture shows a sad depiction too as majority of these 702 million poor are residing in South Asia and Sub-Saharan Africa, undoubtedly majority is Muslim. And in further depiction of this sad picture, we find only 11% of these poor have bank account in a formal banking and financial institution.

To explain the role of financial sector in addressing the poverty and other societal issues, next section explores the importance of financial sector and highlights the complex set of constraints that must be addressed in order to foster the financial market development, align with the Islamic vision of financial sector.

1.3. Significance of Financial Sector

Financial sector plays a significant role in the sustainable economic growth and societal development and the access to well-functioning and efficient financial services can generate positive externalities; it leads to increase the savings, empowering individuals economically and socially, allowing them to better integrate their services and potential into economy and its growth and development.

The significance of a purposefully designed financial system can help the society and the economy in the following ways (Hassan, Access to Finance: Is this a Right of the Poor or Benevolence from the Bank, 2016).

- It implants the savings habits among the peoples; leading to increasing in the savings, investments and thereby spurs the process of economic growth.
- It encourages the saving habits in the households and provides a platform to those who are living constantly under financial duress because of absence of savings, which make them vulnerable folk of the society.
- Financial inclusion creates avenues of formal credits to the unbanked lots of the society who are otherwise dependent on exploitative informal sources of credit for their financial needs.
- In-time provision of adequate and properly designed financial schemes, goods and service, will inculcate entrepreneurship spirit and skill in the households and eventually will increase output and spurs the process of economic growth.

- Financial inclusion has been viewed as a successive strategy for swift and fair provision of government benefits and subsidies to the needy and deserving lots of the society. Transfer of government benefits directly to bank account of the recipient is also considered as a remedy to overcome the leaks in distribution of government benefits and subsidies.

Thus, the core of the whole discussion is that a well-developed and deep-rooted financial sector will reach to those who were unbanked; it will channelize their savings from depositors to the potential entrepreneurs, ease the economic problems of the poor, spurs the socio-economic development and will lead to the growth prosperity of the country. “Financial services for the poor” refers to microfinance and other financial products for the underserved lower-income segment of the population (Imboden, 2005). In a broader sense, it implies to bridge the gap between the unbaked and the already banked segment of the population.

1.4. Constraints to Financial Inclusion

Financial inclusion means bringing the bankable population into banking and financial services network. Financial services in forms of microcredit, microfinance, safe savings, loans and stipends, on one hand is an effective tool to help the poor in building the income and assets stocks, managing risks, and try to come out of poverty, and on the other hand, it is considered as having the powerful implications in promoting economic activities, reducing unemployment by creating new jobs and opportunities for the low-income and most likely poor segments of the society and economic development (Hassan, Access to Finance: Is this a Right of the Poor or Benevolence from the Bank, 2016).

While, despite the fact that real economy of the world is shrinking because of various reasons including the peace and security, financial sector is expanding in terms of assets, profits and financial products and services. However, the sad reality is that these assets are concentrated in few fortunate hands that already are better off in many terms. Financial sectors today are exclusive of the vast majority of the population. Many social, economic, political and geographical factors are held responsible for this high rate of financial exclusion, including; belief, family bindings, religions and personal perceptions. Moreover, reasons are varying from region to region and impact differently on the people while considering age, class, gender, geographic location, family, profession, and race. These reasons deter the potential client of banking sector from understanding and utilizing the range of the banking and financial product and services available to them.

We can classify these constraints causing low rate of financial inclusion into the following categories (Hassan, Constraints in the way towards the Financial Inclusion, 2015).

