

## Comments and Views

### Poverty Alleviation through Interest-Free Microfinance

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Correspondent – Pakistan Link, Washington, DC

The non-profit organization Akhuwat, led by Dr. Amjad Saqib is using creative ways for poverty alleviation through Interest Free Microfinance in Lahore as well as some other cities of Pakistan. With its philanthropic efforts, Akhuwat is providing a helping hand rather than a hand-out. Akhuwat propagates, through its literature and fieldwork, that the needy need not remain forever “needy.”

The organization is the brain-child of Dr. Amjad Saqib, a graduate of King Edward Medical College Lahore and a distinguished public servant. Company documents show a high loan recovery rate. Many borrowers, who are street vendors and small shopkeepers, have come back to Akhuwat for additional financing to meet business needs.

Dr. Saqib claims that the key to his organization’s success is the low cost structure. Akhuwat avoids high office rents by operating out of mosques. Although, mixing business and religion can be troublesome, Dr. Saqib feels positive about Akhuwat’s operating procedures.

Dr. Saqib’s low-key style belies his vast experience as a public servant, as a Hubert H. Humphrey fellow with a graduate degree in public administration and as a consultant to many international institutions. He has found easy access to senior public officials, including the Governor of Punjab and President Musharraf for his cause. Despite his connections, Dr. Saqib seems to lead a simple life. An old Honda Civic, without an air-conditioner, carries him around town for meetings at the Governor House or wherever Akhuwat takes him.

Akhuwat’s financial resources come from philanthropic donations from individuals, industrialists as well as institutions. Among its supporters is Punjab’s Governor Lt Gen (Retd) Khalid Maqbool, who recently listened to the personal testimony from some of the beneficiaries of Akhuwat’s interest free micro loans. During a meeting at the “Durbar Hall”, Governor House on September 28, 2006, pledges were collected from Akhuwat’s industrialist supporters.

Some of the loan amounts are as little as Rs 5,000. To the borrowers, such amounts can make a big difference creating a fighting chance to face grinding poverty. To those more fortunate in Pakistan, this amount could be merely the cost of air-conditioning a room. To those living in the West, this could be just the cost of lunch for two at a fine restaurant.

**Ms. Leslie Barcus**

President,

Microfinance Management Institute, Washington DC, USA

Akhuwat inspires in its entrepreneurial methodology of micro-credit delivery. The organization commendably demonstrates the simultaneous achievement of community based participation, respect for cultural beliefs and practices and excellence in operational and financial performance. Akhuwat is a fine example of civil society at its best.

**Gaama Hishigsuren**

Director Research and Development, Institute for Development Evaluation

Assistance and Solutions, Georgia, USA

Akhuwat is one of the most innovative microfinance models. It is most cost effective because of the creative use of community infrastructure and voluntary spirit of the members in the community in which it operates. There is a need in the microfinance field to promote more models such as Akhuwat that effectively builds on the socio-economic and cultural uniqueness of the local community it is serving.

**Professor M. S. Sriram**

Indian Institute of Management,

Vastrapur, Ahmadabad, India

I think Akhuwat's use of the mosque as a place to do socially relevant activities seems to be very innovative. While the Grameen replicators in India invoke God in their meetings through an oath in God's name, you have taken the activity directly to the place of prayer. Therefore it continues to be holy. I also quite liked your attitude towards the interest rates and service charges. One of the problems we face in charging low interest rates is that there is always scope for adverse usage and arbitrage. But as this activity is done in the presence of god I guess the possibility of misuse gets insulated. It would be great to do some documentation of your work. We should look for opportunities of collaborations and working together. It would be great if you could visit India some time. Let us look for some opportunity to keep in touch. I will be moving to Bangalore to work with Srinivasan for a year starting from June. I am sure there will be opportunities for us to collaborate.

**Professor R. Srinivasan**

Professor Finance & Control Area & Chairperson

Microfinance Group Indian Institute of Management, Bangalore, India

What impressed me was that Akhuwat combined microfinance best practices with the deeply rooted cultural value that encourages people to support their needy brethren. I am hoping that one day I will have an opportunity to visit Akhuwat. I am sure many organizations in India can incorporate learning from Akhuwat.

**Piotr Korynski**

Programme Director, Open Society Institute (OSI) USA

I was impressed by Akhuwat's Islamic microfinance project. It is very innovative & addresses several important issues in current microfinance in Pakistan. As we discussed, we would be prepared to contribute to your marketing efforts to make the programme widely known and recognized.

