DOI:10.26652/cjif.6202111

Impact of COVID-19 on Islamic Microfinance Institutions (IMFIs) and Poverty in Pakistan

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Abstract

The epidemic of COVID-19 has been emerging as a threat not only to a global health system and draining of economic resources but it is also contributing to increase the level of poverty with a fear and chaos that prevent us from making the right decision at right time. The COVID-19 has exponentially spread across the world and led to 29 million cases with 933 thousands deaths till September 2020 around the globe. Shari'ah compliant microfinance solution for poverty eradication is considered as one of the acceptable and suitable way-outs to alleviate poverty but now it is facing numerous types of challenges like lack of capital and funding, sustainability, high cost of funds, innovation and diversification of products, availability of human resource with Islamic financial expertise etc. The objective of the study is to find out the impact of COVID-19 on Islamic Microfinance Institutions (IMFIs) in terms of income, risk and portfolio. Further, to find out the impact of regulatory steps toward sustainability of IMFIs, we have collected data through self-administrated questionnaires consisting of seven parts. Descriptive and frequency analysis have been used to describe the results. Results depict that the portfolio and income of the IMFIs have decreased. Further, operational cost and productivity of the employees have also decreased. Therefore, industry demands relief package from regulators for growth and sustainability to save the Shari'ah compliant poverty eradication solutions. This might be helpful to compensate the losses of deferment and diversification of products. The findings of the study hope to contribute toward sustainability of IMFI's, which have been damaged due to COVID-19.

keywords: Islamic Microfinance, COVID-19, Regulator, Poverty, Challenges

1. Introduction

The Covid-19 epidemic was caused by the Severe Acute Respiratory Syndrome Coronavirus 2 (SARS-COV-2) (Maria Nicola, 2020) and we are all now getting

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tragically familiar with ongoing enormous cost of lives in this pandemic. This outbreak was elicited in December-19 in Wahan city in Hubai province of China (Sung-mok Jung, 2020) and then continued to spread across the world. The World Health Organization (WHO) declared a public health emergency of international concern to coordinate international responses to the disease (Fernando, 2020). In order to flatten the curve of growing number of infected people, governments have been forced to impose lockdown for their societies and businesses in their respective countries. On February 26, 2020, Federal Health Minister of Pakistan confirmed that two cases of coronavirus were reported in Karachi and Islamabad (Imtiaz Ali, 2020). In order to take protective measures, the subsequent lockdowns were implemented on region-by-region basis: Sindh announced lockdown on Mar 14, 2020, Azad Jamu & Kashmir on Mar 16, 2020 and Punjab and Baluchistan on Mar 23, 2020 (Khan, 2020). All educational institutions, shopping malls, public transport and entertainment venues were closed except grocery and medical stores, however, religious and social congregations were also banned.

The Covid-19 not only affected mental health but also resulted in an increase in unemployment, financial insecurity and poverty around the globe (Emily A Holmes, 2020). Covid-19 crises, especially lockdown, excessively hit the underdeveloped and developing countries like Pakistan and devastated their economic and social position for months and years to come. The per capita income of people got reduced day by day due to such lockdowns. Microfinance institutions are the institutions of the poor community (Aslam, Islamic Microfinance Model To Reduce Poverty: Pakistan's Case, 2016). These Shari'ah compliant microfinance institutions are facing many challenges like lack of capital and funding, sustainability, high cost of funds, innovation and diversification of products (Aslam, 2014). In addition to these challenges, Covid-19 increased the threats for their sustainability due to deferment of recovery and unavailability of financial resources.

In this paper, we tried to highlight the impact of Covid-19 on Islamic microfinance institutions through market survey while the impact of Covid-19 on poverty is critically analyzed through empirical evidence. Furthermore, the study suggests possible solutions, organization policy innovation and attracts regulators' attention in order to secure such institutions which helps the poor in Shari'ah compliant manners. This paper is divided in different parts. Next part is related to the impact of Covid-19 on Microfinance Outreach. Then, regulatory relief to dampen the impact of Covid-19 is analyzed. Further, methodology and results are discussed. Finally, conclusion and recommendations are given.

