

# Akhuwat's Microcredit Alternative

Shahrukh Rafi Khan & Natasha Ansari

September 2018

# Outline

Critiques of Conventional Microcredit

Akhuwat's vision and mission

Akhuwat Model

Research questions

Method for evaluating success

Findings

# Critiques of conventional microfinance

- Emphasis on sustainability of organization/ empire-building
  - High Interest rates justified for high transaction/operational costs
  - Poverty alleviation is sidelined
  - Exploitative
- Neoliberal Tool for Empowerment
  - Converts beneficiaries with social rights into “clients”
  - Poor become market players; erodes community
  - Anti-welfare; state’s role in provision of services becomes moot
- Co-option of women’s ‘empowerment’
  - Capitalizes on lack of agency
  - Destroys household unity; pits women against men which is known to have detrimental consequences for women
- Microcredit is destructive – rather than a benign/ineffectual development initiative (Bateman and Chang, 2012)

# Vision and mission

- Vision: Poverty free society built on principles of compassion and equity
- Mission: “Alleviate poverty by empowering socially and economically marginalized families through interest free microfinance and by harnessing entrepreneurial potential, capacity building and social guidance.”
- Four core policies
  - Interest-free Loans
  - Volunteerism
  - Use of religious spaces
  - Borrowers-to-donors (not meant to be compulsory/instead graduate to self-sufficiency where they don't need loans)

# Loan process

- Evaluated to be below poverty line, good social standing, not involved in illegal activities
- Family interviewed, to make sure they are aware of loan
- Business plan appraisal
- Groups/Or two guarantors from the community
- 3 weeks loan processing time
- Disbursement (100-150 loans)
  - Assign moral or ethical value
  - Social issues (female education, social commitment, ethics, environmental awareness)
- Standard loans 97%, liberation loans 1%, remainder; health, emergencies, education, marriage

# Akhuwat Model

- Small loan sizes and small installments sizes spread across a (comparatively) longer repayment time
- No coercion tactics for repayment
  - Other consciousness/Empathy
  - Instead of harassment, tries to instill self-worth and self-confidence; involved citizenries of their communities
  - Islamic ethic of responsibility to the community as encompassing worship
  - Close to 100%
- Assumes household as a unit, rather than an individual
  - Loans are co-signed
- Simplicity
  - Operational cost is <10 %; less than half of conventional MFIs
  - No foreign donors (but adaptable)

# Akhuwat Model

- Minimize hierarchy
  - All branch activities happen on the floor; organic; minimize impersonal exchange; facilitates solidarity
  - Founder's office has no chairs/AC
  - Senior management works on voluntary basis
  - Borrowers known as 'members,' not 'beneficiaries' or 'clients'
- Community ownership – engaged citizenry by encouraging people to utilize community spaces
  - Reclaiming mosques as community centers?
  - Inter-faith aspect

# Akhuwat Model

- Loan officers are friends/ advisors to the community – not agents of an MFI. Key aspect of staff training
- Expansion
  - More revenue associated with more indebtedness would violate underlying philosophy
  - Selective with loans unlike (MFIs)
  - Cautious and conservative – free from incentives to expand
  - Encourages replication (instead of empire-building)









*Merry Christmas  
&  
Blessed New Year*



## AKHUWAT

Cordially Invites You To

### *Grand Christmas Loan Disbursement & Cake Cutting Ceremony*

**on Friday, 19 December 2014 at 3:00 pm (sharp)**

Venue: Catholic Cathedral, 1 Lawrence Road, Lahore

(Near St. Anthony's High School)

**His Grace Archbishop Sebastian F. Shaw, Archdiocese of Lahore**  
has consented to be the **Chief Guest.**

#### RSVP

Aleem Emmanuel | ALP Coordinator

AKHUWAT | [www.akhawat.org.pk](http://www.akhawat.org.pk)

Mobile: +92 332-8400025

Land Line: 042-35841221, 042-35841222

*"Christmas... is love in action. Everytime we love,  
everytime we give, its Christmas."*

It is the season of Blessings, Kindness, and Love! And in the Spirit of Interfaith Love & Harmony, Akhuwat has organized a Grand Loan Disbursement and Christmas Cake Cutting Ceremony at a Church, where we shall join hands in prayer and celebrations of this auspicious holy event with our brothers and sisters- both Muslims and Christians, rich and poor.

