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QARD – A FORGOTTEN CHAPTER OF ISLAMIC FINANCE

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ABSTRACT

Theoretically speaking Qard (interest-free loan) is true alternate to interest-based loans of conventional banking system. Being loan, it has all good properties of interest-based loan and it lacks interest, the only bad component of interest-based loan. However, as a general rule no existing Islamic Bank offers Qard as a mode of financing - except rarely to non-business customers on humanitarian ground only. This opinion paper traces Quran, Sunnah and Islamic history for Qard as a prime mode of financing of another person's business. The paper is meant to advance Islamic finance by providing a more powerful alternate mode of financing to interest-based loan. Secondly, the paper logically explores why Qard should be a mode of financing instead of interest-based loan. Thirdly, the paper provides historical evidence that practically Qard is a far better mode of financing as compared to interest-based loan. Fourthly, the paper provides logical evidence that on regulatory grounds Qard is far superior to existing mode of financing being used in Islamic banks. Fifthly, Qard based system is far superior for financing a government.

Keywords: Qard, Interest-based loan, Public Finance

Introduction

Historically, finance has remained the Achilles heel of individuals, families, communities, organizations and countries alike (Ubaidullah, 2019). Individuals, Communities, organizations and countries do anything to get money (Federal Reserve Bank of Philadelphia, 1957). They may agree to interest-based loans and eventually get into a debt trap. For example, As pointed out by the auditor general of Canada, about 91% loans drawn by Canadian government are used to serve the interest charges of earlier loans (Auditor General of Canada, 1993). So, interest charges constitute a major sink of tax payers' money. Interest charges, the price of services of money, through feasibility reports, checks all productive activities. Production and ultimately employment becomes chained. Odds are heavily against full employment in interest based financial system (Ubaidullah, 2019). The work in hand addresses this problem by exploring Qard (interest-free loan) as an alternate mode of financing. Throughout this text, unless otherwise stated, Qard, Qarz, qard or qarz means interest-free loan.

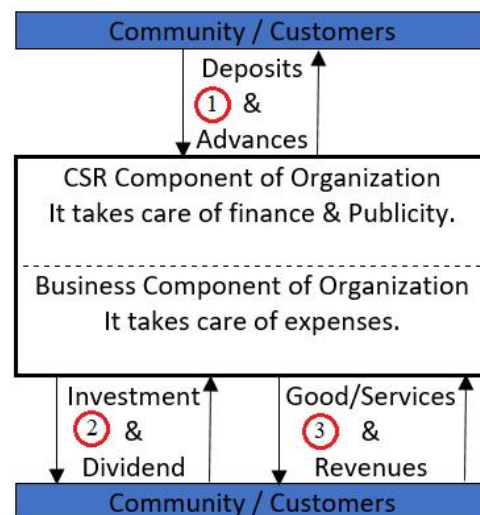
Qard versus donation: A famous hadith book Ibn-e-Majah records that Anas ibn Malik reports that Allah's Messenger (ﷺ) said:

"It is reported that the Prophet (ﷺ) said, "in the night of the journey, I saw on the gate of heaven written, 'reward for sadaqah is ten times and reward for qard al-hasan is eighteen times. So, I asked the angel, how is it possible? The angel replied, 'because a beggar who asked had already had something but a borrower did not ask for a loan unless he was in need'" (Najeeb & Lahsasna, 2013). So, if the donor is skeptical about misuse of scarce resources, then qard is preferred to donations. It appears from the hadith that donations may add more parasites to society while qard, on the

other hand, may contribute more entrepreneurs to community. Thus, in biological terms, more donations mean more parasitism while more qard means more symbiosis in society. Further, while donations are meant to help needy, qard, on the other hand, are designed to suit for business purposes. That is why Imam Abu Hanifa () used qard to finance his business (Gillani, 2008).