1.5.Constraints to Financial Inclusion (Demand Side)

Voluntary Reasons	**Involuntary Reasons**
No Need of Banking	Identity Requirements
Wrong Perception (Banks are for Rich)	Insufficient Incomes
Not Interested in Banking	Complex Banking Terms and Conditions
Religious Belief, and Family Bindings	Fear of Discrimination or Unfair Treatment
No Experience of Bank Dealings	Lack of Information about the Market
Lack of Confidence about the Project	Fear of Coming under Taxation network
Lack of Trust on Banking Institutions	Complex Processing
Miss-understanding About Banking Schemes	Limited Banking Services/Products/Schemes
Social and Cultural Believes	Collateral Problems
Geographical Reasons	Transactions Costs
Dominance of In-Formal Sector	Physical Access to bank

1.6.Constraints to Financial Inclusion (Supply Side)

Internal Factors	External Factors	
Owners Priorities	Socio-economic System	Non-Banking Clients
Banking Policies	Religious Belief	Limited Interaction
Priorities of Management	Political System	Limited Outreach
High Risk	Fear of Nationalization	Illiteracy in the Society
Low Profitability	Regulations Taxation	Competitors
Market Information	Feasibility of the Project	Geographical Reasons
Failure to understand the customer Needs	Lack of Trust between the Banking Clients	Complex Judiciary and Legal Procedure
Depositors/Investors Influence	Lack of Infrastructure	Dominance of Informal Sector

2. Financial Sector in Islamic Perspective

Islamic Banking and Financial Institutions were established during the last quarter of 20th century as a result of the emergence of Islamic moral economics; started as an emergent movement in the 1960s to develop an economic system to incorporate the Islamic values of social justice, reciprocity and the material wellbeing of all. Since then Islamic banking and financial institutions demonstrated exceptional and unprecedented performance in growth in assets and investments and have transformed the base financial base of the Muslim societies. Islamic banking and financial institutions took shape to cater the needs of those who were reluctant to use the conventional banking system. Having this holistic features and high expectations from the Muslims, Islamic banks have to operate with a holistic spirit and human oriented approach in entirely different paradigm from the conventional banking. Islamic banking and financial institution are expected to work for expanding their range, products and service accessible to a large segment of the society especially to the poor and financially vulnerable lots of the Muslims. One of the expected practices of IBFI was to open their doors for extending financial services to those segments of the Muslim societies who, because of any reason, are out of the banking network. Moreover, IBFI were believed to work to achieve the economic objectives of Islamic Shari’ah (Maqasid-ul Shari’ah), i.e. equal and balanced economic growth, shared prosperity, poverty elimination and economic well-being of the society.

There is no deny in accepting this reality that IBFIs showed a tremendous growth over the past two decades, especially after the great financial depression, in terms of efficiency but the stark reality is that a large segment of the population is still without banking facilities, which means that IBFIs had very little impact on society in term of effectiveness. We see there are massive publications and advertisements from the IBFI on their performance about the increase in assets/deposits, financial portfolios and other operational aspects, but fruit of this growth is limited to few and these assets are concentrated in hands of few. IBFIs are excessively focused on efficiency and profitability at the expense of effectiveness, equity and well-being of individuals and could not achieve the goals of their foundation.

One of the logical reasons of this poor achievement can be attributed to the failure of Islamic banking and financial institution in implying a paradigm shift in recognition of the poor people as beneficiaries to the clients and their excessive inclination towards achieving the efficient performance and profit orientation, while ignoring their founding objectives. IBFI are held responsible to operate as power houses for the sustainable socio-economic development, and have to recognize the need of the masses and address the financial demands and requirements with an inclusive approach. Financing to those who are neglected or ignored in the conventional banking and financing institutions is considered an obligation on the Islamic banking and financial institutions on the basis of their founding. Microfinance to these destitute and needy is not an exercise of charity or given as an act of alms, it is their right as Allah SWT has mentioned in the Quran that the right of needy and destitute is put in the wealthy and well-off. And if Islamic banking and financial institutions properly sanction to these ignored and financially excluded, they will became mature entrepreneur and this attitude of Islamic banking and financial institutions will attract other banking and financial institutions too to enter this market. Meanwhile, the objectives of contributing to equitable growth, shared prosperity and poverty reduction will be achieved countrywide. Over time, the role the Islamic banking and financial institutions towards growth and development of the society will also increase exponentially and the perception towards Islamic banking and finance will change correspondingly.