In Bangladesh, a study based on primary data collected through questionnaire was conducted on strategic assessment of covid-19 pandemic, lockdown scenario and sustainability management. The researcher found that formal and informal business, education and economy hampered severely which results in loss of livelihood, unemployment rate and lead to poverty in vulnerable community of rural and urban areas. It was suggested that better strategy and long term revised delta plan can be integrated into perspective plan 2041. A basic support to masses should be ensured and muti-sectorial collaboration for sustainability is required from private, national and international bodies (Shammi, 2020). Another study was conducted in Brazil to see the impact of Covid-19 on environmental awareness, sustainable consumption and social responsibility through questionnaire of 3226 people. The results represented that Covid-19 is an important vector in community behavior, environmental sustainability and social responsibility (Severo, 2020). Another study was conducted in USA to analyze how small business is adjusting itself during Covid-19 pandemic through survey of more than 5800 small businesses. The researchers found that 43% of the small business was temporarily closed and business on average reduced their employee's count to 40%. They also found that small businesses are financially fragile and seeking funding through CARES act (Bartik, 2020).

2. Impact of Covid-19 on Microfinance Outreach

Microfinance has grown rapidly in Pakistan over the last decades and is considered to be mature, serving a large number of customers. The number of active clients doubled from 2014 to 2019, increasing from 2.8 million to 7.3 million. The gross portfolio was increased by 400%, from 400 million to $2 billion from 2014 to 2019 (Pakistan Microfinance Network, 2019). However, Covid-19 has reversed this growth not only in number of customers but also in portfolio, assets trend, and equity to total assets and liability to total assets. The trend of microfinance institutions from Oct-2019 to Nov-2020 is given below (Security and Exchange Comission of Pakistan, 2020) in table 2.1.

Table 2.1: Trend of Growth of Microfinance Institutions in Pakistan

Item	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20
Trend of total assets*	20,677	16,006	23,055	23,920	25,850	22,160	20,890	18,150	21,600	21,664	120,664	120,713	120,812	120,691
Loans and advances*	78,456	73,098	79,234	79,760	79,234	78,208	74,667	71,893	71,789	71,809	70,215	70,835	70,804	70,537
Equity/TA	21.40%	20.40%	20.70%	20.90%	20.70%	20.90%	21.10%	20.00%	20.70%	21.00%	21.21%	21.22%	21.91%	27.48%
Liabilities/TA	72.50%	73.20%	73.10%	72.50%	73.10%	72.40%	72.50%	73.10%	72.20%	71.90%	71.61%	71.57%	71.35%	71.08%

*Data are given in millions of rupee and available form October, 2019 to November, 2020.

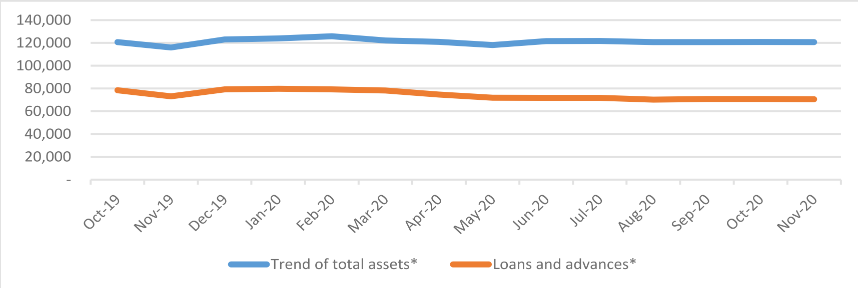

Figure 2.1: Trend of Total Asset and Advances

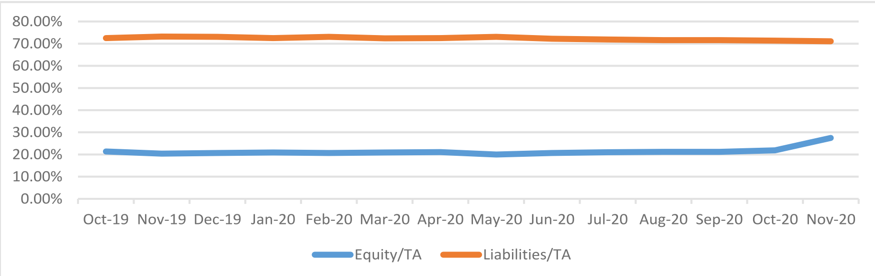

Figure 2.2: Trend of Equity and Liabilities

As the data given in above table and figures the trend is either flat or decreasing which shows that Covid-19 has negatively affected the growth of the microfinance institutions in Pakistan.

