

## *Evaluation of Financial Sustainability of Islamic Microfinance Institutions in Pakistan*

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### ABSTRACT

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*Major challenges of Islamic Microfinance institutions (IMFIs) are sustainability, funds constriction, high operating cost, low market penetration and their effectiveness for poverty alleviation. Islamic microfinance with only 7% share in the total microfinance industry in Pakistan, is facing serious issue of financial sustainability with a variety of operational models. Many organizations have started Shari'ah compliant microfinance operations. However, due to financial sustainability challenge, they have either stopped or at least have limited their operations. In this paper, we selected three organizations to compare their financial sustainability positions, having different operational models. Descriptive analysis with graphical presentation is used to describe the results of quantitative and qualitative data. Results revealed that Akhuwat (Qard e Hasan based organization) is good in terms of outreach, financial strength, and operations cost while lacking in ROA, ROE, average finance size and nil on deposit outreach. The progress of Islamic Microfinance banking model is significant on financial indicators except, operational cost. Profit-based NBFC's financial indicators are not impressive. In conclusion, funding arrangement is one of the major issue apart from others which can be overcome through deposit generation and low cost fund raising campaigns.*

**Keywords:** *Islamic Microfinance, Sustainability, Poverty, Akhuwat, Shari'ah compliant.*

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## Introduction

Pakistan is one of the most suitable and active market for Islamic microfinance because about 98% of the population is Muslim and people are more interested in Islamic mode of finance due to prohibitions of *riba*<sup>1</sup>. Islamic microfinance captures only 0.5% of the total microfinance sector market and is considered to be the most dynamic market for Islamic microfinance<sup>2</sup>. By the end of 2019, Islamic microfinance share has increased from 0.5% to 7%<sup>3</sup> over the period of eight years, which is very low as compared to conventional one. Islamic microfinance plays an important role to improve the per capita income, educational level, ethical values, living standard, profitability, sustainability and employment in the society and helpful to control the inflation and un-equal distribution of wealth<sup>4</sup>.

Financial sustainability refers to the ability of microfinance institutions to cover all its cost from total income earns from its clients. Financial sustainability of any MFI became the permanent part of the financial system. Sustainability of organizations can be measured through its income and expenditure relativity, profitability and financial positions at any time<sup>5</sup>. The outreach, efficiency and risk are also the major factors affecting financial sustainability of organization. In microfinance sector, the repayment rate, market interest, portfolio quality, operating cost ratio and demand driven rural system in which former demand facility, are the performance assessment criteria for financial viability<sup>6</sup>.

Many studies were conducted to evaluate and compare the financial sustainability of microfinance institutions by using different indicators of sustainability like efficiency, asset and liability, portfolio quality and social performance yet they are limited to conventional, area constraints or comparing financial performance of conventional with Islamic. Islamic microfinance share in the microfinance industry is only 13% in terms of number of active clients<sup>7</sup> and 1% globally<sup>8</sup> which is very low if compared with conventional. Some organization have either stopped or limited their operations due to financial resources and sustainability. Many organization interested to start Islamic microfinance but refrain due to a sustainable model.

Islamic microfinance carried out through different business models and facing a variety of challenges. Resultantly, the growth of *Shari'ah* compliant microfinance slow down as compared with conventional. Furthermore, microfinance industry is also not clear about a financially sustainable model. The objective of this study is to compare financial sustainability of three main business models like Islamic microfinance banking model, Qard e Hasan based non-banking financial companies (NBFCs) and profit based NBFCs. The results will suggest a sustainable model which will be helpful for future industry growth. This research also contributes in existing practices, to convert their business directions towards a sustainable and financially feasible model.

Secondary data were used to find out and compare financial sustainability among different *Shari'ah* compliant microfinance models. However, questionnaire was developed to analyse the organizational measures for attaining financial sustainability. Due to data constraints, there are limitations<sup>9</sup> to use advance estimation techniques. However, we used descriptive analysis with graphical presentations to compare and find the results after taking mean of the values.

We found that Akhuwat outreach is better than others in terms of numbers of clients and number of branches while Islamic Microfinance Division- NRSP Bank (IMD-NRSP) bank performance is better in average finance size and deposit generation. Financial assets of Akhuwat is better than other two however while debt to equity performance of IMD- NRSP bank is better. Wasil Foundation is less efficient in terms of client per credit officer. Cost of customer and operating expense to average gross portfolio of Wasil is much alarming. IMD- NRSP bank performance with respect to ROA and ROE is better than other two as they have negative values. Wasil foundation contains very high PAR<sup>10</sup> value. The progress of IMD-NRSP bank is very impressive as compared to Wasil Foundation and Akhuwat while they are old in age. Moreover, IMD- NRSP bank is generating funds through deposit which cause of outreach enhancement as well. Akhuwat model is good for poverty alleviation but some financial indicators are not positive.

In qualitative research, we found that organizational measures for attaining financial sustainability are significant in terms of profit generation, cost effectiveness and credit risk management. However, there is need to improve measures for funding arrangement and profitability. Furthermore, all the IMFI's should established an independent risk department headed by a competent authority.

Few literature is available to evaluate the financial performance or financial sustainability of IMFIs<sup>11</sup>. However, that is limited to compare the financial performance of conventional and Islamic microfinance institutions<sup>12</sup>. Some studies also conducted internationally but they did not discussed the performance of IMFIs particularly of Pakistan nor they include IMFIs of Pakistan. Here in this study we compare the financial performance of different Islamic microfinance models (Islamic microfinance banking, non-banking qard Hasan, and non-banking offering profitable mode of financing) operating in the country. Moreover, this paper also gives the indications towards a sustainable model of *Shari'ah* compliant microfinance in Pakistan.