Access to financial services means an opportunity for the meeting the current financial needs and plan for the future in form of investments in education, healthcare and a cushion in time of crises. The poor will feel secure against the economic shocks that would lower their consumption or reduce their savings, and will able to credit acquisition and able to earn additional incomes which will lead to more consumption, spending into capital goods, health, education and skills-development and productivity. This will lead to household well-being and increase in the quality of human capital and productivity in longer run (Hassan, Constraints in the way towards the Financial Inclusion, 2015).

In Islamic perspective, a financial system can be said inclusive if it demonstrates the following features (Hassan, Islamic Perspective about Financial Sector, 2016):

a) Time-based Provision of Shari'ah compliant products: A full access of households, including entrepreneur, to a full variety of Shari'ah compliant products such as credit for capital expenditures, financing for short-and-long, small savings-based-investment schemes, pension collections, domestic and international remittances, financing for seasonal and periodical projects, insurance and protections in case of the failure of the projects and or against the destruction of the capital goods and investments; and
b) Cost Efficient: A low cost provision (service on lower than the regular cost) of the banking and financial services. It includes the services charges, consultancy, and survey and feasibility fee.

By ensuring both of the above features as an integral part into the policies and plans of the Islamic financial institutions, the financial service will reach to the vast segments of Muslim population and the level of financial deepening in the society will increase significantly along-with the achievements of the optimal employment rate, skill development and poverty elimination.

The complexity of the challenges is such that without insertion of socio-economic development and ethical approach into the policies of the financial institution, the objectives of Shari'ah cannot be achieved.

3. Islamic Social Financing Institutions: A Proposal

The low rate of a large percentage of the workable adult population in financial transactions is serious concern from economic and well as social perspective. It is the need of the time to address this issue on priority basis and develop and implement a targeted and objective oriented policy, both at governmental and banking institutional levels, to bring unbanked people into banking network with an Islamic perspective. While the potential of IBFIs for developmental initiatives is huge the actual outcomes of benefits from existing IBFIs as also the mobilization of new IBFIs is far below its potential. This gap can be bridged only through determined efforts to prioritize the major challenges to the creation, growth and sustainability of IBFIs and find solutions thereto.

The need is to inculcate the sense of serve the social obligations at the banking and financial institution side which enable the workable unbanked adult people to have access to financial instruments including savings, capital accumulation, credit and running financing for their daily operations of family life and businesses. It will inspire families concerned for savings and investments and, simultaneously, will force economies to plan and design a financial system to incorporate the needs and demand of these unbanked people on priority. A financial system, where the Islamic banks do not operate purely for commercial interest, rather they operate as Islamic Social Financing Institutions with an approach to bring the neglected segments of the society into the banking network and work hand to hand with their client for achieving the poverty alleviation and other objective of Shari'ah (Hassan, Searching for Customers' Perceptions and Behaviours towards Islamic & Conventional Banking in Pakistan, 2010Vol. Vol. 14, No. 1).

This strategy will result substantially positive and will accomplish the following:

3.1. Increase in the Demand of Banking and Financial Institutions

A positive image and good will of financial institution will be developed among the people and a greater sense about the importance financial institution will be realized by those who are still reluctant to use banking and financial institutions for their financial purposes. This will lead to a greater demand and functioning of the financial institutions in the society. The greater demand eventually will inspire the other stakeholders to enter in this market resulting a wider outreach of the banking and financial institutions.

3.1.1. Product Development of Banking Operation. To bring a larger share of the population into banking network, a wide variety of banking and financial services, will be an essential requirement. This approach will inspire the research and product development division of the bank to find the financial solution to the problems of the potential client. Eventually it will expand the range of activities and increase the coordination between banking departments in terms of developing and structuring the products and services to offer.