To this day, Akhuwat continues to surprise the world with its unique interest free model and astonishingly high rate of recovery for its loans. What has enabled Akhuwat to survive, sustain & grow exponentially with each passing year? The answer is surprisingly simple: Generosity and Brotherhood. Two principles that extend far beyond the limited term that is microfinance. Two principles that have collapsed the high walls not just between different social classes, but different faiths as well. Principles that have allowed Akhuwat to spread its giving hands in sanctified, holy places, where the God of all humanity dwells: Mosques and Churches, and soon, Temples and Monasteries.

The implementation of this unique event is a great moment of pride for Akhuwat, as it serves to instill the need to understand that Pakistan is home not just for a wealthy majority of citizens, but for the downtrodden, the impoverished, and religious minorities too.

# Research questions

- Is it successful based on identified criteria (vision and mission)?
- Does it address conventional microcredit critiques?

# Research design and method 1: data collection

- Random selection (multi-stage)
- 5% of branches (13 – stretching from Sukkur to Skardu)
- 1.5% of all borrowers and ex-borrowers (48,000)
- 267 individuals (78 ex-borrowers)
- No research team
- Research Independence
- Fieldwork May/June 2015

# Research design and method 2: data bases

- Semi-structured questionnaire responses
- Focus group discussions (27)
- Key informant interviews

# Research design and method 3: Why no RCT?

- Its about more than enhancing income
  - Org mission is social solidarity and self-reliance
- Selection is important part of the process
  - By community
  - By individuals
  - By organization
- Generating control group would be unethical if possible
- Data on income suspect

# Evaluating success

- Current scope/attaining scale
- Conventional indicators
- Imitation
- Attaining vision and mission: survey responses
- Micro/Macro impacts
- Addressing conventional critiques



# Scope/scale

- By mid-2016 had served 1.5 million hhs (38% of total microcredit loans in country)
- Given estimated hh size of 6.8 in 2011, touched 10 million people (5% of total population)

# Conventional indicators 1

Appendix 5.1. Expansion since inception			
Year	Loan portfolio	Borrowers	Branches
2001-02	1,895,000	192	1
2002-03	2,791,300	282	2
2003-04	8,504,000	832	4
2004-05	31,811,000	3,124	7
2005-06	66,020,700	6,264	11
2006-07	89,935,600	8,674	18
2007-08	122,445,242	11,388	20
2008-09	164,226,000	13,821	22
2009-10	251,808,800	21,073	36
2010-11	418,211,100	34,194	77
2011-12	1,137,684,000	67,683	153
2012-13	2,580,467,000	159,138	254
2013-14	4,047,109,100	234,883	289
2014-15	7,310,527,000	367,798	356

# Conventional indicators 2

- Appendix 5.2. Akhuwat recovery rates since inception (%)
- Year                      Rate
- 2001-02                  100.00
- 2002-03                  99.95
- 2003-04                  99.90
- 2004-05                  99.95
- 2005-06                  99.90
- 2006-07                  99.50
- 2007-08                  99.37
- 2008-09                  99.50
- 2009-10                  99.85
- 2010-11                  99.85
- 2011-12                  99.86
- 2012-13                  99.87
- 2013-14                  99.85
- 2014-15                  99.93

# Conventional indicators 3

- Appendix 5.3. Donated funds since inception (million Rs., current).