Many institutions wants to enter into new *Shari'ah* compliant industry, therefore this paper will be helpful for new comers to adopt model more feasible and sustainable model. Before entering into new horizon, researcher and practitioners may review the financial indicators which may helpful for policy development. This paper will also helpful for the academia for future research with mature data.

There are four parts of this paper. First is introduction and second contains literature review. Third part consists on methodology and data collection. In last, results will be discussed.

## 1. Literature Review

### 2.1 Theoretical Background

Sustainability is defined as capability and capacity of something to be maintained or to remain sustain itself. If an activity remains sustain and able to continue forever, it said to be sustainable<sup>13</sup>. Sustainability of an organization has great importance to remain in the market<sup>14</sup>. The profitability and sustainability based on facts and figures<sup>15</sup>. Financial sustainability exists when an institution is capable to cover its current, growing and expansion cost then MFI is said to be financially sustainable. Financial sustainability may be monitor and measure through a set of indicators<sup>16</sup>. Financial sustainability is mostly dependent on the profit/interest rate charged by the MFI that should be enough to cover the operating cost, NPL losses, financial cost and expenses of adjustment<sup>17</sup>. However, MFI should operate enough proficiently that affordable, reasonable and competitive rates can be charged to cover all such costs. Therefore, in order to gain long term sustainability, MFI should manage delinquency, keep programme cost effective and set its interest rate to cover all such costs<sup>18</sup>.

The cornerstone of sound microfinance is sustainability (Han, 2018). This refers to the ability of microfinance institutions to cover all its cost from total income earns from its operations. Financial sustainability of any MFI become the permanent part of the financial system<sup>19</sup>. When the MFI is able to cover its current, growing and expansion cost then MFI is said to be financially sustainable. Financial sustainability is a tangible parameter and can be monitor and measure through a set of indicators<sup>20</sup>. By adopting financial sustainability system, MFIs can continue its operations if grants, funding and other aids are no longer available. It is no longer limited to donor findings, when a MFIs become sustainable<sup>21</sup>. Funds generation for Islamic microfinance banking is a critical issue in the sector in Pakistan because there is lack of expansion of Islamic microfinance industry<sup>22</sup>. In order to massive expansion of outreach to poor's, MFI can draw on commercial funding sources. Sometimes MFIs can be sustainable, even with low number of clients<sup>23</sup>.

Banks have their own sustainability maintaining technique and milestone<sup>24</sup>. From the banker point of view, a microfinance institution is said to be sustainable when its operating income considered being sufficient to meet all its operating cost<sup>25</sup>. This is accounting approach to sustainability that takes into account the financial aspects of MFIs. The sustainability concept includes the criteria obtaining funds at market rate and mobilization of local resources of funding<sup>26</sup>. From banker's perspective, MFIs sustainability includes both financial viability and institutional sustainability<sup>27</sup>.

Cost effectiveness can play an important role in attaining financial sustainability of any institution<sup>28</sup>. Cost effectiveness is considered to be the most effective options among a limited set of alternatives<sup>29</sup>. Sustainability exists when revenue exceeds cost (ER, 1991). Cost effectiveness strategy is becoming more popular now a days in the organizations. Government and donor's compare average cost with micro lenders with similar users, products, contexts and giving preference to low cost suppliers<sup>30</sup>. Staff productivity is the most essential performance indications in microfinance sector<sup>31</sup>. This measures work load on first line officers (FLO) who have directly interaction with clients. Staff productivity can be measured as total portfolio of microfinance institutions in terms of clients by dividing total number of first line officers. However, administrative staff and case processing staff are not included while measuring staff productivity<sup>32</sup>. Higher the staff productivity means the higher productivity of the institution<sup>33</sup>.

Islamic finance tends to be more ethical structure for the market development. The principles of Islamic finance insulate the Islamic financial system from speculation, un-certainty and excessive leverage which contributes in promotions of sustainability and long term sustainability<sup>34</sup>.

## **2.2 Empirical Evidences:**

A study was conducted in Indonesia to find out and compare efficiency and financial stability of Islamic and conventional banks. For efficiency, operating cost to total assets and operating cost to total operating revenue were used. Furthermore, for asset quality and stability, non- performing loans (NPLs) ratio and return on assets (ROA) were used respectively. Descriptive statistics was used on secondary data<sup>35</sup>. Another study was conducted in Ethiopia to analyse the outreach and financial performance of microfinance institutions. The researcher analysed the primary and secondary data and revealed that microfinance outreach increased during observed period. The researcher founded that microfinance institutions were sustainable in terms of ROA, Return on equity (ROE) ratios and performance in terms of profit was improving overtime. NPLs ratios also presented as evidence of financially sustainable. However, there was strong correlation between outreach and financial performance<sup>36</sup>.

Another study was conducted in Pakistan to evaluate the outreach and performance of microfinance banks by taking data of five microfinance banks from 2008 to 2014. Thirteen outreach ratios and thirty two performance ratios were used and mean values of them were compare with the south Asian benchmark. The researcher further concluded that debt/equity ratios were not significantly different from south Asian benchmark and both depended on subsidized sources. Deposit/ GLP ratio was higher than benchmark while deposit/ total asset ratio was relatively same. ROA and ROE of Pakistani banks were relatively lower than benchmark. Efficiency ratios presented

that Pakistani microfinance banks were less efficient while NPL ratio was higher than benchmark<sup>37</sup>.

In a related study, the researcher found that an increase in annual GDP growth enhanced the financial sustainability of microfinance institutions by holding all things constant<sup>38</sup>. He further concluded that a growing economy caused of economic prosperity and resultantly microfinance industry flourished<sup>39</sup>. In two other same studies, researcher urged that MFI covered operating cost better when domestic GDP remained high<sup>40 & 41</sup>.