3.1.2. Deepening the Banking Business. By incorporating this approach into banking practices wide outreach of the banking and financial intermediation can achieve. Moreover, and a large-scale mobilization of small savings into financings can also be possible. Branch expansion program and direct lending will enhance the output and economic performance of the small scale firms.

3.1.3. Realization of Ethical and Social Responsibility. From social responsibility point of the business organizations, achieving the wider objectives of balanced growth and sharing profits, just income, equal distribution of income from a wider bottom line will be add significant value to the cause of Islamic economics and the objectives of the Maqasid-al-Shari'ah.

3.1.4. Higher level of integration between banking sector and the clients. Developing a wider range of the products for a targeted group of people will bring banking institution closer to those targeted people which will increase the integration level of financial sector and the workforce in the economy. Continues financing to poor, along-with the technical support and supervisory services will increase the frequency of banking use to the poor. This will inspire them for business initiatives and will enable them to take the risk with confidence.

3.1.5. Engage the wide range of professional and expertise. Financial inclusion of the poor requires a sincere cooperation and working of the wider range of professional and experts to solicit their expertise and practices for structuring a constructive financial system to address this global policy and application concern.

3.1.6. Increased integration of different authorities. Financial inclusion of the socio-economically marginalized will require an increased integration for the provision of supporting physical ad informational infrastructure (Buildings, roads, the regulations for accounting, disclosure, transparency, and distribution).

A series of steps at banking and authority levels are required to bring the unbaked people into banking network. In the developing economic environment of Islamic world that necessitates access to financial services; effective inclusion requires substantial reforms in the approach of the bankers, internal policies of the banking and financial institutions, targeted allocation of resources from the banks, modified banking models and operations, and measuring the banking operations on the basis of effectiveness instead of efficiency. In the following passage we discuss these attempts in details. Meanwhile, it must be bear in mind that lack of any of these factors will impede the financial access of the poor to IBFIs.

4. Operational Strategy to increase the Financial Inclusion Level

4.1.Financial Inclusion of Individuals

4.1.1. Financial Literacy. Increase in financial literacy through institutional and social media sources can eliminate the misunderstanding level about the banking institution from the society and increase the understanding level and realization of the significance and importance of the baking institution in the society. Especially, the financial literacy to the unbanked people educating them that borrowing and lending money is not disliked in religion (rather Prophet SAW frequently borrowed food and other stuff from his Muslim companions and non-Muslims neighbors). Increasing the literacy about the credit and the role of baking institution can be leading to a higher level of financial inclusion. More and more unbanked people will be encouraged towards utilizing the range of banking products and services.

4.1.2. Changing in the Perception about Banks (Banks are for Rich only). Educating the unbanked people that banks work as quasi-public goods for the poor, and are not limited to the rich only. Utilizing banking institution and availing the banking products and services is the right of every one and it is not benevolence to poor. This attempt can enhance the financial inclusion, regardless of whether IBFI are present in their surrounding or not.

4.1.3. Making the Banking Process Easier. Many recent studies show that one of the main reasons for unbanked is the complex process for availing the banking services. Many customers believe that banking process is complex and require many identification, attestation, guarantees, and references, for opening a bank account, and demand further requirements for remittances and loan applications. While in informal sector there are no such requirements. To address this one of the main problems of unbanked, the banking processes needs a revision and has to make as easier as possible to attract new clients and to boost the banking activities/transaction level of the existing clients.

4.1.4. Protecting the Client (Voluntarily Bearing the Maximum Risk-weight). To encourage the customers to take initiative for risky projects and business ventures, banking institution can sanction the financial sums to on the basis of Musharkah mode of Islamic banking with full coverage of risk at banks expense. This will significantly develop the confidence level of the customer and their willingness to take business initiatives.