• Year	Amount
• 2001-02	1.50
• 2002-03	1.80
• 2003-04	7.10
• 2004-05	10.90
• 2005-06	28.30
• 2006-07	17.72
• 2007-08	23.98
• 2008-09	36.17
• 2009-10	53.00
• 2010-11	108.37
• 2011-12	97.71
• 2012-13	85.04
• 2013-14	103.00
• 2014-15	148.60

# Imitation

- Appendix 5.5: Akhuwat replications
- Kawish Welfare Trust
- Al Nur Umar Welfare Trust
- Sojhro
- ECI Pakistan
- Heral Buniyaad
- Decent Welfare, Gujrat
- Naimat Foundation
- Akhuwat Karachi
- Brooke International, Pakistan
- Muslim Aid, Pakistan
- Rural Development Organization, Dera Ghazi Khan
- Din Group
- Helping Hands
- Source: Head Office

# Borrower perceptions

- Only two respondents in five weeks of interviewing had anything negative to say
- 85% rated the staff conduct as very good and another 9% as good
- 87% rated the organization overall as very good and another 7% as good

# Borrower quotes

- “You are not treated like a customer, you are treated like a family member”
- “We pay back our loans, so others like us can be helped”
- “Facilitated bhaichara among the group members”
- “Enables us to become a giver from being a taker in society”
- “They are only here to serve, and not to take”
- “Women are referred to as behen or baji, and spoken with respect”

# Field staff quotes

- “We are doing ‘good work’ and getting paid for it.”
- “We are taught to turn the other cheek.”
- “We have been put on earth to help each other; God’s might is not affected by worship or the lack of it.”



# Attaining mission: microeconomic findings

- 91 % responded that the loan had contributed a substantial increase in hh income
- 88 % responded that they exclusively paid back the loan from the earnings of their business.
- 47 % of the borrowers started the business with the funds procured from Akhuwat in their first loan.
- 80 % of borrowers responded that they fully attained their objective while 13 percent said they were somewhat successful.
- 92 % expected to expand their business

# Some macroeconomic findings

- Competition from Akhuwat reduced interest rates of conventional MFIs
- Imitation: AKRSP (Aga Khan Rural Support Program) initiated LSO (Local Support Organizations) offering interest free loans
- Buttresses Labor (unemployment, bargaining power, wages)

# Addressing conventional critiques (1)

- Groups: social harmony vs. social capital destruction
  - 91% of current borrowers and 77% of ex-borrowers found group experience to be positive
  - 56% expressed preference for individual loan
  - ROSCAs
- Household harmony
  - 96% of women and 85% of men said no household tension

# Addressing conventional critiques (2)

- 69% of the women and 57% of the men approved loan co-signing
  - women; transactional costs
  - men; patriarchal reasons, embarrassment
- Low overheads
- Exemplary staff behavior
  - 89% rated staff behavior as very good and another 9 % as good
  - Do not even accept water in summers
- No loan treadmill

# Why successful?

- Context-specific (ROSCOs)
- Emphasis on mission/ Re-defining sustainability
- Leadership
- Systems:
  - Simplicity, cleanliness, non-hierarchy and frugality
  - Discipline, efficiency, training, effective selection, monitoring
  - Household loan model
- Overwhelming support for cause among staff and borrowers (no principle-agent problem)

# Limitations

- Public donations (peer pressure at play?)
  - Receipts (assurance versus anonymity)
  - 43% did not approve of the collection method; 44% did; 13% indifferent
- Loan size too small
- Groups undermine social capital
- Women centered policy needed: “We are just on the side in the mosque” (A female FGD participant)
- Partners

# Policy issues

- Organizational needs vs. social needs
  - Group loans
  - Inclusivity vs. selectivity
  - Solidarity vs. hierarchy
- Role of religion
  - Social justice vs. morality/respectability
- Moral pressure
  - Public donations
  - Question of using public money to impose values in a democracy?
- More female staff (3.5% not enough / 24.5% National)