Another related study was conducted in Tanzania to evaluate the financial performance of microfinance institutions by using different indicators of sustainability like efficiency, asset and liability, portfolio quality and social performance. The researcher analysed that on average microfinance institutions were not sustainable, having relative low productivity and profitability. However, institution's non-financial performance was better than financial measures<sup>42</sup>.

A research was conducted in Kabarak University, Kenya to evaluate the factors effecting financial sustainability of NGOs through market survey. The researcher used closed ended Likert scale questionnaire for data collection. Financial sustainability measure by considering independent variables like diversification of sources of funds, Strategic financial plan, cost effectiveness, income generation and competence level of personnel. Regression analysis was used to see the relationship between variables. The researcher founded that NGOs funding arrangement effects the financial sustainability. Income generation, cost effective strategy and staff competency also effects the financial sustainability<sup>43</sup>.

## 2. Methodology and Data

In this study, we took three organizations, having different business models and mature in data provision. These organizations are offering Islamic microfinance services named as Akhuwat, Wasil Foundation and IMD-NRSP bank. We collected data from Pakistan review reports<sup>44</sup>, SBP reports, relevant origination's Annual reports, credit rating agencies, personal resources and through survey. In this study we adopted combined quantitative and qualitative approaches<sup>45</sup> and used primary and secondary data<sup>46 & 47</sup>. Secondary data was collected from the annual reports, regulatory reports, microfinance industry stakeholders and websites of the concerned institutions. However, primary data collected through survey and personal relations. There are 16 institution offering Islamic microfinance services, having following four main organizational structures.

- a. Islamic microfinance bank division or window, offering profitable mode of financing and accepting deposits
- b. Islamic microfinance Institutions providing profitable modes

- c. Islamic Microfinance Institutions providing Qard e Hasan or charity based modes
- d. Islamic microfinance institutions providing mix products like charity, Qard e Hasan and profitable modes

There are three banks, offering Islamic microfinance services in the country. Two are Islamic microfinance divisions under conventional microfinance banks and third is commercial Islamic bank offering microfinance services. In order to find out the sustainability of each type of above mentioned institutions and compare values with each other. For the study, we took one organization of first three a, b and c categories institutions as they have different unique models. Fourth, d category was neglected due to mix business model. We took 6 years relevant quantitative data of one organization of each category who is mature in data providing and submitted their data to regulatory and relevant stakeholders for publications. The organizational measures for attaining financial sustainability was evaluated through questionnaire. The details of the institutions are as under.

With reference to above table, only three institutions named as NRSP Islamic microfinance division, Wasil Foundation and Akhuwat of each category, considered to be mature in data provision and selected for this study. Institutions falls in forth category mostly, were not mature and their financial data of Pakistan, was not reliable. Moreover, organization in forth category neglected due to their mix operation in category b and c. Furthermore researcher interested to study the model-wise financial sustainability of IMFIs therefore, forth category was neglected. Therefore, we took six years data of first three types of organizations, mature in data providing and analysed financial sustainability and make comparison with each other. Moreover, we also analysed which model is most sustainable in respect of financial sustainability. In addition to this, organizational measures for attaining financial sustainability were evaluated through questionnaire, filled by top management of the concern organizations.

### **2.1 Quantitative Financial Sustainability and its parameters**

In this paper, financial sustainability measures through quantitative data by using different parameters<sup>51</sup> which many scholars used as indicators of financial sustainability. Outreach<sup>52</sup>, efficiency/ performance<sup>53</sup>, operational<sup>54</sup>, NPLs, and financial structure and profitability ratios<sup>55</sup> are the most common parameters used to find out the financial sustainability of any organization. Therefore, in this study we considered most commonly used indicators. Secondary data will be collected from, State Bank of Pakistan (SBP) website, Pakistan microfinance review reports, Pakistan microfinance Network (PMN), Islamic Microfinance Network (IMFN), Annual Reports of the respective IMFIs and through personal relations. Following is the details of variables.

Table No 1.

Islamic Microfinance Institutions, their legal status and data provision			
Sr No.	Institution	Institution's status	Status of Data provision
1	NRSP Microfinance Bank (Category a)	Full-fledged Islamic Microfinance division under a Conventional microfinance bank	Publish Islamic microfinance division data in Annual report but age limited to 6 years as it starts its operation in 2015
2	MCB Islamic bank (MIB)- (Category a)	An Islamic microfinance Unit under an Islamic commercial bank.	Separate Data of Islamic microfinance division not available as full-fledged Islamic bank publish his reports collectively.
3	Akhuwat (Category c)	Full-fledged Islamic microfinance institutions/ NPO	Separate Islamic microfinance data available
4	Wasil Foundation (Formally CWCD) (Category b)	Full-fledged Islamic microfinance institutions/ NPO	Separate Islamic microfinance data available
5	Farz Foundation (Category b)	Full-fledged Islamic microfinance institutions/ NPO	Not Mature in data providing as annual reports not available or unable to provide require data.
6	Islamic Relief (Category d)	Full-fledged Islamic microfinance institutions/ NPO	Providing charity, Qard Hassan and profitable mode as well however separate Pakistan's financial data is not available on demand
7	Muslim Aid (Category b)	Full-fledged Islamic microfinance institutions/ NPO	Providing charity, Qard Hassan mostly and profitable mode is very limited and separate financial data is not available or unable to provide required data on demand
8	ASASAH (Category d)	Islamic microfinance division under a conventional microfinance institutions/ NPO	Conventional microfinance providing Islamic microfinance services. No Separate Islamic microfinance data available. Moreover limited its operations now

