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Building the Entrepreneurship Through Non-Banking Institution: An Empirical Study on the Contribution of GEAR for Economic Development in Islamic Way

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Abstract: Modern economists claim that the strategy of financing inclusion through microcredit and micro-financial institutions will ultimately improve the economic conditions of financial marginalized and destitute peoples. These microcredit institutions include both banking and non-banking institutions. But, in Pakistan where the majority of the population adheres to Islam as their code of life, many people are reluctant to impart the conventional micro financial institution on the religious grounds; Islam prohibits Riba in absolute terms. Present paper suggests a transforming change in the present methodologies of financing from conventional to Islamic one. The paper highlights the significance and comparative advantages of Islamic microfinance over conventional finance. Furthermore it claims that Islamic finance is a holistic, viable as well as a dynamic approach towards achieving the greater goals of development through expanding the financial inclusion of greater population. In additions, the paper makes an empirical examination the operations of an Islamic Microfinance NGO (GEAR) and concludes that Islamic Micro financing Institutions are doing significant contribution in capacity building of the financially excluded and marginalized segment of the society and these institutions are candles of hope and center of catharsis for these people.

JEL Classification: A14 · F63 · D24 · I38 · Q01
Key words: Economic Development · Elimination of Poverty · Capacity Building · Islamic Microfinance · Sustainable Development

INTRODUCTION

A critical element, as well as the objective, of economic development policies has been to stimulate balanced growth, equitable income, and generating employments. Thus, the focus of government and international donors, in recent years, is particularly to increase the financing share in micro or small scale businesses through microcredit or micro financing institutions. Microfinancing accounts 31 percent of lending portfolio, and 85 percent of its growth [1]. The World Bank study shows that approximately seven thousand million human living under the poverty line i.e. their earning is unable to buy their minimum basic requirements. Almost one billion househs, the one fifth of the entire world population, live under one dollar per day [2]. Zaitseva proposed that the potential of society depends on the quality characteristics of the total labor force [3] but when we focus on the developing countries of the world the situation is more disappointing and disastrous. Almost half of the population in the developing world is living on income less than US$2 per day. In Pakistan, there are five microfinancing institutions including; The First Micro Finance Bank., Tameer Microfinance Bank., and Pak Oman Microfinance Bank has distributed a total of Rs 6.858 billion in first six months of 2012 period. A substantial sum of this investment is in rural and suburban area, which is consisting of more than 70 percent of the population. Here, food malnourishment, poverty, lack of job opportunities, and social and economic disparity are the leading issues. What could be the best solution to this cursed situation and misery

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problem? There is a strong believe that small scale loans and credits, on favorable and flexible conditions is a road leading to out of poverty. And nowadays, the idea of microfinance is believed to be an effective measure. The study of poverty reduction through Microfinance shows significant impact of microfinance on poverty reduction [4-5].

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

The term Microfinance Institutions (MFI's) refer to a broad array of financial Institutions dedicated to the provision of small-scale loans, credit and other basic financial services to poor and low-income people, these institutions include State-owned banks, non-governmental organizations, cooperatives, private commercial banks, credit unions and non-bank financial institutions. The trend for providing financial services was patronized by both domestic and the international donor agencies to those who are excluded from the conventional financial institutions. It is observed, almost everywhere in the world, that poor, despite having the entrepreneurship abilities, were financially excluded because of lack of guarantee, collateral and on the ground of many other reasons as well. Traditional financial institutions are reluctant to finance in these poor and destitute hence, these poor remains trapped in poverty trap due to financial exclusion. As the result, these poor remain unable to contribute in economic activities of the society and their siblings too; therefore the proportion of the population living under the poverty line continued to increase. This grief situation resulted in emerging the proposal of small scale lending or micro financing on easy and sympathetic terms to these poor.

Therefore, microfinance is an approach to fulfill the financing need of the poor, as a tool for alleviating the poverty. Microfinance, however, acting an important role in providing a safety-net and consumption smoothening empowering poor and unskilled and providing social benefits towards living in a prosperous way [6]. Hence, microfinance Institutions (MFIs) are playing an important role as an agent of change to transforming the economy as well as society and has opened many economic and social possibilities, including reducing poverty, social development and extending the markets [7].