Qard versus Interest-based Loan: Here, it may be noted that both qard (interest-free loan) and interest-based loan are both loans. They are essentially same with the only exception that the former is interest less while the other is not. The former cannot help a financier to earn more money on principal while the other can. Qard has all good properties of interest-based loan and at the same time it lacks interest, the only bad component, as per Abrahamic law, of interest-based loan (Kagan, 2022) . Thus, qard is superior to interest-based loan provided the financier enjoys some alternate mode of revenues to cover qard-related expenses and generate income. This apparently unbearable condition is actually achievable as explained in forthcoming paragraph. So, due to their same nature qard is an excellent candidate to replace interest-based loan in society.

The Financial Model of Abu Hanifa: Abu Hanifa (696-767), reverently known as Imam Abu Hanifa, is a Muslim scholar more famous for his contributions toward Hanafi School of jurisprudence, which has remained the most widely practiced school of Islamic law (Gillani, 2008). He was a morally responsible capitalist and a successful entrepreneur (Gillani, 2008) . His business cum financial model, as illustrated in the attached diagram, may be defined as follows. The Abu Hanifa financial system is a merger (symbiosis) of Business and Qard ideas into an integrated whole where each component helps the other to grow together. When used separately both Business and Qard have their respective disadvantages. Business, for example, is good for earning profit but, at times, may lack necessary finances to remain solvent or expand to market requirements. In order to avoid this disadvantage, businessmen generally visit banks seeking finances for their business. Qard, on the other hand, is good for arranging necessary finances but lacks a profit component for financier. These two components, when combined, form a symbiosis where each component reinforces the other (Gillani, 2008) . The business component takes care of all expenses including those arising from qard related activities. This income generation component of the model is marked “3” in attached diagram. While the qard component through deposits



takes care of finances for business, and through advances it takes care of publicity for the business. This financing component of the model is marked “1” for quick reference.

Financing activities on qard basis do not share the risk in business so, no income, whatsoever, is generated (distributed) from (to) customers (depositors) through financing activities. So, with necessary finances available, business expands and earn more profits. This actually happened when Imam’s business expanded from a small shop to a textile firm in Kofa, present Iraq (Gillani, 2008) . The business also provides earning options for potential investors. They can purchase share in business and may be awarded proportionate share in profit or loss as the case may be. This feature of the model is marked “2” in figure for quick reference.

The following features pertaining his (Imam’s) work are worth mentioning in order to better understand the bulk of task undertaken.

- Of the four famous scholars of Islamic Jurisprudence Imam is the only one whose entire efforts are based on team work. The team being comprised of hundreds of paid specialists from various walks of life headed by the Imam himself (Gillani, 2008).
- The entire research, educational, philanthropic and business work spans over a period of twenty years (Gillani, 2008).
- Proper written record, where necessary, was maintained. In fact, after him, his work was proved to be so comprehensive and organized that it was adopted as a sole framework for decisions to be taken for centuries in courts in almost all Muslim states (Gillani, 2008).
- Parallel to research pains, educational efforts were carried out. Young students were admitted. Scholarships were awarded to students and, at times, to their parents too. Students were carefully trained in Islamic jurisprudence in order to prepare them to assume important duties, with responsibility, in government offices (especially judiciary) in future (Gillani, 2008).
- Interest free loans were extended to those (not necessarily students or team members) who needed it. If it was found that the borrower is unable to fulfil his obligations then the loan was waved off (Gillani, 2008).
- Besides interest free loans, significant contributions were made to charity (Gillani, 2008).
- Gifts, if any, were thankfully received but were immediately reimbursed by something far better than what received. Further whatever received as gift was contributed to charity (Gillani, 2008). All expenses sustained in this whole process were sponsored by the Abu Hanifa financial system (Gillani, 2008) . No funds were raised from general public neither any help was accepted from the government or its agencies. In fact, the system has full potential to finance individuals, industries and government on qard basis. It is unfortunate that Muslim Governments ignored such a useful

interest-free financial system. Jew financiers, then called Jehbiz (Gillani, 2008) , immediately grabbed the opportunity and they filled the available space with interest-based loans. Like many countries around the world Muslim Khilafa was also chained into a debt trap. So, it can safely be concluded that historical evidence proves the model in discussion as highly productive for society and profitable for the financier himself.