4.1.5. Protecting the Clients (IBFIS as Guaranteeing the Assets of Clients). As we discussed, many potential bankable individuals are voluntarily abiding the bank dealing because of the fear of losing their owned assets in case of the failure of their proposed business project or business venture goes unsuccessful. In such cases, IBFI can assure the guarantee that the assets will remain under the ownership the clients.

4.1.6. Provision of an Income Generating Assets besides the Principle Financing/Credit. IBFI can give a second/side income generating asset in form of cattle, machinery or creating a job for the family of the client, besides financing to his principal project, so that he may earn some additional income apart from his principal. This practice will help in increasing the earnings of the client, and he will feel happy with the bank and can focus more efforts on the project; the risk of business failure will decrease that will eventually assure the safe return of the finance of the bank, and bring the IBFI close to their clients at personal and family level and will develop a mutual and pleasant relationship.

4.1.7. IBFI as Incubator of Entrepreneurship. For incubating the entrepreneurship skills, IBFIs can sanction financial sums the targeted potential individual with no service or administrative charges. This long-run investment for developing the most important factor of production in the form of human resource is essential for initiating the economic activities in the society.

4.1.8. Investments in Infrastructure Provision. Supporting elements such as infrastructure are essential for the success and growth of a business project and or an industry. IBFI infrastructure can support the existing business project and or an industry by providing a supporting infrastructure to that business project or industry.

4.1.9. Granting Non-recoverable Loans (Qard-al-Hassan). IBFI can greatly help towards the poverty elimination and financial inclusion by providing financial services for the poor of the poorest (who have high likelihood for growing out of poverty or those poor who are on the borderline poverty whom if not assisted have a high likelihood of falling into poverty). This practice is expected on the holistic foundation of IBFI, i.e. to contribute for the socio-economic development of the neglected ones of the society.

4.1.10. IBFI as Future-oriented, Socio-economic Development Institutions. IBFI by applying the holistic approach of Islamic Shari'ah to achieve the greater objective of sharing development, equitable distribution of income, mutual prosperity, increase in education and health of the people, sustainable development, and equally keeping the strategy for, long-run success, can sanction financial service through a special Islamic socio-economic provisions to those who are most like to extreme poor and unable to return the capital amount granted to them. This changed institutional position can be for the provision of shelter, means of income earning, health care, earning education and training, and to initiate a vending shop or kiosk. This socio-economic development based practice will enable these extreme poor to come out of the poverty trap and will surely become part of the banking sector in future. This practice will lead achieve the greater objectives of Shari'ah such as elimination of poverty, sharing development, equitable distribution of income, mutual prosperity, increase in education and health of the people.

4.1.11. IBFI as Micro-financing Institutions. Microcredit and Micro financing institutions have long history of their existence than the IBFI, and their role in economic growth and development is exhibited in many countries. Generating a small sum of money as loan or credit for a specific economic and social purpose to a targeted group of people has shown a significant impact on the economic and social living standard of individuals. Microcredit can be of tremendous potential for financial inclusion in the many parts of the world. IBFI can increase their outreach to a large number of population my incorporating this financing and credit segment into their operation which will eventually increase the financial inclusion level.

4.2. Financial Inclusion of Business Firms

4.2.1. Proportionately higher risk-weight on the IBFIs side. For bringing the business firms into banking net-work, IBFI can voluntarily cover more riskweightage if the borrowing firms have small capacity of collateral and asset basis. This will encourage the borrowing firm to increase the production and the economic activities in the economy. On the other hand, the accountholders/investor of IBFI will eventually bear more risk on their investments, so they will more cautious about the operation of the invested firm which will lead to an increased level of information sharing among all the stake holders. In summing up, the sharing of information and transparency in business operations will lead to higher trust level among the partners and success rate of the projects.