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

- The Welfarists, having the social interest as their focus objective, the primary mission of Welfare perceptive is on poverty alleviation and empowering the poor, especially women. The welfarists centers on the depth strength of financial outreach and social impact, where micro-credit is just a mean to an end, and the focus is on the welfare and well-being of the poor. The well-known example of this kind of micro-lending institution and model imitated around the world is Grameen Bank in Bangladesh, where saving/deposit mobilization is not the common feature as it is in other conventional institution, but compulsory saving and collective guarantee as a collateral is the prerequisite to be able to take a loan; and
- The Institutional perceptive, having a financial interest as their main objective. This prototype extends the financial services to poor while simultaneously achieve financial stability. The experience of these businesses too has proved that

the poor are credit worthy and in some instances even profitable. Institutionalists focus on the extensiveness of financial outreach, saving mobilization and financial sustainability by commercial means. "Bank of Rakyat", Indonesia; "BancoSol" in Bolivia; and "Association for Social Advancement", of Bangladesh are well known examples of these institutional microfinance providers.

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

Poverty and the Financial Sector of Pakistan: Poor people constitute the vast majority of 180 million inhabitants of Pakistan; poverty is reported to be highest in the rural area where more than 75% of the population is located. 1990s is regarded as one of the most disturbing period when the poverty trend began to rise. Poverty increased by 4% in 1990-91 to 2000-01 [9] In Pakistan, banking penetration rate is also very low, only 26 million people having access in banks; the financial penetration in Pakistan is among the lowest in the world, 56% of the adult population is financially excluded another 32% informally served. In conclusion, branch penetration in Pakistan very low as shown in the following graph.

Microfinance in Pakistan: No doubt, microfinance is an effective tool to alleviate the poverty and empowering the poor or financial excluded stratum of the society, and has made notable advances in social and welfare economics, theory of social choice and the study of the poverty. There are approximately over seven thousand micro-financial institutions worldwide, serving approximately 16 million poor people both of developing and developed world, the total cash turnover of microfinance institutions is around US$ 2.5 billion. (An estimation of World Bank and other international institutions)

Since the inception of first NGO sets up in 1980s, Pakistan has a long history of microfinance. Albeit having its decade's long history, microfinance was regarded at its nascent or initial stage until the year 2000. And thereafter in the year 2001, when the Government of Pakistan ratified the Microfinance Institutions Ordinance (MFI Ordinance) as a result of endeavors of public and private institutions, microfinance in Pakistan has witnessed numerous innovations and growth and now it is gradually mainstreaming into the formal banking system. The microfinance sector is constituted of Non-Governmental Organizations (NGOs), Microfinance Banks, Rural Support Programs (RSPs), and informal methods [10-11]. In Pakistan, there are eight Microfinance Banks (MFBs) and the working of more than twenty registered Micro Financing Institutions (MFIs) showing the private sector participation and diversity. Both the operations and regulation of MFIs in Pakistan is recognized well. Pakistan has been ranked the global leader in

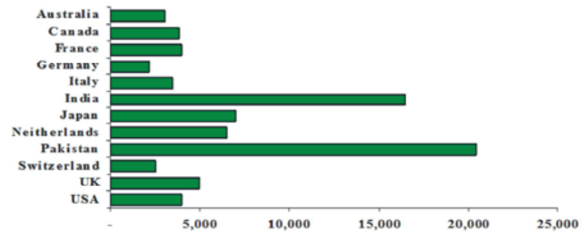

Fig. 1: Banking Branch Penetration in Pakistan
Source: Finance Sector review 2009-10

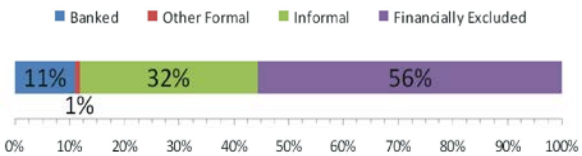

Fig. 2: Financial Strand of Pakistan
Source: Financial Sector Review of Pakistan 2009-10

Table 1: Status for April 2013

Total Receipts	Rs. 5,875,832
Total Disbursements	Rs. 5,586,110
Total families helped	319
Total Active cases	126
Average Loan Size	Rs. 17,511
Administrative expenses	5%
Recovery ratio:	91.50%