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9	NRDP (Category d)	Islamic microfinance division under a conventional microfinance institutions/ NPO	Conventional microfinance providing Islamic microfinance services. No Separate Islamic microfinance data available. Moreover limited its operations now <sup>48</sup> .
10	DAMEN (Category b)	Islamic microfinance division under a conventional microfinance institutions/ NPO	Conventional microfinance providing Islamic microfinance services. No Separate Islamic microfinance data available
11	Naymet Foundation (Category d)	NGO	Operations are very limited and no mature financial data is available. Moreover, limited its Islamic microfinance operation <sup>49</sup> .
12	AZM foundation (Category b)	NGO	Operations are very limited and no mature financial data is available
13	AGAHE (Category c)	NGO	Conventional microfinance providing Islamic microfinance services. No Separate Islamic microfinance data available
14	AAS Foundation (Category b)	NGO	Operations are very limited and no mature financial data is available
15	Helping Hand for Relief and Development (HHRD)	NGO	Operations are very limited and no mature financial data is available. Moreover, limited its Islamic microfinance operation now <sup>50</sup>
16	U Microfinance Bank	Full-fledged Islamic Microfinance division under a Conventional microfinance bank	Started its operations in Oct-2021

Table No. 2

Quantitative Variables of Financial sustainability	
Parameter	Variables
Age	1. Age of IMFIs (No. of years to starts its operations)
Outreach	1. No. of Active credit clients 2. Deposit amount and number of deposit customer 3. No. of branches 4. Average outstanding balance/ Finance Size
Portfolio and its Quality	1. Portfolio at Risk (PAR)
Profitability and Financial stability	1. Return on Assets (ROA) 2. Return on Equity (ROE)
Efficiency	1. Cost per Client 2. Client per ARO/FO/LO 3. Operating expense ratio (OER) to average gross loan portfolio
Financial Structure	1. Assets Size of IMFIs 2. Debt to Equity ratio

### 3.2 Qualitative Measures to attain Financial Sustainability

Institutional Financial sustainability depends upon the organizational policies, approach and measures taken for attaining sustainability. Financial sustainability can be attain by adopting different policies and procedure along with staff contribution and sensitivity. In order to get information about such measures we developed a closed ended Likert scale questionnaire and distributed among the Top management of the microfinance institution under study who directly linked with policy development in the organizations. The details of the variables used for attaining financial sustainability are as under.

### 3.3 Research and Data Limitations

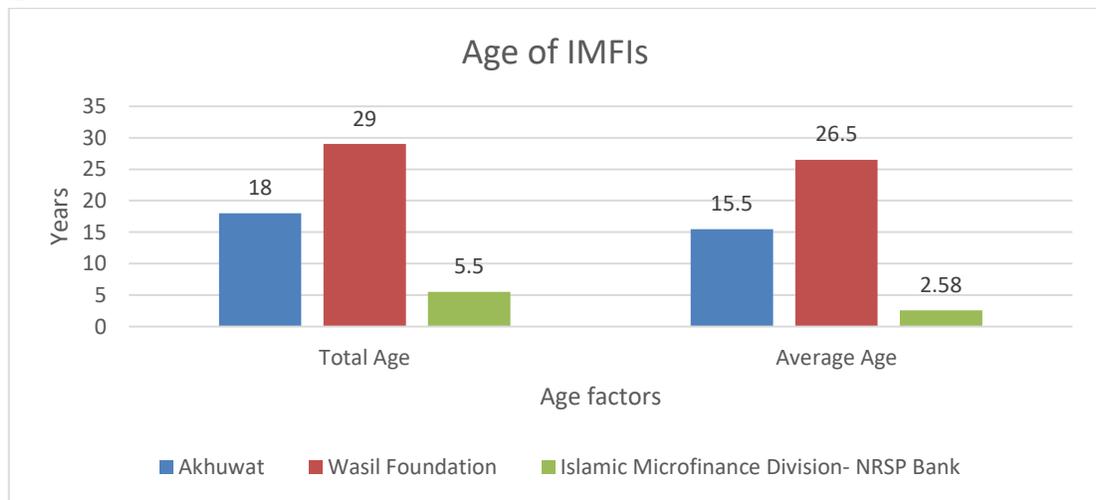
People have much interest in Islamic microfinance finance<sup>6</sup> but IMFIs are facing series issue of financial sustainability<sup>3</sup>. This issue is too serious in the industry as even some organizations have to close their operations and some have to limit their operations<sup>56</sup>. Although data is limited but as a researcher, we cannot keep silence and stay away from research and discussion. Therefore, we need to conduct research in order to timely address the issues pertaining to sustainability of IMFIs. While conducting this research, we faced some under mentioned limitation which could not be overcome during study time because Islamic microfinance industry still not so much mature to provide detailed data. Moreover, regulator and organizations provide very limited data in their annual reports.

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- Only three Islamic microfinance institutions have reliable published data that details mentioned in Table 1. However, some data collected through personal resources.
- Out of Three, One organization start its operation in 2015 and have limited life of 6 years as mentioned in Table 1. Therefore our study period limited to six years only.
- As IMD- NRSP Bank has two types of credit customers and deposit customers while other two IMFIs have only credit customers. In order to keep data consistency, we took credit customers and their cost of IMD-NRSP bank and made calculations accordingly while calculating profitability we consider total profit because this is considered to be the earning source of banking division.
- Due to limited observations, descriptive statistics used to defend our study.