3. Regulatory Relief to Dampen the Impact of Covid-19

3.1 State Bank of Pakistan (SBP) Relief for conventional and Islamic Microfinance:

Prudential regulation for microfinance banks was revised in 2014 in view of changing dynamics of microfinance sector and to promote sustainable growth of microfinance in the country. The revised prudential regulations contain four main types of regulations like Governance, operations and consumer protection, Anti-money Laundering (AML) and Combating Financing of Terrorism (CFT) and Risk. Furthermore, various instructions and directives were also incorporated for consistency and convenience and some are removed, as these are already covered under microfinance institutions ordinance 2001.[1]

Keeping in view the economic position due to Covid-19 pandemic, on Mar 26, 2020, SBP made changes in prudential regulations (2014) for microfinance banks

[1] State Bank of Pakistan, 2014; Prudential Regulations for Microfinance Banks, Agriculture credit and Microfinance department circular number 03, 2014

through a circular to give relief to dampen the effect of covid-19 for microfinance banks and their clients[2]. The following are the five main amendments in Microfinance prudential regulation of 2014.

a. Microfinance Banks (MFBs) will defer a principal amount for one year upon a written request submitted by the obligor before June 30, 2020 while the service charges amount will be continued as per agreed terms and conditions.
b. Those clients/borrowers who are unable to service the mark up amount or need deferment of one year, may reschedule/restrict upon their request.
c. The MFBs shall not classify the financing of such client who will be:
    I. Requesting for deferment, rescheduling or restructuring.
    II. Unless the payment obligation are past due by 90 days.
d. In case, the deferment, rescheduling/restructuring will not be executed successfully within the prescribed period of 90 days. Such financing will be dealt with as per prevailing instruction of microfinance PRs and will be classified as “doubtful”.
e. The above-mentioned instruction of point 2 and 3 will remain stand up to Mar 31, 2021.
f. The aforementioned treatment point number 2, 3 and 4 shall be available on such financing which were regular on / or February 15, 2020[3].

Keeping in view the rampant epidemic of Covid-19, on July 07, 2020, SBP issued another circular in which SBP decided to extend date of submission of request by 90 days for the deferment of principal amount. Therefore, the clients/borrowers who were unable to submit their request for deferment, may submit their request before September 30, 2020[4].

Every contract has its own terms and conditions and any violation of such terms and conditions results into shari’ah non-compliance and leads to charity. Any extra amount due to late payment, charged on sale contracts will be consider as a charity and will not become part of the IMFIs profit.

On April 23, 2020, Islamic Banking Department of State Bank of Pakistan (IBD-SBP) issued guidelines for implementation of regulatory relief to dampen the effect of Covid-19 through a circular[5]. This circular is applicable to all sectors including corporate/commercial banking, consumer financing, agriculture financing, house financing, SME financing and microfinance. The key features and guidelines of this circular are given below.

2 State Bank of Pakistan, 2020, AC& MFD Circular letter No 1 of 2020.
3 State Bank of Pakistan, 2020, AC& MFD Circular letter No 1 of 2020.
4 State Bank of Pakistan, 2020, AC& MFD Circular letter no 4 of 2020
5 State Bank of Pakistan, 2020, IBD-SBP Circular letter no 2 of 2020

Table 3.1: **SBP Mode wise guidelines for Islamic Banking**

Sr.No	Islamic Financing Mode	Transaction status	Principal Explanation
1	Murabahah/Musawamah (Where banker is seller)	Where declaration/ offer & acceptance is not yet executed	Murabahah or Musawamah price can be increased.
2	Murabahah/Musawamah (Where banker is seller)	Where declaration/ offer & acceptance of Murabahah/ Musawamah has been executed	Additional profit cannot be charged on deferred principal amount as Murabahah/Musawamah price cannot be increased. However, a separate transaction based on Tawaruqh/commodity (Murabahah/ Musawamah)/ Salam/ Istisna/DM/ Running Musharkah may be executed.
3	Salam/Istisna/ Musawamah (Where bank is buyer)	Where customer has not yet delivered the products to bank	Delivery along with tenure and selling price may be extended.
4	Salam/ Istisna/ Musawamah (Where bank is buyer)	Where customer as an agent of bank has not yet sold the products onward	Additional profit may be charged with tenure extension.
5	Salam/Istisna/ Musawamah (Where bank is buyer)	Where customer as an agent of bank has sold the products onward	Tenure may be extended to the extent where incentive of the customer may be reduced to zero but additional profit is not allowed.
6	Diminshing Musharkah	Based on Shirkat-ul- Milk	Unit sale/purchase may be deferred and tenure may be extended.
7	Diminshing Musharkah	Profit deferment	Rent may be deferred
8	Ijarah	Principal and profit deferment	Rental may be deferred along with additional and un-adjusted rentals
9	Musharkah/ Running Musharkah	Any stage	Tenure along with terms and conditions of both musharkah and running musharkah can be revised.