4.2.2. Provision of additional services. From Supply side, the IBFI, will likely be more desiring of the success of the project and will be motivated to extend technical assistance and professional advisory and if needed provide the market forecast too to its clients. This will lead to a provision of wider range of services apart from mere financing which will increase the positive linkage and integration between financial sector and the real sector in the economy. IBFI's provision of the technical support advisory and supervisory services will increase the frequency of banking and client interaction, eventually a more transparent and trusted relationship and business conducive culture will develop in the society. Business firms and management will inspire for further business initiatives and opportunities and to take the risk with confidence.

4.2.3. Exchange of information. On provision of consultancy and supervisory service to the recipient firm, the investors of IBFI will be regularly informed more about the operations of recipient firms. This will lead towards the development of awareness and education about the business in the society. And the borrower will feel a strong integration with the bank and will employ his full capacity for the success of the project.

4.2.4. Reforms in IBIFs competition. The core concept of the establishment of IBFI is to provide financial services to the unbanked and financially excluded people. Islamic banks are established and working in a different paradigm. Islamic banking and financial institutions merely compare with their counterparts in terms of performance and outcomes, for example the worth of accumulated assets, percentage of market shares, number of banking branches, number of shareholders, and so no. Conventional banking is neither the competitor nor the rival of Islamic banking. So, for IBFI there is no need to compare their performance and growth with the conventional banks on accounts of increase in assets, profit earnings, dividend per share, etc. Rather, their performance and competition is fight against the economic unjust, poverty, and underdevelopment. So, there is a need of reforms in understanding and recognition of the real opponents of IBFIs (those are poverty, underdevelopment, illiteracy in context of financial sector, unemployment and financial exclusion) and then to compete with these.

5. Conclusion

In this paper, we discussed the alignment of financial inclusion measures with Islamic values that can positively impact on individuals, families, societies, firms and economy. Financial exclusion and poverty are closely interlinked issues and are considered as the real problems for both the developed and developing worlds. Islamic world exhibits the high rate of financial exclusion, illiteracy, unemployment, underdevelopment and many other economic and social problems of its adult population. Islamic Banking and Financial Institutions were established in 1980s as part of Islamic revival movement of the 1970s. The founding objectives of these institutions were to structure a financial system that incorporates the Islamic economic and social values of justice, reciprocity and the wellbeing of all, especially those who are neglected and ignored by conventional banking system. Having this holistic features and high expectations from the Muslims, Islamic banks have to operate in different paradigm with the human oriented approach and to work for expanding their range products and service accessible to a large segment of the society especially to the poor and financially less fortunate adult Muslim population. In the developing economic environment of Islamic world that necessitates the access to financial services more than ever; effective inclusion requires substantial reforms in the approach, internal policies of the banking and financial institutions, targeted allocation of resources from the banks, modified banking models and operations, and measuring the banking operations on the basis of effectiveness instead of efficiency. Lack of any of these factors will impede the financial access to IBFIs. While the potential of IBFIs for developmental initiatives is huge the actual outcomes of benefits from existing IBFIs as also the mobilization of new IBFIs is far below its potential. This gap can be bridged only through determined efforts to prioritize the major challenges to the creation, growth and sustainability of IBFIs and find solutions of poverty, underdevelopment and other challenges. Indeed, there are challenges at all levels and requires shifts in paradigms at all levels. At macro level, there is a need for realizing and identifying the foundation objectives of IBFIs as largest potential for socio-economic development and achieving the Shari'ah objectives and to develop appropriate modes of financing to the potential entrepreneurs of Muslim youth so that these may provide a sustainable source of funds for addressing various social needs. There is also a need for efficient and effective management of IBFIs for enhancing their credibility, social acceptability through improved transparency and better governance. At a macro level, there is a need for better network and advocacy, provision of education and training of the employees for bringing the change in the customer treatment; from a perception of considering of poor people as beneficiaries to the treatment of people as client and from providing credit-only to providing a range of financial services adapted to the need of clients.