### **3. Results and Discussion**

In this section, we discussed the findings and discussion over them and saw which business model of Islamic microfinance, was more effective in terms of financial sustainability. Our study models include Qard Hasan based like Akhuwat and profitable mode of NBIMFIs (Non- Banking Islamic Microfinance institutions) like Wasil Foundation, regulated by SECP and Islamic microfinance banking institution like NRSP Bank, regulated by SBP. Furthermore, the age of IMFIs affects its performance and financial sustainability. The ages of under study organizations are as under.

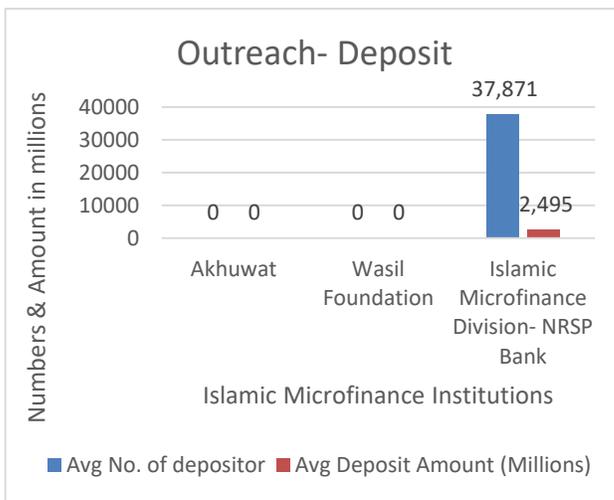
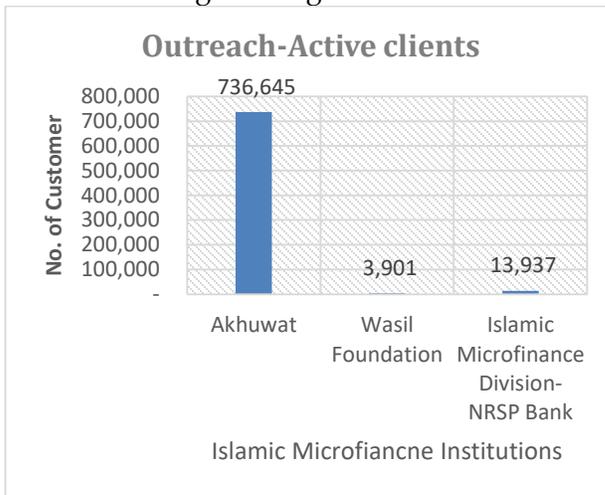


### **3.1 Quantitative Financial Sustainability and comparison among IMFI's Models**

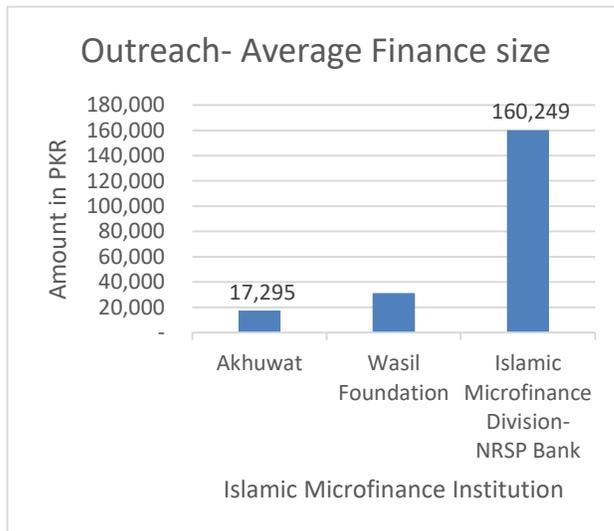
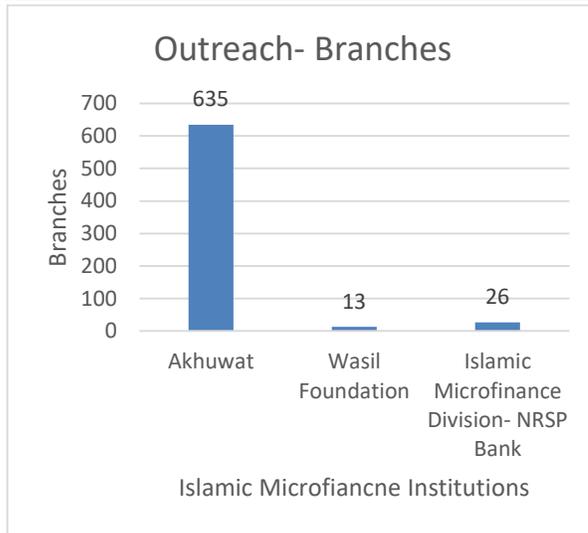
#### **3.1.1 Outreach**

In order to find out results and compare outreach, we took, average number of active customer, number of current and saving accounts and amount, No. of branches and

Average finance size per customer as mentioned in Table 2. The Qard Hasan based IMFI has average active clients 736,645 more than other two, profitable mode of NBIMFIs 3,901 and microfinance banking division 13,937. IMFIs under SECP regulator cannot accept deposit while Islamic banking division under SBP regulator, can accept deposit which cause of increase its number of customers, outreach and funds at low cost. IMD- NRSP generated average 2,495 million deposit just in average life of 2.58 years while other two competitors could not generate deposit which was cause of lacking in self-generated funds.