3.2 Security and Exchange Commission of Pakistan (SECP) Relief for Microfinance Institutions:

On Mar 31, 2020, SECP, issued circular No. 9, 2020 in which SECP made amendment in its regulation 67A of non-bank finance companies and notified entities regulation, 2008 in order to outbreak the circumstance created due to Covid-19 pandemic. The following amendment had been observed in regulation 25 and 67A of subsection 3 of section 282B of the companies' ordinance, 1984 (XLVII 1984).

a. Upon written request of borrower/client before June 30, 2020, NBFCs can defer the repayment of principal amount for one year while the client/borrower continues to submit services charges as per agreed terms and conditions.
b. In case borrower/client is unable to service the mark up, then the financing facility may be rescheduled/restructured upon their request.
c. In case, the deferment or rescheduling/restructuring will not be executed successfully within the prescribed period of 90 days, such financing will be classified as "doubtful" in case of microfinance.
d. The aforesaid relaxation in point number 1, 2 and 3 will expire on Mar 31, 2021 and afterwards prevailing provision will be applicable.
e. The above-mentioned treatment shall be applicable only to those loans/ financing which were regular as on February 15, 2020.[6]

To dampen the effect of covid-19, SECP allowed MFIs deferment and rescheduling of repayment of principal on client's request (Daily Times, 2020) and allowed to accept client requests through SMS, emails and phone calls (Desk, 2020). On June 29, 2020, SECP allowed three months extension again in receiving application of deferment of repayment of principal amount through its circular number 21, 2020[7].

6 Security and Exchange Commission of Pakistan, Specialized companies division, Policy, regulations and development department, Circular number 9, 2020 and letter number SC/NBFC-81/2020-85

7 Security and Exchange Commission of Pakistan, Specialized companies division, Policy, regulations and development department, Circular number 21, 2020 and letter number SC/NBFC-81/2020-105.

The SBP has issued guidelines for Islamic banks for deferment of financing amount but SECP has not yet issued any guidelines for Islamic NBMFCs. Most of the Islamic NBMFCs finance under *Qard Hassana* where they don't charge any profit and financial sustainability is a major challenge to such institutions (Shirazi, 2012). The Eighty percent of the financing portfolio of NBMFCs is based on Murabaha, where no extra profit on deferment is allowed by SBP in his IBD-SBP Circular letter no 2 of 2020[8]. Therefore, MFI's cannot accrue profit on their Murabaha portfolio for the deferred period which may directly hit their financial sustainability.

4. Empirical Evidences of Covid-19 Impact on Poverty

Covid-19 not only threatened the public health of developed and under developing countries like Pakistan but also devastated social and economic life of the public. Many international agencies expressed that there will be reverse effects of Covid-19 impact on the world's overall economic growth and economies will bear losses that will ultimately affect poverty. United Nation Development Program (UNDP) reported that about $220 billion income losses are expected in the developing countries due to Covid-19 (United Nation Development Programme- Pakistan, 2020).

Asian Development Bank projected that Pakistan's economy will shrink to 2.6% in 2020 from 3.3% in 2019, while inflation in the country will persist around 11.5%. The demand side will also be affected under Covid-19 that may affect exports adversely. Moreover, the report said that growth in agriculture will slowdown in 2020, as worst locust infestation has damaged the harvest of cotton, wheat and other major crops over two decades. The inflation rate accelerated to 11.5% which results in sharp rise in food prices in the first part of the fiscal year and 9.8% drop in the value of local currency (Augustine, 2020).

Blochistan Drought Need Assessment report 2019 stated that Pakistan is facing many problems including poverty, continuous natural and manmade disasters and food insecurity. As per latest poverty estimates, 38.8% of population is below poverty line based on multidimensional poverty index (MPI) and 24% population living below poverty line as per national poverty line (Falak Naz, 2020). Thus Covid-19 lockdown is a tough choice for developing countries like Pakistan, as there are many people living below poverty line and Covid-19 increased the poverty rate in the country.