**Agha Ali Jawad**

General Manager

National Rural Support Programme (NRSP)

Very impressive. The programme is being implemented with missionary spirit.

**Thomas Krinc**

ILO Consultant

A highly competent Institution with a most impressive design and operation.

**Mahmood Mirza**

Advocate, journalist, writer

I do not know how to praise.

**Adnan Qadir**

PhD Candidate

A truly inspiring work and a thoroughly professional model!

**Zofeen T Ebrahim**

Freelance Journalist

I'm in awe. It's a gratifying experience.

**M.M.Zulqarnain Aamir**

Registrar Cooperative Punjab.

I am overwhelmed. If ever I would join a philanthropic economic movement, this is the one. May Allah help you grow and serve even better.

**Shehryar Sarwar**

Civil Servant, Writer

A very inspiring model of support and assistance to deserving people of this city. May it expand and grow!

**Masood Gill**  
Program Manager  
National Rural Support Programme (NRSP)

My visit to Akhuwat is very enlightening.

**Musharraf Zaidi**  
Governance Advisor

Thank you! Very innovative! Looking forward to your future success.

**Strauss Andrew**  
Income Growth Programme Officer  
DFID

Very interesting model and concept good luck in the future in both your programme and work well in the sector.

**Khobaib A Vahedy**  
Country Director  
Muslim Aid

May Allah give more "Barakah" in this cause. Amin.

**Sabooji Jamshed**  
News Reporter/Producer  
Pakistan Television (PTV)

Very very impressive and simple services without any showoff. God bless you "Akhuwat". All my well wishes are with the team and if I can do anything it would be a great pleasure.

**Sarah Zaka**  
Consultant

It was a pleasure to meet Dr. Amjad and see great work being done by Akhuwat. It is a great idea and it is being executed with a lot of care and professionalism.

**Eric Duflos**  
Microfinance Specialist  
Consultative Group to Assist the Poor (CGAP)

Many thanks for your kind welcome. Your "cost-cutting" methodology is very inspiring for us. I hope to visit you again soon.

**Graham Perrett**  
Consultant  
Consultative Group to Assist the Poor (CGAP)

Extremely interesting to see a creative approach to microfinance.

**Roomi S. Hayat**  
Director HRM  
National Rural Support Programme (NRSP)

Very innovative and creative, my best wishes for the success of 'Akhuwat'.

**Syed Mohsin Ahmed**  
General Manager  
Pakistan Microfinance Network (PMN)

I am impressed with the commitment of Akhuwat staff. My best wishes for a strong "Akhuwat".

**Muhammad Zahoor**  
Freelance Consultant

I am highly impressed with Akhuwat model and would like replicate it in our area Insha Allah.

**Shahnaz Kapadia Rahat**  
Chief Executive Officer  
ECI Islamabad

Innovation! Is inherent in your program I wish you very success!

**Nasim Sherin**  
Microfinance Advisor Plan International

A different model! Can be replicated in many places. Honest and serious dedication is must however a challenge! no doubt.

**Ayesha Khan**  
Microfinance Consultant

An innovative and humane approach which is much needed with the current leadership and teamwork. This approach will spread like wild fire. With all my prayers to wish Akhuwat success.

**Rashid Bajwa**  
Chief Executive Officer  
National Rural Support Programme (NRSP)

My first visit to Akhuwat has been most enlightening. The staff is professionally and extremely competent, as is their leader Amjad Saqib. I wish him success. The proof of Akhuwat's success lies in the discussion with an employee of another microfinance institution who has come for a housing loan. Keep it up!

**Mr. Malcolm Harper**  
Chairman  
Micro-Credit Ratings International Ltd

Akhuwat is already doing for conventional microfinance what Professor Yunus did for conventional banking in late 1970,s

**Mr. Bryan D. Hunt**  
Principle Officer  
American Consulate Lahore

Akhuwat has developed an impressive and unique approach for serving the community.

**Mr. Ishrat Hussain**  
Ex-Governor State Bank of Pakistan

The Challenges are formidable and the resources are limited. Akhuwat is doing very good work.

**Ms. Barbara Zadina**  
Consultant  
Shore Bank

Akhuwat is truly inspiring and an important reminder of what the microfinance sector can and should do for the disadvantaged people in the world.