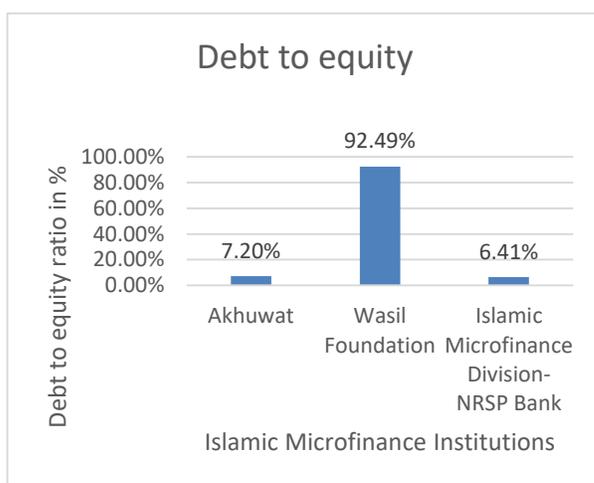
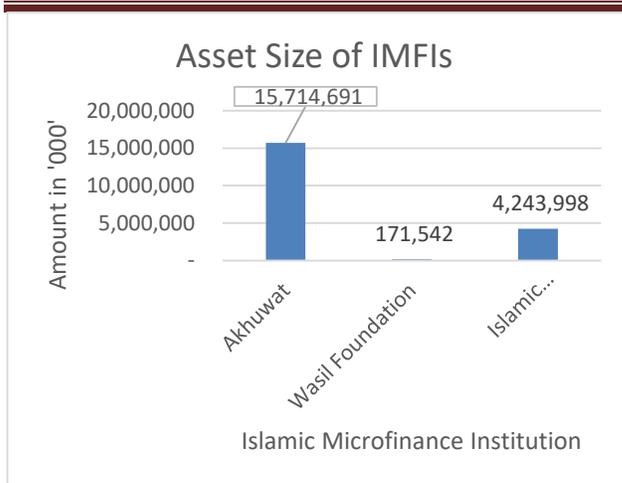


The average branches of Akhuwat are 635 more than other two IMFIs. However mean of the branches of IMD - NRSP bank is more than Wasil foundation even in average age of 2.58 years. The average finance size of IMD- NRSP bank is much higher than Akhuwat and Wasil which means its target market is MSME.



### 3.1.2 Financial Structure.

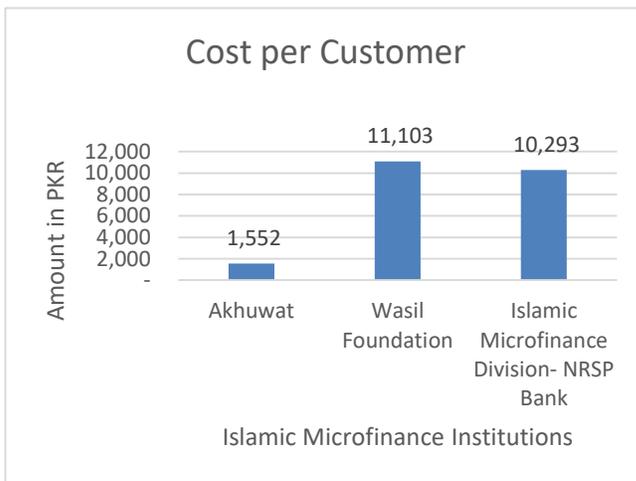
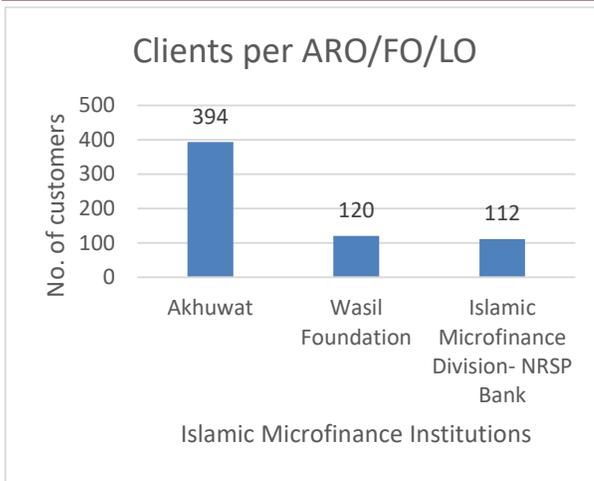
There are two components; mean of assets size and debt to equity. Wasil Foundation has least mean value of assets Rs. 171,542 million while Akhuwat has higher value of average assets Rs. 15,714,691. On the other hand IMD- NRSP bank has least mean value of debt to equity ratio of 6.41% while Wasil Foundation has highest value of debt to equity 92.49% which is considered to be very alarming for its financial sustainability. IMD-NRSP bank, retained lower value of debt to equity, may be due to self-deposit generation, especially in current account as it becomes the part of equity in Islamic banking.



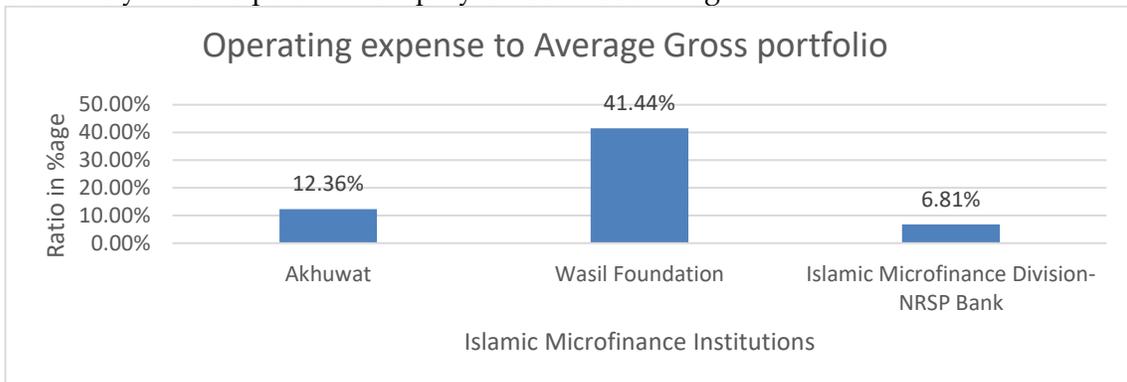
### 3.1.3 Efficiency

Efficiency means how efficiently an IMFI is controlling its operational cost and cost per customer and how many number of customers are dealing by first line officer (FLO). The mean of customers per FLO of Akhuwat 394, is higher than Wasil 120 and IMD-NRSP 112 while the mean cost per customer of Akhuwat Rs. 1,552 is lower than IMD-NRSP Rs. 10, 293 and Wasil foundation Rs. 11,103. This represents that Akhuwat is more effective in cost per customer and client per FLO and IMD-NRSP is much effective than Wasil Foundation.