[8] State Bank of Pakistan, 2020, IBD-SBP Circular letter no 2 of 2020

On May 28, 2020, UNICEF Pakistan office issued a report and stated that about 86 million more children will be pushed into household poverty at the end of 2020 which means a 15% increase due to economic fall down linked to Covid-19 epidemic. Furthermore, if urgent actions to protect families are not taken, then 672 million children will fall below the national poverty line in low- and medium-income countries in sub-Saharan Africa and South Asia. According to a statement given by UNICEF Executive Director "The Covid-19 has generated an unprecedented socio-economic crisis that exhausting resources of families all over the world" (Unicef, 2020)

According to the World Bank report in June-2020, as compared with pre-crises predictions, Covid-19 pushed about 70 million people to extreme poverty in base line scenario and 100 million under downsize scenario in 2020. As a result, the extreme poverty line of the world increased from 8.23% in 2019 to 8.82% under the baseline scenario and 9.18% under the down size scenario. About half of the newly projected, poor will belong to South Asia and more than a third in Sub-Saharan Africa. At the end of 2020, 1% increase in Gini-coefficient will result in 19 million in extreme poverty and global total of 90 million in baseline scenario. In down size scenario, additional 16 million people will enter into extreme poverty level which results in global total to 116 million (Andy Sumner, 2020).

Mamun and Ullah (2020) raised their concerns about under-developed and developing countries like Pakistan's position in Covid-19. Globally 55% of the population has no proper social protection and losses due to Covid-19 will affect their education system, human rights, basic food security and nutrition in the most extreme cases. The statistics of Pakistan are already alarming and Covid-19 pandemic is causing uprising unemployment, inflation, poverty and starvation. While there is no estimation about how long Covid-19 will persist, how many people will be infected, how many lives will be sacrificed and what will be the outcome of these crises (Ullah, 2020).

Bhutto et al. (2020) explained Covid-19's outburst on the economic slowdown in developing Asia resulted in several economic challenges. They observed that Covid-19 epidemic affected economic channels like travel, trade, production and services through demand shudder and investment decline. The decline in investment and effect on economic channels affected the overall economic position of Asian countries which resulted in increased poverty and insecurity in the area (Bhutto, 2020)

A study was conducted in Ghana to gauge the impact of Covid-19 on poverty and living standard through a survey of 3905 households. Multiple analytical approaches were employed. Results showed that poverty increased significantly due to covid-19 with deteriorating living standards. Furthermore, researcher found that middle and upper classes are deeply effected as compared to lower class. This paper suggested that Ghana needs to expand its social protection programs to assist the affected part of society due to Covid-19 (Bukari, 2021).

Another study was conducted in America to observe the impact of Covid-19 on rural areas. Research was based on primary data. The researchers found that the impact of Covid-19 on rural population was severe with significant reverse impact on unemployment, living standard, economic perspective and mental health. Further, they found that the said impact is consistent generally with age, sex, and education (Mueller, 2021). To investigate the impact of COVID-19 on poverty and IMFIs in Pakistan was found missing, therefore, we tried to fill this gap by conducting this study.

5. Methodology:

5.1 Sample and Data

Pakistan is a developing economy where data collection on micro level is a very difficult task. There are a total of 14 Islamic microfinance institutions (IMFIs) and 3 out of 14 are limited in their operations due to funding issues, increasing NPL and market situation in Pakistan. These IMFIs include Islamic Microfinance division/Bank, Islamic microfinance NPO, Islamic microfinance NGO and Islamic microfinance operations under conventional microfinance institutions. The sample of the study is also all Islamic microfinance institutions in Pakistan.

We have collected data through self-administrated questionnaires consisting of seven parts: The first part on general information of the company; second part on the impact of Covid-19 on IMFIs portfolio; third is on the impact on income of IMFIs; fourth is gauging the impact on operational cost; fifth is on checking the magnitude of risk; sixth is on the steps taken by the regulator to dampen the impact of Covid-19, and last on the steps taken by IMFIs to control the impact on IMFIs.