Economic Position of Abu Hanifa: In economics goods or services are classified into two groups, namely Economic Goods and Free Goods (Tigernix, 2023) . Goods or services are classified as free goods if their supply exceeds their demand in market. Such goods are freely available in society. On the other hand, goods or services are called economic goods if their supply is less than their demand in market. As a rule, economic goods are offered in market at a price. One of the basic assumptions of conventional economics is that money, being scarce, is economic good (Banton, 2023) . So, there must be some positive price for the services of money. Conventional banking is based on this assumption and interest is considered as the legitimate price for the services of money. Unfortunately, the prevailing Islamic banking implicitly considers money as economic goods, though, for religious reasons, they contemplate interest as illegitimate. That is why Islamic banks only rename or replace interest with some other mode of payment. They never try to abolish interest.

History records that Abu Hanifa, on the other hand, refused to be 100% mainstream and took a totally different position on money. It appears that he considered money as free good and that is why his financial system never earned a penny from advances made to customers (Gillani, 2008). He even refused to accept non-monetary benefits from customers (Gillani, 2008) . This position may be called Abrahamic because, speaking from primary sources, all Abrahamic religions are against interest (Kagan, 2022) . The present creation of money out of nothing is clear evidence that money can be freely created, hence the question of price for the services of money becomes an unnecessary hypothesis. Thus, modern economic, speaking theoretically, is in agreement with Imam's position on money.

A Forgotten Chapter: Unfortunately, the idea in discussion constitutes almost a forgotten chapter of Islamic history in general and Islamic jurisprudence in particular. A ready reference to this fact may be found in a book titled "An Introduction to Islamic Finance" by respected Mufti Muhammad Taqi Usmani. In this book, in order to make finance Islamic, the respected author discusses everything (Musharakah, Murabahah, Ijarah etc.) except the qard based highly profitable financial system of Imam Abu Hanifa (Usmani, 1998). To further clarify the point read the following text from the same book.

"According to Shari'ah, interest free loans are meant for cooperative and charitable activities, and not normally for

commercial transactions, except in a very limited range” (Usmani, 1998).

In February 2005, a two-day (16th and 17th February) seminar on Islam and Banking was chaired by Dr. Israr Ahmad, the late Ameer of Tanzeem-e-Islami Pakistan, at Quran College Lahore (Tanzeem-e-Islami, 2005) . The present author presented time multiple counter loan (TMCL) concept of Mehmud Ahmad at the event in discussion. Other respectable speakers like Justice (Retired) Wajih-ud-Din, Dr. Tahir-ul-Abrar, Professor Mian Muhammad Akram and Mr. Abdul Wadood Khan (Tanzeem-e-Islami, 2005) presented their specific view of the topic. The event was video recorded and the same videos were later uploaded to YouTube. Though, there was some discussion among presenters on qard - e - Hasna for charitable or business purposes no one, including the present writer, referred to the qard based highly profitable financial system of Abu Hanifa (Tanzeem-e-Islami, 2005) . The present writer, later, studied this topic in an Urdu book titled “Imam Abu Hanifa ki Siasi Zindagi” by Manazir Ahsan Gillani.

Building Safe Harbors: Inspired by YouTube video discussed above, in 2006 the present author was contacted by a new private school called Pioneer Islamic Public School (PIPS) in Wah Cantonment Pakistan. This school is located near barrier number 4 in Wah. The school specializes in conventional and religious education both. Topics of mutual interest were discussed with school management. It appeared that the school has a high turnover in teaching staff as the management cannot offer competitive package and other fringe benefits to teachers. The present writer took this situation as an opportunity for action research on the financial system of Imam Abu Hanifa.

A preliminary presentation on interest free finance took place. Then, in subsequent visits and after a series of presentations and group discussions, gradually the idea, that the school should try interest free finance it in its community, emerged. On August 27, 2010, the PIPS community passed a resolution titled “

”, meaning “A Resolution to Counter Interest Based System”.