IBFIs can widen their outreach to larger segment of population by prioritizing the socio-economic objectives of Islamic Shari'ah and addressing the demands, choices and preferences of the underserved Muslim population of their locality. In addition to these attempts, incorporating the accords of protecting the dignity of the consumer, protecting their asset and bearing proportionately higher risk-weight and providing the risk-free credits to these poor can create significant respect for the IBFIs and will eventually enlarge the financial market share of the IBFIs.

References

Annan, K. (2005). Speech. *Building Inclusive Financial Sectors to Achieve theMillennium Development Goals* . Washinton DC: UNCDF.

Austalian. (n.d.). ACOSS poverty report_ October_2010.pdf.

Hassan, M. (2010Vol. Vol. 14, No. 1). Searching for Customers' Perceptions and Behaviours towards Islamic & Conventional Banking in Pakistan. *Review of Islamic Economics*, 77-102.

Hassan, M. (2015, April). Constraints in the way towards the Financial Inclusion. --. Riyadh, Saudi Arabia: Islamic Banking Center, King Saud University.

Hassan, M. (2016). Access to Finance: Is this a Right of the Poor or Benevolence from the Bank. *1st CEIF International Conference on Islamic Economics and Finance.* Peshawar: IMSciences.

Hassan, M. (2016). Islamic Perspective about Financial Sector. *Development of Financial Sector in Islamic Perspective.* Riadh, Saudin Arabia: Lectures (Not Published).

Imboden, K. (2005). Building Inclusive financial sector: The road to Growth and Poverty Reuction. *Journal of International Affiars*, 65-86.

Services, A. C. (2010, October). Poverty and its Causes, Poverty Report,. *ACOSS poverty report_ October_2010.pdf*. Australia. Retrieved from www.acoss.org.au/images

WorldBank. (2013). *Global Financial Development Report.* Washingto DC: World Bank.

WorldBank. (2015). *Global Financial Development Report* . Washington DC: World Bank.

WorldBank. (2016). *Financial Inclusion Overview*. Retrieved July 2016, from http://www.worldbank.org/en/topic/financialinclusion

Further Readings

Adil, S.A., &Badar, H., 2003, Impact of micro-credit on poverty alleviation and agricultural production a case study of NRSP, D.G. Khan Region Pakistan. *Journal of Agricultural Research, 41*(4), 309-316.

Ahmad, S., Naveed, S.M., &Ghafoor, A., 2004, Role of microfinance in alleviating rural poverty: A case study of khushhali bank program in RahimYar Khan Pakistan. *International Journal of Agriculture and Biology*, 7(1), 426-428.

Akram, M., &Imtiaz, H. ,2011, The role of microfinance in uplifting income level: A study of district Okara, Pakistan. *Interdisciplinary Journal of Contemporary Research in Business*, *2*(11), 75-87.

Alam, M., Ullah, R., Mirza, I. A., Saleem, W., Elahi, M., & Sultan, H., 2014, Impact of microcredit scheme on socio-economic status of farmers (a case study of PRSP in district Gujranwala). *A Research Journal of South Asian Studies*,*29*(1), 161-169.

Al-Shami, S. S. A., Majid, I. B. A., Rashid, N. A., & Hamid, M. S. R. B. A., 2014, Conceptual framework: the role of microfinance on the wellbeing of poor people case studies from Malaysia and Yemen. *Asian Social Science*, *10*(1), 230-241.

Arif, G. M., Iqbal, N., &Farooq, S., 2011, The persistence and transition of rural poverty in Pakistan, 1998-2004 (PIDE Working Papers Series, 74). Pakistan Institute of Development Economics, Islamabad.

Awan, A. G. & Joiya, J. I., 2015, Role of microfinance in poverty alleviation: evidence from Pakistan. *American Journal of Trade and Policy*, *2*(1), 37-44.

Awan, M. S.,Waqas, M., & Amir, A., 2012, Multidimensional Measurement of Poverty in Pakistan. University Library of Munich, Germany.