Currently, there are eleven IMFIs operating in Pakistan. The questionnaire was distributed among all the representations of the concerned institutions to the high level management in Lahore, Islamabad and Bahawalpur. Data was collected through personal visits and emails. We received eight responses out of eleven i.e., seventy three percent. To explain the results, descriptive statistics and frequency analysis were used in this study (Janjua & Akmal, 2014).

5.2 Construction of Questionnaire

Construction of the variables is always a difficult task. Based on the nature of business and target market, industries are different and questionnaires must be developed accordingly. We developed the questionnaire in this study after detailed discussion with researchers, academicians and practitioners. The aim of each construct to include in this study is to gauge the impact of Covid-19 on IMFIs and measures taken by the industry and regulator to dampen the magnitude.

6. Results and Discussion

In Pakistan, inception of microfinance took place in the 1980s when government started different programs for eradication of poverty. Based on the statistics presented by PACRA (2019)[9], currently eleven microfinance banks, twenty-four microfinance institutions and six rural support programs are operating in Pakistan. Eleven Islamic micro finance institutions are currently operational in Pakistan. As discussed earlier, we received eight responses from the respondents. The reliability of the self-administered questionnaire was checked through Cronbach's alpha value. The value of coefficient is 0.720, which is acceptable. General information is given below for IMFIs.

The questionnaire was distributed among top management of the Islamic microfinance institutions who are involved in policy development and decision-making. Responses were received from eight different IMFI representatives. All of the respondents have master level education except one who has professional degree.

Table 6.1 Demographics

			General Information							Average
D1	IMFI*	A	B	C	D	E	F	G	H	
D2	Education**	2	2	2	2	2	3	2	2	2
D3	Business Sector covered	3	1	3	3	3	2	2	3	2.5
D4	IMFIs Status	1	3	4	1	3	2	3	4	2.6
D5	No. of clients approximately	2351	3735	7768	21000	3500	3500	576,749	4500	77888

*The names of the organizations are mentioned in A, B, C, D, E, F, G, and H. Actual names cannot be shared due to some privacy issues.
**Where Master≥2 & Professional Education=3

[9] Pakistan Credit Rating Agency; https://pacra.pk/

Except one, all of the microfinance institutions covered more than one sector including agriculture, trade, production, livestock and services. Out of eight institutions, three are operating as microfinance NGO, two are NPO, two are Islamic microfinance banks/divisions and remaining are working as Islamic microfinance operations under conventional microfinance institutions. Average number of customers is seventy-seven thousand and eight hundred and eighty-eight. However, one of the institutions has largest portfolio of customers i.e., 576,749.

In table 6.2, descriptive statistics are given to gauge the impact of Covid- 19 on portfolio of IMFIs in Pakistan. In case, the answer is "yes" the number is assigned 1 and 0 otherwise. Q1 is regarding the impact of Covid-19 on portfolio of IMFIs, all of the respondents' answer was yes i.e. Covid 19 has impact on the portfolio of business. Further, all the respondents believe that because of covid, the number of clients and amount of financing have decreased.

Table 6.2: Covid-19 Impact on IMFIs Portfolio

Q*/IMFI		A	B	C	D	E	F	G	H	TY*	TN*
Q1	Do you think covid-19 effects IMFIs portfolio?	1	1	1	1	1	1	1	1	8	0
Q2	Do you think your portfolio decreased due to covid-19 epidemic both in amount and number of clients?	1	1	1	0	1	1	1	1	7	1
Q3	Your Organization portfolio consists on more than one product.	0	1	0	1	1	0	0	0	3	4
Q4	Your MFIs portfolio consists 100% on Murabahah.	1	0	0	0	0	0	0	0	1	7

TY*& TN* total number of "YES" & "NO" respectively. Q* is the number of questions. Same code is applicable to remaining results.

All the respective IMFIs are using more than one product except one in which 100% portfolio consists of Murabaha. Based on the responses, we may conclude that covid 19 has decreased the portfolio of IMFIs in terms of amount and clients despite having different product structures. The organization having portfolio in Murabahah facing accrual/income realization issue as regulator has asked to defer the receivable. As per shari'ah rulings, price cannot be increased once settled.

Next table is regarding the impact of covid on the income of IMFIs. Seven out of eight have responded yes that they feel due to covid, the income of the IMFIs has decreased. Moreover, they have devised some other plans to increase the income of the organization.