**Sara Saeed Khan**  
Consultant  
Pakistan Microfinance Network

Akhuwat's work is truly admirable and captures the essence of development.

**Faiz Shah**  
Advisor  
Responsible Business Initiative

Value-based model at work! One would like to see it develop into a scalable one, able to sustain its core.

**Roger Nye**  
Consultant  
Fincon Services

A pleasure to learn about Akhuwat. Best wishes for building brotherhood.

**Javed Mahmood**  
Chief Secretary  
Punjab, Pakistan

My visit to Akhuwat has been unique experience an unexplainable one! It has added a new dimension to my vision.

**Mr. Shoaib Sultan Khan**  
Chairman  
National Rural Support Programme (NRSP)

Wish you every success in the future. In the words of Dr. Akhter Hameed Khan "You are building an island and Inshallah, this would multiply and one day become a movement".

**Dr. D.S.K. Rao**  
Regional Organizer  
Asia Pacific Micro Credit Summit

I had a very interesting discussion with Board Members of Akhuwat along with Dr. Amjad Saqib. We discussed mostly about the mission of Akhuwat and I was impressed with the commitment of Akhuwat Board Members. I met a few borrowers in Akhuwat Shah Jamal Branch, these borrowers are very passionate about the services being rendered by Akhuwat. They were of the view that they have the same responsibility to contribute for the well being of society as done by Akhuwat. Akhuwat is a very unique model!.

**Mr. Shoaib Sultan Khan**  
Chairman  
Rural Support Programme Network

"It gave me immense pleasure to visit Akhuwat, which indeed is trail blazing for reduction of poverty. In a short period of eight years what Dr. Amjad Saqib and his colleagues have achieved is incredible and a full reinforcement of the assumption that there is tremendous potential in people. I wish Akhuwat all success and have no doubt in my mind that one day it would benefit millions of urban and rural poor in a sustainable manner."

**Muzaffar Mahmood Qureshi**  
Federal Secretary

Great pleasure in visiting Akhuwat and learnt about great innovations It brings together those keen to serve the community, puts the needy on their feet, converts beneficiaries of the programme into loyal donors and establishes a unique model of sustainability. May ALLAH (SWT) grant help to sustain this effort.

**Student of University of Southern New Hampshire, USA**, were given Akhuwat Case Study, and asked to identify things that Akhuwat was doing 'wrong' according to traditional microfinance, and to suggest how

other microfinance institutions might learn from it. Some of their answers are very interesting

1. *“Not right according to conventional MF practices”:*
  - i *Loans are given individually to men.*
  - ii *Akhuwat is not following normal banking procedures:*
    - a. *No interest is charged on the money lent, only a 5% flat operational fee, regardless of the payment structure.*
    - b. *Funds for on-lending are obtained from charitable donations only.*
    - c. *Many volunteers are used for operational work.*
  - iii. *Grants or subsidized loans from large foreign donors or development banks are not sought. In fact, all the charitable donations are from individuals.*
  - iv. *Loans are given out at a place of worship. (This is perhaps better labelled as “very different and not seen before” as opposed to “not right according to conventional MF practices.”)*
  - v. *Sustainability is not sought.*
2. *What can other MFIs learn?*
  - i. *Giving loans to the family unit.*

*This is a fantastic way to deliver loans in an individual way, use a type of “family liability” as added incentive for repayment, and avoid the rising violence towards women by the marginalized males who are generally being left out of microfinance. It is a very simple idea; why haven’t other MFIs (to my knowledge) done this before?*

*So often, the economic unit of micro enterprises is the family, so it makes sense to give the family the loan. In my field visits, 2 out of three cases were examples of this: 1) the husband grew nuts at home while the wife went to the city to sell them. 2) Husband and wife both sold bark-paintings in different locations in the city, while the wife’s parents painted in another state.*

*Clearly, problems can arise, like always. Members of the family might suffer by struggling to repay a loan that was poorly used by one person.*

*However, the experience of Akhuwat has shown that this is a simple and worthy innovation to try.*

3. *Truly LOCAL organizations have an advantage.*

*Undoubtedly, a reason why Akhuwat can “get away” with breaking some of the conventional is that it is a true grassroots organization. Staff are all locally based and not over-qualified. Volunteers are used, notably local university students (what better operational help staff to use than young, often idealistic, volunteers?) The funds are obtained from Pakistanis only, and often just regular people. The sense of “brotherhood” that Akhuwat inspires is clearly shown that former clients would donate money. Meetings are held at local mosques for no charge, thus keeping costs down and strengthening community ties.*