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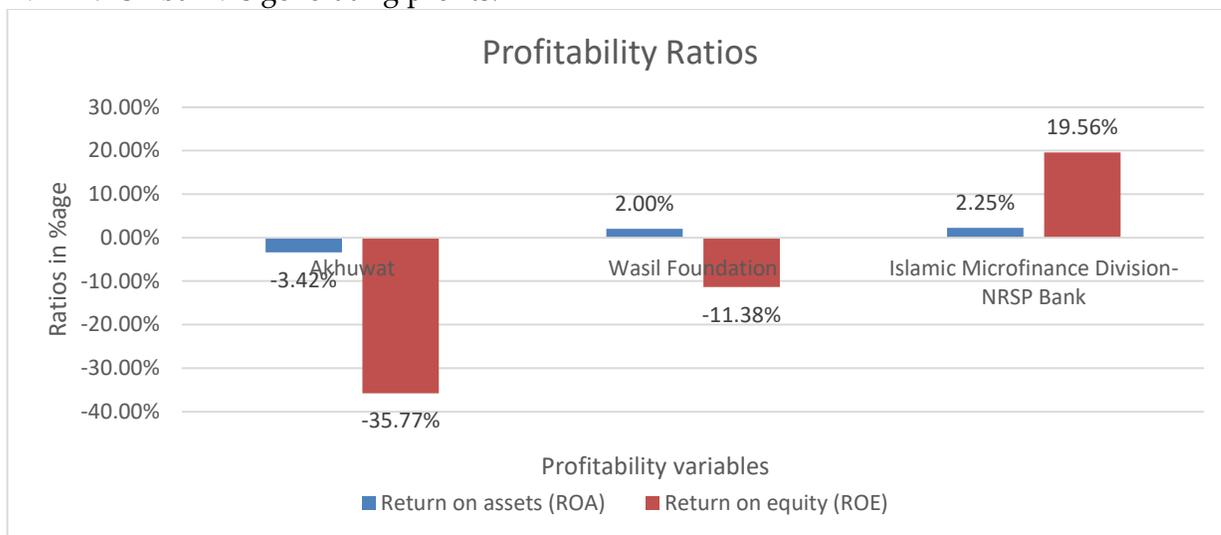


The mean of operating expense to average gross portfolio of IMD- NRSP bank is 6.81%, lower than Akhuwat 12.36% and Wasil 41.44% respectively. The lower operating cost of IMD-NRSP may be due to deposit, especially current account which ultimately become part of the equity of Islamic banking.



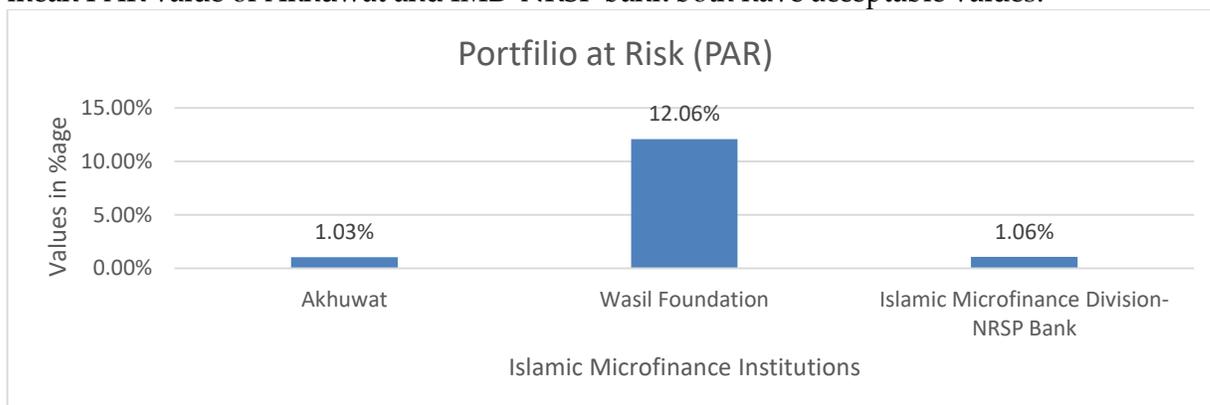
### 3.1.4 Profitability

Financial institutions used ROE and ROA to find out the profitability position. The means of ROA and ROE of Akhuwat have negative values as -3.42% and -35.77% respectively while both ROA and ROE of IMD- NRSP bank have positive values as 2.25% and 19.56% respectively. The ROA of Wasil Foundation has average positive value as 2% while ROE has negative value as -11.38%. Therefore, we can conclude IMD-NRSP bank is generating profits.



### 3.1.5 Portfolio At Risk (PAR)

Portfolio at risk (PAR) measures the risk involved in portfolio which affects profitability and sustainability ultimately. The mean PAR of Wasil foundation is 12.06%, higher riskier as compare to Akhuwat 1.03% and IMD- NRSP bank 1.06%. As 2% PAR in microfinance industry is considered to be acceptable in practice. Therefore, mean PAR value of Akhuwat and IMD-NRSP bank both have acceptable values.