Table 6.3: **Covid-19 Impact on IMFIs Income**

Q*/IMFI		A	B	C	D	E	F	G	H	TY	TN
Q1	Do you think Covid-19 effect IMFIs income?	1	1	1	1	1	1	1	0	7	1
Q2	Do you have any second plan to enhance IMFIs income	1	1	0	1	1	1	0	1	6	2
Q3	Are you agreeing to do another Shari'ah compliant transaction with those clients who submit their request for deferment?	0	0	1	0	1	0	0	0	2	6

Six out of eight respondents were of the opinion to not to use any other financing mode i.e., Salam, Istisna, Ijarah and Diminishing Musharakah in case of deferment whereas, two of them agreed to use alternate modes in order to realize income.

Table 6.4 depicts the impact of Covid on operational cost of IMFIs. Six out of eight respondents agree on the fact that Covid has impacted on operational cost of the institution. However, majority of the institutions have not introduced any policy to cope with this problem. Majority of the institutions have not revised their approval matrix to decrease their expenses.

Table 6.4: **Covid-19 Impact on IMFIs Operational cost**

Q*/IMFI		A	B	C	D	E	F	G	H	TY	TN
Q1	This Epidemic affects institution operational cost?	1	1	0	0	1	1	1	1	6	2
Q2	Have you introduced any policy to decrease IMFIs operational cost?	0	1	0	0	0	0	0	1	2	6
Q3	Have you revised approval matrix of expenses?	0	1	0	0	0	1	0	1	3	5
Q4	Your IMFIs staff productivity change?	1	0	1	1	1	1	1	1	7	1

As far as the productivity of the employees is concerned, based on the survey, almost all of the institutions' productivity decreased due to covid.

Risk is a very important component for financial sector due to its sensitivity. As expected, covid has impacted all the areas of IMFIs including risk. All the respondents are of the opinion that this pandemic has increased different types of risks faced by IFIs and delinquency has increased as well. These risks include credit market and liquidity. Due to the decrease in repaying capacity of customers/borrowers, the credit risk increased. On the same lines, the liquidity problems have also increased. However, response is mixed regarding layoff of the employees as per the results given in table 6.5.

Table 6.5: Covid-19 Impact on IMFIs Risk Factors

Q#/IMFI		A	B	C	D	E	F	G	H	TY	TN
Q1	Covid-19 increases the level of different types of risks i.e. credit, market & liquidity risks?	1	1	1	1	1	1	1	1	8	0
Q2	Delinquency increased due to Covid-19?	1	1	1	1	1	1	1	1	8	0
Q3	Do you think that in case of loss, organization has right of downsizing to decrease cost?	1	0	-	1	1	0	0	1	3	3

Results given in table 6.6 deal with the regulatory steps towards dampening the impact of covid on IMFIs sustainability. Response is mixed regarding effectiveness of the regulatory steps for sustainability. Four out of eight do not agree regarding the effectiveness of regulatory steps. Particularly, step taken by regulator to defer the principal is not considered good for the sustainability of the institutions. They are agreeing that regulator should take steps to strengthen the sustainability of the industry.

Table 6.6 Regulatory steps to Dampen the Impact of Covid-19

IMFI		A	B	C	D	E	F	G	H	TY	TN
Q1	Do you think regulatory steps are rational and helpful for the sustainability of MFIs?	1	1	1	0	0	0	0	0	3	4
Q2	Do you think deferment of principal is the only solution from regulatory perspective?	0	1	0	0	1	0	0	0	2	6
Q3	Do you think regulator should also focus on such solution which increases the sustainability of MFIs?	1	1	1	1	1	0	0	1	6	2

Q4	Do you think regulator should give some relief or compensation to IMFIs to promote the Shari'ah compliant financing at micro level in anticipation of Covid-19?	1	1	1	1	1	1	1	1		8
Q5	Do you think deferment of principal is beneficial for customers?	1	1	1	0	1	1	1	0	6	2
Q6	Do you think profit charged on deferment, is not a burden on customer, while his sources of income effected due to Covid-19.	0	1	1	0	0	0	0	0	2	6

All the respondents are of the opinion that the regulator should give relief to the IMFIs to promote Shari'ah compliant financing and to dampen the impact of Covid. Whereas, again they opine that deferment of the principal is not beneficial for customers. Further, they believe that profit charged on the principal for deferment is not in favor of customers as well due to fall in income.