*Now, how does an International MFI or aid program use this knowledge? Well, the tricky part is that they can't do much – the more they do, the more they are NOT being hands-off. So, a suggestion is to IDENTIFY such local possibilities, identify a group of motivated do-gooders such as the Saqib clan, and encourage them to try the Akhuwat model. Perhaps send them one or two technical foreign staff members, but NO MORE!*

*If you want to reach the poorest, why strive for sustainability and profits?*

*If an MFI has the goal of serving the poorest, also striving for independence from donors and the making of profits might be a pipe dream. Leave sustainability, profits, and conversion into commercial banks for the MFIs and cooperatives that serve a broader economic clientele. If an MFI wants to help the poorest by providing them with financial services, maybe they should be honest and start on the premise that they will be a charitable organization. From that starting point, the MFI can then strive to use their funds as efficiently as possible.*

*Akhuwat has policies that help them avoid “mission drift” such as only loaning up to a certain amount, loaning to the relatively better off only when the loans will contribute to local economic stimulation. And perhaps the most important “policy” that helps them avoid mission drift is that by only accepting locally made donations, they don't have enough money for on-lending large amounts!*

4. *Akhuwat's success could be hard to replicate for many reasons. First, it was started by a seemingly special group of dedicated local individuals. Not all small, poor countries might have such a group. Second, its success does seem to anchor on its urban setting, with its plethora of volunteer help, more ease of transportation by humbly-paid credit staff, and the use of the mosques as meeting areas. Third, as mentioned above, such grassroots organizations must grow by themselves, if given a “forced” creation by foreign MFIs or aid organizations, they seem doomed to fail.*

***Thus, having such a successful organization that breaks all the rules might not work everywhere, but certainly, the MF industry needs to pay attention to why Akhuwat has succeeded beyond doubts, and learn from them.***

- 5. As I was reading the Akhuwat case, I kept expecting the text to say that the program was running into problems. This is because many of the organization's practices go against traditionally accepted Microfinance practices. However, the whole article described the success of this amazing organization.***

*Akhuwat is successful for many reasons. One of the most important topics, which Akhuwat addresses, is the factor of working with both men and women as a household, rather than as individuals. It is crucial to note that women are often abused by their husbands when they participate in Microfinance because the men begin to feel marginalized as the women gain some financial responsibility of the family.*

*Because the Akhuwat organization works with households, all members of the family are aware of the loans, and can participate in the loan process. This issue is also addressed when the families meet at the mosques to sign their loan paperwork....although the women do not participate in the preliminary prayers, they are allowed to come and be a part of the loan process with their husbands, and this makes the mosque stand out as an important place in the community for both men and women.*

- 6. Akhuwat includes religion in the loan process, which most traditional microfinance organizations would not do. Having meetings at the mosque actually makes the loan recipients feel more obligated to pay back the loans, because the loan promise takes on a religious connotation for the people. Also, the mosque is used more frequently, and is open to the Christian loan officers as well. In addition, Akhuwat does not pay high rates for office space.*

*Akhuwat offers individual loans, which some Microfinance organizations find difficult. For this group, it actually works, because they have less background work to do, and they are able to reach the people in the population who are individualists.*

*Other groups can learn from Akhuwats fee process.....keeping the five percent for any loan amount.....and keeping this amount for the life of the loan. This way, the people are not becoming overstressed by the interest rates, and are still able to pay back their loans.*

- 7. One of the biggest things Akhuwat does for its clients is to make them have a maximum loan amount. This helps prevent the people from becoming dependent on the loans, and pushes them towards climbing out of poverty by becoming self-sufficient. I also like that the group makes the recipients restart with a smaller loan again when they have reached the maximum amount. This way, they are not digging themselves into a hole of debt.*

*Overall, the organization has many lessons for other microfinance groups. I also like that they rely on the charitable donations of clients, and not on traditional financial investments, practices, etc. People do want to give, as proven by the various donations, even from people who had formerly*

*received the loans (because they related to the organization). I think this loan process feels very personal to the recipients, making them become invested in the group long after they have a need for the loans.*

**GREAT CASE STUDY!**