Copy of the resolution is attached as attachment 01. The resolution describes the following three step process to achieve its objective.

1. Community and self-awareness program to understand Interest Based System and existing alternatives of the same.
2. To establish a community fund for interest free loans within community.
3. To provide interest free investment opportunities within community.

Step 1 of the above process involved (a) watching relevant video seminars by Tanzeem - e - Islami, (b) Arranging lectures of religious scholars, (c) watching videos on economic terrorism by Brass Tacks (<http://www.brasstacks.pk/>), besides arranging additional lectures of the present writer.

On February 23, 2011, the community agreed to establish Zikra Qard - e - Hasna Fund. Copy of the resolution is attached as attachment 02. The objective was to provide interest free loans to needy within community. A committee was formed to look over issues pertaining the fund. The committee was also entrusted to frame necessary rules and regulations for the fund in discussion. As per fund's record on April 12, 2011, the fund advanced its first interest free loan amounting to rupees 10000 to Mr. Badar Munir.

Gradually, the fund developed as more community members kept their savings with Zikra fund. At the end of September 2023 total deposits were rupees 3,046,985 of which 20% (i.e., rupees 609,397) is kept as reserve for contingencies (Zikra Qarz Hasan Fund, 2023) . The balance (i.e., rupees 2,437,588) is available as qard to community members. As of September 2023, only rupees 516,568 were still available for advances rest were used as qard to community members (Zikra Qarz Hasan Fund, 2023) . As of September 2023, total 821 cases of micro finance requests were successfully processed and executed (Zikra Qarz Hasan Fund, 2023). Like Akhuwat foundation, the recovery rate is more than 99%.

As per the feedback obtained from the school management, the present writer is convinced that the school realized the following benefits from Zikra Qard - e - Hasna fund. Firstly, 24/7 access to interest-free finances. The school, for example, used this opportunity to install solar system in campus and decreased its grid dependance for electricity by about 66%. Secondly, qard proved to be the most effective CSR (Corporate Social Responsibility) activity earning publicity for the school. Thirdly, the staff turnover reduced significantly as qard option available to employees proved to be a huge fringe benefit. The employees, now, feel safe to contingencies. They have access to qard which they can return in easy installments. Overall, Zikra Qard - e - Hasna fund, technically a backward integration strategy into financial resources, proved to be a win - win option to employees, community members and the school alike.

The following table provides trend in selected statistics of Zikra Qard - e - Hasna fund. Have a look at the scarce resources available in "Total Cash Received" column. The remaining columns demonstrate the reuse effect of scarce resources through qard - e - Hasna.

**Zikra Qarz Hasan Fund
Statement Showing Trend in Aggregate Statistics for three separate Monthly Reports**

Report	Total Cash Received (Rupees)	Total Loan Issued (Rupees)	Total Loans Returned (Rupees)	Total Current Loans (Rupees)
Aug-11	107,080	150,000	46,000	104,000
Jul-18	2,658,085	10,063,530	8,267,330	1,796,200
Sep-23	5,053,315	26,501,925	22,751,875	3,750,050

Source: Selected Monthly Reports of Zikra Qarz Hasan Fund,

The Underlying Principles: The work in hand uses some principles from Islam, Philosophy and science. Here we briefly discuss those principles.

1. **Importance of wealth:** Quran in its chapter 4 verse 5 declare wealth as a mean of support for communities. While Quran forbade us from giving control of wealth to incapable amongst us, we, by depositing our money in bank account, are giving control to bankers, unelected by public yet the most skillful accumulators of wealth. Further banking system, around the world, is more obliged to international banks from whom they get credit lines instead of national governments to whom they extend credit. The present work is trying to retain this control of community finances within community.