Results given in table 6.7 are about the actions taken by IMFIs to dampen the impact of Covid. Majority of the institutions have developed strategies for sustainability, keeping in view the scenario of Covid. However, no strategy has been devised to realize the income for deferment in Murabaha transaction

Table 6.7 IMFIs Actions to Control the Impact of Covid-19

IMFI		A	B	C	D	E	F	G	H	TY	TN
Q1	Have you developed any strategic framework or policy at organization level to control the impact of Covid-19?	0	1	1	1	0	1	1	1	6	2
Q2	Have you artifice a solution to settle the Murabaha receivable in order to realize the previous income based on separate Shari'ah compliant transaction?	0	0	0	0	0	0	0	0	0	8
Q3	Do think IMFIs has taken corrective measures to overcome the impact?	0	1	1	0	1	1	0	1	5	3
Q4	Have you developed any new product in replacement of Murabaha in which income can be realized in case of deferment of principal?	0	0	0	1	1	0	0	1	3	5

Murabaha is sale transaction and once price is determined, it cannot be altered as per Shari'ah. Therefore, in case of deferment, price cannot be changed. Therefore, no alternative product has been developed to realize the income of Murabaha in case of deferment. Five out of eight are of the opinion that IMFIs are on right track to cope with covid 19, however, three of them disagree.

7. Conclusion and Recommendations

The epidemic of COVID-19 has emerged as a threat not only to a global health system and draining of economic resources, but it also causes to increase the level of poverty with a fear and chaos that prevent us from making the right decision at the right time. Nonetheless, it is also a threat to the financial industry around the globe and Pakistan as well, being an emerging economy. The impact of Covid-19 is high on low-income levels of the society. Microfinance industry deals with low-income part of the society, therefore, this is the most affected part of the industry, and Islamic finance industry has no exception as well.

The objective of the study is to find the impact of Covid-19 on IMFIs and poverty. This study is survey based through self-administered questionnaires. Questionnaires were distributed among top management of the Islamic financial institutions and eight responses were received. Based on the responses, it is concluded that portfolio of the IMFIs has been affected due to the pandemic of Covid and overall portfolio has decreased in terms of financing. The income of the IMFIs has also decreased due to inability of customers to repay and deferment of principal from regulator. On the other side, the operational cost of institutions has increased and productivity of the staff has also decreased. Furthermore, magnitude of different types of risks has also increased such as credit risk, market risk, liquidity, risk etc. Therefore, there are multiple factors which affect the efficiency of IMFIs.

The steps taken by regulators are not considered appropriate for the sustainability of the industry. IMFIs demand some concrete steps to strengthen Shari'ah compliant microfinance institutions, which include compensation and relief in term of regulatory requirements. Deferment of the principal is not considered a good step for the sustainability of IMFIs. However, institutions by themselves are working to control the impact of Covid-19 but they are not very successful in this regard. In a nutshell, based on the responses received from representatives of the industry, it is concluded that Covid-19 has badly damaged the IMFIs in terms of portfolio, income, risk and operational cost. Therefore, regulator has some responsibility to take some concrete steps to save this industry as it serves the low-income levels of the society in Shari'ah compliant way which is untapped by commercial financing institutions. Hence, to continue the operation of this industry, the role of regulator is manifold.

Portfolio diversification as a risk management strategy is used to diversify the risk; however, it has been observed that majority of IMFIs used Qarde Hassn and/or Murabah for financing. Nonetheless, accrual on late payment in Murabaha is not allowed in shari'ah. Therefore, there should be product diversification to maximize the return. Organization should focus on product development and revision of polices in order to tackle such future pandemics.

IMFIs should focus on development of new products. As IMFIs income hurts due to Covid-19, therefore they need to search out other avenues of income generation. Furthermore, cost cutting policy is recommended to reduce cost, especially variable cost, as 70 % IMFIs did not introduce any cost reduction policy. Furthermore, IMFIs need to revise their screening criteria in order to reduce further delinquency and increase quality customer in order to retain healthy portfolio. Moreover, regulatory steps to dampen the impact of COVID-19 are not enough as per responses received. Therefore, regulator's keen focus is necessary to Islamic microfinance institutions. Regulator can support through provision of financing at low / zero cost to IMFIs. Additionally, SBP can introduce bank guarantees for funds' provision at low cost to microfinance institutions. Islamic commercial banks can also finance to IMFIs at low cost from their current account or can donate their charity account to IMFIs to support the lower income part of the society.

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