Fig. 3: Growth of Microfinance loans over the recent years
Source: Kashf Foundation Discussion Paper, April 2012

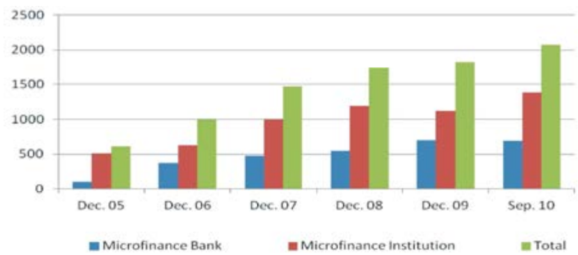

Fig. 4: The Conundrum of Microfinance Growth in Pakistan
Source: State Bank of Pakistan

microfinance regulations [12]. The sector showed an increasing trend and growth of almost 43% in year 2007 and 2008. While, on the deposit side, a 72 % increase has seen on year on year basis.

Microfinance currently serving roughly 1.8 million of active borrowers, while there are 5 million potential or active poor still un-served. Microfinance is not reached by a majority of active poor. In Pakistan where the poverty level is about 35% of total population, so it can be revealed while considering the ratio of poverty to population and the microfinance borrower, that only one out of 30 poor is served by Microfinance . Microfinance has yet to make a foremost step forward to achieve millions of un-served peoples who require a diversified approach and broad range of Microfinance products. SBP sets out a target of 10 million to be achieved in 2015. The following figure illustrates the microfinance sector growth over the recent years:

For the outreach of microfinance, the quarter Jan-Mar 2012 showed an increase of 7.2% or in other words, 2.22 million people is availing the microfinance facilities and the gross loan portfolio improved from PKR 28.8 billion to PKR 32.4 billion by 12.5% [13] s . The said report further shows that the level of group disbursement reduced by 8.5%, however, the level of individual disbursement increased 0.1%. And male borrowers augmented by 11% of whole active borrowers (now constitute 42% share of the total), while, female borrowers outreach continues to lead with a 58% share in active borrowers.

No doubt the growth and outreach of microfinance in the recent past is outstanding but conventional microfinance, despite having many credits to its account, has many concerns in a country where the majority of the population adheres to Islam. The micro-financing program facilitates the poor and financial excluded in many ways. For example, provision of small scale loans, small scale savings, collective insurance, training, education and facilitation of entrepreneurship, and effective utilization of resources. And above of all, the empowering the financially marginalized strand of the society to graduate from poverty and bonded labor by making them self esteemed and self sustained.

But despite all the advantages and significances of micro-financing, as discussed above, being a Muslim there is a problem with conventional micro-financing system because the financing techniques in the majority, if not all, of prevailing microfinance institutions are interest-based and the social development programs of these institutions are secular or ethically neutral. In conventional micro-financing system, the organization lends money to the marginalized individuals on predetermined interest rate. This technique is based on the conventional concept that money is a financial commodity and paying a reward for the use of this commodity is justified. Whereas, in view of Islamic jurists, money is only a means of exchange of services and commodities and charging of interest is unjust, unethical, baseless and prohibited as per Quran and Sunnah.

Provided that microfinance can facilitate poverty alleviation and escalating the development and economic growth, the present paper discusses the prospect of microfinance from an Islamic perspective. The paper argues that Islamic alternatives can replace interest with equity based products and encourage participatory financing to alleviate poverty, social transform, and economic development. Pakistan's rich expertise and a decade-long experience of Islamic banking and financial practices place it in a superior position to adopt a microfinance system which has many dimensions for overcoming the challenges of poverty and underdevelopment.

Islamic Microfinance Conventional micro-financing is regarded as of limited scope in Pakistan on the basis of its operation with interest as its benchmark, and the interest charges by the micro-financing institution is higher than the market interest rates. For example, Rosenberg [14] found that microfinance charge high interest rates than the conventional banks. Burki [15] found that Micro financing institutions charge an interest rate around 18-35

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

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

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

Financing on the base of the risk - sharing mechanism, instead of fixed interest rate, would be an ideal approach for a developing Muslim country. There are 1100 million poor in the Middle East, Africa, Central Asia, South Asia, South East Asia and Sub Saharan, earning less than $2 a day. The majority of them is Muslim. Furthermore, collateral-free loans that are compatible with the requirements of potential or active micro-entrepreneur, is another significant point in the Islamic financial system. Islamic micro-financing institutions can approve those feasible projects that were refused in conventional micro-financial institutions on the ground of insufficient collateral.