## 3.2 Qualitative Measures For Attaining financial sustainability of IMFI

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The data regarding organizational measures for attaining financial sustainability was collected through questionnaire. The indicators used in the questionnaire were the best practices used in the financial sector and these indicators used by many scholars for evaluating financial sustainability. The questionnaire was collected from the three concern organizations, having different business model of Islamic microfinance services. The results are presented in average percentage to ensure the privacy of the organizational information. The results of the questionnaire are as under.

**Table No 3**

**Organizational Measures for Financial Sustainability**

Variables	Sr No	Questions	Average (%age)			Total
			Yes	No	don't want to respond	
Funding arrangement of IMFIs	1	Are there any internal arrangements of funds in order to minimize the dependency on subsidized funds?	33.3	66.7	0.0	100
	2	Has your institution built any policy to arrange public deposits and funds?	33.3	66.7	0.0	100
	3	Is your institution eligible or ensure its eligibility for availing credit guarantee or credit line facility for microfinance institutions from regulators or Pakistan Microfinance investment company (SBP/SECP/PMIC)?	33.3	33.3	33.3	100
	4	Has your institution availed any government grant or project funding from government to eradicate poverty yet?	66.7	33.3	0.0	100
Income generation and profitability	5	Has your institution defined organizational or branch wise breakeven point in any policy or circular?	100	0.0	0.0	100
	6	Is your organization in practice to define in any policy document about time period of branch, project and organizational sustainability?	100	0.0	0.0	100
	7	Is your organization in practice to calculate your financial sustainability and at branch level/ project wise/ unit level?	100	0.0	0.0	100
	8	How much your organization's branches are in profit _____ out of total _____?	0.0	0.0	100	100
	9	Have you introduced any bonus in case your organization earns a specific amount of profit?	33.3	33.3	33.3	100

Control on Operational cost	10	Has your institution built any policy and trainings over there to control operational cost?	100	0.0	0.0	100
	11	Has your institution introduced approval matrix of expenses?	100	0.0	0.0	100
	12	Has your institution introduced staff productive (clients per staff) and HR ensures its compliance before new hiring.	100	0.0	0.0	100
	13	Do you know about your operation cost in percentage?	66.7	0.0	33.3	100
Credit Risk Management	14	Has your institution a separate (Other than credit, operations, finance, audit etc.) risk department headed by a competent authority?	66.7	33.3	0.0	100
	15	Has your institution built up organizational system for risk management and established standard risk assessment system?	100	0.0	0.0	100
	16	Has your institution built any mechanism to control the overall in-debttness among the microcredit entrepreneurs? (Using ECIB or any other such like document which shows the client debt burden and repayment behavior)	100	0.0	0.0	100
	17	Has your institution introduced proper screening criteria for client selection and its verification from other department/ third party before disbursement?	100	0.0	0.0	100

With reference to above mentioned table, we find that most of the IMFIs are facing funding issue. 66.7% of the sample organizations depend on subsidized funding and have no arrangement of public deposit. 33.3% of the IMFI's are eligible to get credit line facility from investment companies or regulator, 33.3 % are not eligible and remaining 33.3% of the respondents did not give response. 66.7% of the organizations get government grants for poverty eradication.

The organizational measures for income generation are remarkable. All the organizations of the sample, have defined branch wise, unit wise and project wise breakeven point and financial sustainability along with time period in which branch, unit or project become financially sustainable. All the respondent did not give response about how much their branches out of the total, are sustainable. Only 33.3% of the respondents introduced any bonus in case organization earned a specified amount of profit, 33.3 % did not give response.

All the organization are sensitive for cost effectiveness and introduce cost approval matrix. Furthermore all IMFIs train their staff to control operational cost. Staff productivity is defined by organizations and HR ensures its compliance while hiring

new staff. 66.7% of the organizations calculated and well informed their operational cost while 33.3% did not give response this question. In order to mitigate the credit risk, all the respondents contain credit risk management system, using ECIB to measure the overall in-debttness and debt burden capacity of the customer. All the IMFIs introduce proper screening criteria for customer selection and its verification from other department. Only 33.3 % of the sample, did not establish a separate risk department still, headed by a competent authority.

#### **4. Conclusion**

The results of IMFIs are very interesting. Profitable model of NBIMFI, has age more than Qard e Hasan based NBIMFI and microfinance banking division. The overall financial indicators of microfinance banking division are impressive despite new entrant as compared to other ones. The financial indicators of Qard e Hasan based NBIMFI are good nevertheless it is non-commercial based. It is Akhuwat's strength to arrange low cost funds which is considered to be a major challenge for other IMFIs in the market, especially *Shari'ah* compliant funds. IMD- NRSP bank is not only generating profits but has a facility of public deposits to generate funds. Due to public deposit, it has greater outreach in the market also. Furthermore, Current account deposit based on Qard e Hasan, become part of the equity of IMD-NRSP which cause of its profitability and efficiency. SBP as strong regulator and its regular eye watch also affects the performance and sustainability .The performance and sustainability of IMD-NRSP might be due to the effective role of regulator. The organizational measures for attaining financial sustainability are remarkable in terms of profit generation, cost effectiveness and credit risk management. However, there is need to improve measures for funding arrangement. Furthermore, all the IMFIs should establish an independent risk department headed by a competent authority. This paper added values for the practitioners and researchers, in selection of sustainable and effective model, offering *Shari'ah* compliant microfinance services. This paper will also attract the researchers and academia to way forward for more research in the sector.



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