2. **Community Account:** Quran in its chapter 18 verse 19 discusses the importance of community account and a community council to better utilize the same account. It may be noted that the council on one hand encourages useful questions and discussions but also discourages useless issues in order to be focused on critical issues. The Zikra Qard - e - Hasna fund is actually the same community account. This account works as a social glue among community members and encourage unity and family feelings within community.

3. **Qard as a best Mode of Financing:** This principle has already been discussed earlier in this text. It is observed that this mode reduces parasitism in community, encourages entrepreneurship and encourage repeated reuse of scarce resources within community.

4. **Maintaining better Recovery Rate:** It must be noted that repeated reuse of qard resources is possible only if one can achieve and maintain a better recovery rate. Let us refer to Quran for the purpose. Quran in its chapter 2 verse 282 provide necessary guidelines for a loan transaction. First of all, please note that qard is not a donation so it must be properly documented and duly witnessed as required in Holy Quran. Necessary security, where applicable, must be obtained. Avoid qard transactions beyond your locality / community. Make effective use of social pressure in all qard transactions. For example, conduct qard dealing in a mosque in presence of witnesses. Finally, recovery rate can be further improved if financier is an institution instead of an individual.

5. **No Risk no Income:** Since the financier in a loan transaction, do not share any risk of customer's business so no income is permissible from such (financing) activities. That is why no income is generated from financing activities in financial system of Abu Hanifa. Those who want to earn income from the model may purchase share in business.

6. **Backward Integration:** This is a well-known strategy from strategic management. Here the organization tries to reduce its cost of production by acquiring / controlling its raw material

supply lines. The Zikra Qard - e - Hasna fund is simply a backward integration into scarce financial resources for the benefit of organization and community both.

Findings: Here are the key findings of the work in hand.

1. Donations are inactive and may promote parasitism within community.
2. Donations do not allow repeated reuse of scarce resources.
3. Qard is active and may promote entrepreneurship within community.
4. Donations cannot be awarded to businessmen.
5. Interest-based loan, at times, becomes a cancerous debt trap for organization. Community members, therefore, prefer qard on interest-free basis.
6. Although qard is not profitable, but it has other important benefits for the community / organization.
7. The financial system of Abu Hanifa is a win - win solution for organization, employees and community members alike. The model, being interest less, is better from conventional banking. The model, being simpler and comprehensive, is better from prevailing Islamic banking. The model, being sustainable without donations, is better than the award winning Akhuwat model.

Conclusions: Based on the findings stated above, here are the key conclusions of the work in hand.

1. Compared to donations, qard is a better mode of financing especially when it is observed that donations are promoting parasitism within community.
2. Compared to donations qard is a better mode of financing as qard allows repeated reuse of scarce resources. This also implies repeated eighteen times reward in hereafter.
3. For entrepreneurship purposes, compared to donations, qard is a better mode of financing.
4. For business purposes qard is better as donations cannot be awarded to businessmen. Further the amount of donation is generally very small for business purposes. Unlike donations qard has no upper limit and may be negotiated to fit the business requirements.
5. Compared to interest-based loan, qard is better as it is interest less, thereby it also reduces the cost of production.
6. Although qard is not profitable but the financial system of Abu Hanifa, the qard plus business model, is profitable.
7. The financial system of Abu Hanifa, if properly used, may promote unity and family culture within community or organizations. It may reduce cost of production due to its interest free nature. Being qard based it requires least documentation and negligible audit requirements. Being self-sufficient it is sustainable in long run.

Recommendations: Based on the conclusions given above, here are the key recommendations of the work in hand.

1. Use qard as a mode of financing to better utilize scarce resources. Use donations mostly within family where you are sure that the beneficiary is truly a needy person.
2. It is true that qard allows repeated reuse of scarce resources. However, reuse of qard money is possible only if you are able to recover the money advanced in a qard transaction. For this purpose, read “Maintaining better Recovery Rate” in this text.
3. To promote entrepreneurship, promote qard as mode of financing.
4. To achieve full employment, promote business and to promote business promote qard to all business institutions.
5. To reduce prices, reduce cost of production. One way to reduce cost of production is to allow qard to all business institutions. This rule also applies to a special price called tax.
6. Allow all registered business institutions to provide banking services to its community based on financial system of Abu Hanifa.
7. To promote unity and family culture within organization, use financial system of Imam Abu Hanifa. The system is expected to reduce cost of operations like production, finance, marketing, HR and audit.
8. Most of these recommendations applies to government itself. Afterall government itself is an organization.