Global Islamic Finance Industry Overview: Over the last 40 years, the global Islamic finance is growing rapidly; it has observed the development of over 500 Shariah compliant institutions, spanning 75 countries (Table 2). These Islamic financial institutions include 292 banks, 115 investment companies and 118 insurance companies. Over the last decade the global Islamic finance industry has grown nearly 15% per year. The industry nowadays accounts for $1.2 trillion of total assets, and possibly will reach $4 trillion over the next few years [16].

Islamic micro-financing institution, given the important role of financing microenterprises and active poor with the objective to alleviate the poverty and social

Table 2: Outreach of Islamic Micro Finance by Country

Region	# of Included Institutions	% of Female (Avg.)	Total # of Clients	Total Outstanding Loan Portfolio (US$)	Avg. Loan Balance (US$)
Afghanistan	4	22	53,011	1,034,729	162
Bahrain	1	n/a	323	96,565	299
Bangladesh	2	90	111,837	34,490,490	280
Indonesia*	105	60	74,698	122,480,000	1,640
Jordan	1	80	1,481	1,619,909	1,094
Lebanon	1	50	26,000	22,500,000	865
Mali	1	12	2,812	273,298	97
Pakistan	1	40	6069	746,904	123
West Bank and Gaza**	1	100	132	145,485	1,102
Saudi Arab	1	86	7000	586,667	84
Somalia	1	n/a	50	35,200	704
Sudan	3	65	9561	1,891,819	171
Syria	1	45	2298	1,838,047	800
Yemen	3	58	7031	840,240	146
Total	126	59	302303	197,891,882	541

Source: CGAP Survey in 2007 (* Micro and rural banks only. **There were seven MFIs in the West Bank and Gaza that offered, with the help of training and funding facilities offered by the Islamic Development Bank, a total of 578 Islamic loans between 2005 and 2006.

Table 3: Islamic Micro Finance in Pakistan

Microfinance Sector-Present Outreach and Potentional in Pakistan		
Type of Institution	No. of Active Borrowers (2012)	Loan Portfolio (PKR Millions)
MFBs	887,176	18,172
Rural Support Programs	534,332	7,070
MFIsGEAR	640,015 319	6,7605.875
Other MFIs	170,916	1,897
Total	2,232,758	33,905

Source: Micro Wathc, Issue 24, Quarter 2 (Apr-Jun2012)

transform/graduation of the poor, can have potentially more varied items of the liabilities and asset accounts of its balance sheet. On the liability side in addition to donations and charities from national and international agencies, as similar to conventional banks, Islamic banks get funds from the religious institution of Zakat and Waqf and some other forms of charities which have the long history since the origin of Islam. The institution of Zakat and Waqf, throughout Islamic history, has been integrated into a micro - financing program to effectively improve the economic conditions of absolute poor and to alleviate the poverty. Both of these tools have been used for redistribution of wealth and income among the poor and rich spheres of society. Collections from Zakat and Waqf can be integrated into the micro-financing system to benefit the destitute and can be used for consumption, asset building, and production purpose to complement funds of Islamic MFIs [17]. And on the asset side of Islamic microfinance institution, as the contrast of conventional MFIs, the diverse types of non-interest financial instruments, as the inability of capital to claim for return is an important aspect of Islamic finance.

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

- Profit and Loss Sharing (Mudarbah)
- Equity participation (Musharkah)

The ideal model of Islamic concept of partnership, which provide an alternative to interest-based modes are Profit and Loss Sharing and investment by holding a share in the equity of the project/ business venture. Literal meaning of Mudarbah is to provide financing, as an investor, while remain sleepy in the business activities. The administrative works and management is the exclusive responsibility of working partner or entrepreneur. The investor may invest in the form of cash or in the form of physical asset, and is entitled to take profit on a pre-agreed ratios. The loss of capital has to be bear by the investor solely.