Bakhtiari, S., 2011, Microfinance and poverty reduction: some international evidence. *International Business & Economics Research Journal (IBER)*, *5*(12), 103-111.

Bashir, K. M., Amin. A., & Khalid, N. M., 2010, Micro-credit and poverty alleviation in Pakistan.*World Applied Sciences*, *8*(11), 1381-1386.

Chaudhry, I. S., 2009, Poverty alleviation in southern Punjab, Pakistan: Empirical evidence from the project area of Asian Development Bank. *International Research Journal of Finance and Economics*, *23*(23), 23-32.

Chaudhry, I. S., Malik, S., & Imran, A., 2006,Urban poverty and governance: the case of Multan city. *The Pakistan Development Review*, *45*(4), 819-830.

Cheema, A. R., &Sial, M. H., 2012, Incidence,Profile and Economic Determinants of Poverty in Pakistan: HIES 2005-06. *Management Science AndEngineering.*Vol. 6, No. 2, 2012, pp. 120-129

Ghalib, A. K., Malki, I., & Imai, K. S., 2015, Microfinance and household poverty reduction: empirical evidence from rural Pakistan. *Oxford Development*

Studies, *43*(1), 84-104.

Govt. of Pakistan,2014, *Economics Survey of Pakistan*, Federal Bureau of Statistics, Islamabad, Pakistan.

Govt. of Pakistan,2015, *Economics Survey of Pakistan*, Federal Bureau of Statistics, Islamabad, Pakistan.

Hossain, M. K., 2012, Measuring the impact of BRAC microfinance operations: A case study of a village. *International Business Research*, *5*(4), 112.

Hussein, M., &Hussain, S. ,2003, The impact of micro finance on poverty and gender equity: Approaches and evidence from Pakistan. *Pakistan Microfinance Network*, Islamabad.

Jagged, A. C., James, Akinlabi, &Hammed. 2011, Impact of microfinance on poverty alleviation in Nigeria: An empirical investigation. *European journal of Humanities and Social Sciences, 2*(1), 109-121.

Kashif, M., 2011, Role of microfinance in reducing poverty: A look at social and economic factors. *International Journal of Business and Social Science,2*(21), 12-19.

Khan, N., Shafi, M. M., Shah, M., Islam, Z., Arif, M., Javed, R., & Shah, N., 2011, Review of past literature on agriculture credit in rural area of Pakistan. *Sarhad Journal of Agriculture*, *27*(1), 103-110.

Khan, R. E. A., Rehman, H., &Haq, M. A., 2015, Determinants of rural household poverty: the role of household socioeconomic empowerment. *American-Eurasian J. Agric. & Environ. Science, 15*(1), 93-98.

Miles, I., &Nugroho, Y., 2013, Microfinance and innovation. *Innovation Policy Challenges for the 21st Century*, *27*(1), 155-175.

Noreen, U., Imran, R., Zaheer, A., &Saif, M. I., 2011, Impact of microfinance on poverty: A case of Pakistan. *World Applied Sciences Journal*, 12(6), 877-883.

Shastri, R. K., 2009, Microfinance and poverty reduction in India: A comparative study with Asian countries. *African Journal of Business Management*, *32*(3), 136-140.

Shirazi, S. N., & Khan, U. A., 2009, Role of Pakistan poverty alleviation fund’s micro credit in poverty alleviation.A case of Pakistan.*Pakistan Economic and Social Review*, *47*(2), 215-228.

Waheed, S., 2009, Does rural microcredit improve well-being of borrowers in the Punjab, Pakistan? *Pakistan Economic and Social Review*, 47(1), 31-47.

Yusuf, M. B. O., Shirazi, N. S., &MatGhani, G., 2013, The impact of Pakistan poverty alleviation fund on poverty in Pakistan: an empirical analysis. *Middle-East Journal of Scientific Research*, *13*(10), 1335-1344.