Future Direction: After twelve years of action research at Pioneer Islamic Public School (Wah Cantonment), the researcher, now, feel confident that we can help communities and organization in managing their financial resources by implementing the financial model of Abu Hanifa into their existing system. We can provide training regarding the model in discussion. Although, the researcher is not a programmer, still we can help in related database structure. Of course, we can also train the community members in effective loan recovery and related risk management. Theoretically speaking, education and research both are meant to provide competitive solutions to individuals, communities and organizations. The work in hand presents a superior yet forgotten solution by an eminent Islamic scholar who lived more than 1200 years ago. His work is simple yet superior to prevailing conventional and Islamic banking both. As per the wants and needs of society, the financial model successfully abolishes interest instead of replacing it with some other mode of payment. The model should be useful, around the world, to all those communities, organizations and countries who want to control their wealth for the benefit of their members, employees and citizens respectively. Let us hope that this work proves a milestone in this direction.

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PIPS Resolution to Counter Interest Based System

Attachment 01: Copy of the resolution titled "A Resolution to Counter Interest Based System".

سودی نظام کے خلاف قرارداد

رخہ 27.08.2010 کو واہ کینٹ میں ایک اجلاس منعقد ہوا جو تقریباً چار گھنٹے تک جاری رہا۔ یہ اجلاس سودی نظام جڑ کاٹنے کی ایک کوشش کے لیے منعقد کیا گیا۔

یہ ذیل نکات کو اس اجلاس کا سنگ میل اور مستقبل کے لیے لائحہ عمل تصور کیا جائے گا۔

1. میں شامل تمام افراد اس نیت کے ساتھ شامل ہیں اور ہو گے کہ ان کی جدوجہد کا اصل مقصد رضاء کے حصول اور اخروی فلاح کے سوا کچھ نہ ہو گا۔ اور اس مقصد کے حصول کی خاطر وہ موجودہ نظام باطل کے بہت اہم ستون یعنی "سودی معاشی نظام" کے خلاف مل کر ایک متبادل نظام کی اساس قائم کرنے کے لیے عملی کوشش کریں گے۔

یہ برآں اللہ اور اس کے رسول صلی اللہ علیہ وسلم کے ساتھ جاری جنگ کا خاتمہ کر کے ان کے ساتھ اپنی برادری کا اعلان بھی کیا جاسکے۔

2. سلسلے میں مرحلہ وار ترتیب حسب ذیل ہوگی :

1. سودی نظام کے بارے میں خود آگاہی اور معاشرے میں بیداری کے اقدامات۔
2. قرض حسنہ فنڈ کا قیام۔
3. سود سے پاک سرمایہ کاری کے مواقع۔

Resolution to establish Zikra fund for Interest Free Loans

Attachment 02: A resolution to establish a fund for Interest Free Loans

قرض حسنہ فنڈ کے قیام کی قرارداد

بمورخہ 23 فروری 2011ء ایک اجلاس منعقد ہوا، جس میں اتفاق رائے سے سود کے خلاف عملی کاوش میں مرحلے پر قرض حسنہ فنڈ قائم کرنے کا فیصلہ کیا گیا۔ اس فنڈ کو قائم کرنے کا مقصد معاشرے کے ضرورت مند کو چھوٹے قرض فراہم کرنا ہے۔ اس فنڈ کی نگرانی ایک کمیٹی کرے گی، جس کے اراکین باہمی مشاورت سے جملہ قواعد و ضوابط طے کریں گے۔ ان قواعد کی روشنی میں فنڈ کے تمام امور انجام دیئے جائیں گے۔