Trade Based Modes:

- Istisna
- Murabaha (Cost + Sharing)
- Musawama
- Salam

Rent Based Modes:

- Diminishing Musharakah
- Ijarah

Hence, keeping in view the central theme of Islamic finance, the notable differences in characteristics and objectives between Islamic and conventional Microfinance are as follows:

Islamic banking and finance has now a more than four decades old history; started in the early 1970s and now successfully working in more than 70 countries of the world. Islamic banking and financial institutions having more than US$ 1000 billion as its assets are meeting the needs of individuals as well as corporate clients both in Islamic and non-Islamic world. But the poverty-focused strategic plan, as used by micro-financing institutions, is relatively new in Islamic banking and finance. As discussed in previous sections, the operational mechanism of microfinance institution goes well with the poor, whose is inability of physical collateral exclude him from financial borrowing from conventional banks, and where group-based micro lending acts as social collateral and lessens the asymmetric requirement problem that exists in financial intermediation, Islamic microfinance institution can regulate the conventional microfinance operations according to the Islamic principles and values. Though the operational mechanism of Islamic and conventional microfinance Institution will be similar, there would be a qualitative difference among them, based on the nature and scope of the micro-financing institution. The main qualitative difference is on the basis of business operations. Conventional micro-financing institutions are working on the basis of interest-based loan, while Islamic micro-financing institutions will work on risk-sharing basis. The following section will elaborate few key points and prospects of Islamic micro-financing institution.

Table 4: Comparison of Islamic and Conventional Microfinance

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

Sources: Compiled and arranged by Authors.

Table 5: Application of Islamic Financial Mode to Microfinance

			Risk Sharing Formulae	
1Mode	Applicable to	Cost of Capital	Entrepreneur	Institution
Ijarah	Renting Fixed Assets	Moderate	High	Moderate
Istisna	Do	High	High	High
Istijrar	Operational Liquidity/ Working Capital	Moderate	Moderate	Moderate
Mudarbah/Musharkah	Investing in form of: Fixed Assets, Working Capital	High	Low	High
Murabahah	Financing in form of: Fixed Assets, Working Capital	Moderate	High	Moderate
Qar-e-hasanah	All type of non-profit projects	Not Applicable	Not Applicable	Not Applicable
Salam	Working capital	High	High	High

Source: Compiled and arranged by Authors.

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

The first act of GEAR was to supply four sewing machines to women in Karachi, Korangi area of Pakistan on Islamic mode of Qarz-e-Hasana (interest free loan). This idea helped these women to initiate their self-determining tailoring businesses earning about five or six thousand rupees per month.

RESULTS

Initially, the members provided the funds from their own sources. Every member contributed according to his capacity with an objective to help his financial excluded and marginalized brethren. It basically started from friends circle locally. And nowadays, after keenly examining the operations of GEAR, funding is being provided from local and international donors. Still there is no proper source of income of the GEAR. The member approach to the local and international individual donors and ask for funding the GEAR operations.

Operational Expenses: trying to Keep the operational costs as low as possible, meetings are arranged at members' residence, in a very economical and simple style. All members bear the transportation and other costs by themselves, GEAR does not provide any remuneration or reward against the services rendered by the members.

Operational Mechanism: All participants, operational team and members work with no charging, no any salary or remuneration and perform GEAR work including identification of candidates, interviewing, and inspection and visiting the business places of borrowers, designing business models, etc. all jobs and expense incurred from their own contribution to GEAR as voluntarily (Sadaqa-e-Jariah).

Sources: Official website of GEAR (www.gear.com)
Fig. 5: The Fund Generating Structure of GEAR

Sustainability: For a long term planning GEAR is working on a more sustainable social business and revenue generating model puts up with its own expenses and resources for self-employment initiatives instated of donations and charities e.g. GEAR vegetable cart or fruit cart, self-employment model and GEAR kiosk.

Women and Family: GEAR focal point is on women and the whole family to set them in self-employment in specifically designed areas .E.g. Industrial Homes, Training Centers for human development like sewing, secretarial work, etc. Training fee is put into investment and GEAR members and partners are likely to contribute in the pool of financial resources.

Strategic Partnership to Improve the Life of GEAR Partners: GEAR also has partnered with Educational Institutions and other Social Institutions to improve and get better the life of its partners. In the field of health services, skill development, self-employment, religious, ethical and some other aspect of human and vital development[18].

Business Model Support Methodology:

- Potential candidates are identified by members and their friends and family circles and referred to GEAR.
- GEAR volunteers meet and visit the candidates in their home and collect information covering family composition, present income, number of family members being supported, school going children and their needs, history of self-employment, potential trade in which they need support, amount of funds needed, etc. GEAR volunteer fills prescribed application form with necessary details and submits the form to the core team for further interview of the candidates and approval.

- Funding is strictly done for the sake of core purpose i.e. creating self-employment so as not to deviate from the core purpose of GEAR. GEAR also avoids funding of businesses which are non-Islamic and injurious to health and harmful to the society e.g. selling cigarettes, pan, gutka, arms and alcoholic drinks shop etc.,
- Core Team meets on weekly or fortnightly basis and interviews all the recommended candidates. A consensus is developed in the presence of the volunteer.
- Funds relating to approved candidates are released to the respective volunteer who organizes the self-employment activity with necessary tools, raw material purchases, infrastructure investments, etc. Funding are not made to the candidate in terms of cash rather it is done in terms of self-employment creation under the supervision of GEAR volunteer.
- GEAR volunteer monitors the activity by visiting the GEAR partner initially once a week and later with the smooth execution at least twice a month and submits a verbal or written report with pictures and video of the activity.
- GEAR volunteer visits the GEAR partner to collect their respective contribution back to GEAR revolving fund. GEAR partners are expected to deposit their contribution back before the 10th of every month.
- For genuine reasons (lack of business, family issues, etc.), contribution may be made with the flexibility.

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

At the beginning, the support from GEAR enabled around 30 students to help 6 families to stand on their feet. This beginning was a trigger point of a chain reaction which spurred in the semesters which followed. Through this platform around 160 families have been helped, with an amount of PKR 1200,000 (approx), during the course of 4-5 semesters. Most of these projects are related to generation of the source of self-employment for the needy.

The entire experience is transforming not only the lives of poor but also changing the mindset of the students as they realize the true and real face of the problems faced by the poverty struck population. They realize that being among the economically stable ones what responsibilities toward society they hold and value of the psychological rewards which are reaped in the process of creating solutions of the social ills. Furthermore, GEAR has very significant and positive impact on the society of Pakistan especially in Karachi city GEAR created more jobs opportunities in slam areas. This microfinanicing technique also enables small industries in homes and encourages non active participants of society to perform their rule in the society i.e. widow, orphan and poor etc.

CONCLUSION

Present study concluded with the understanding that there are massive growth opportunities for Islamic microfinance in Pakistan because the conventional institutions are no go areas for the majority of the people on religious basis. Beside this, the marginalized and finances excluded are unable to provide any collateral or guarantee against the money borrowed from the conventional institutions. On the other hand, Islamic modes are designed from the conception of the cooperation and partnership; from profit earning to profit sharing. Islamic finance participates in real business and fosters the real economic activities in the society. In Islamic finance, the entrepreneur is free from the fear to lose his own/private assets in case of failure of the project. The Islamic financial institution is a real partner in the business hence a better monitoring system for the operation of the business is achieved. The practical application of Islamic mode of finance, through the operations of GEAR, shows that Islamic modes of finance are more appreciated by the needs and financial excluded people of the society and these modes are helping them for self sustainable. Like many other non-profit organizations, GEAR too has its own areas for improvement. GEAR has focused more intensely on Karachi district only while comparatively poverty in all its intensity and devil faces is prevailing in the rest of the Karachi's vicinity. Therefore, the study suggests that GEAR need to concentrate on these poor as they are ignored by the conventional microfinance institutions, government agencies and NGOs alike. Furthermore, considering the comparative advantages of Islamic finance for Muslims, Islamic finance is not limited to Muslims only. As long as Islamic finance is not contradicting to non-Muslims, GEAR should cater the non-Muslims too for their financial needs. And at the last but not least GEAR should develop her own sources of income generating, as till now it is dependent on the number and the donors' contributions. GEAR should develop a model to generate its own income on a permanent basis so that it can help the poor and needy of the society without financial constraints.

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