

Akhuwat

Microfinance with a Difference



Index

1.	Institutional profile	5
2.	Microfinance with a difference: Dawood Ghaznavi, Sara Ahmad (Lahore University of Management Science)	20
3.	Akhuwat: Malcolm Harper	29
4.	Microcredit Success Story: Zofeen Ebrahim	40
5.	Microfinance made easier: Muhammad Ali	43
6.	I feel really enlightened: Arshad Rafiq	46
7.	Story of interest-free brotherhood	47
8.	Comments & Views	50
9.	Board of Directors	61
10.	We Support Akhuwat	63
11.	We Seek your Support	66

***Note:** This introductory book is published by "*Friends of Akhuwat*" Akhuwat may or may not agree with the opinions expressed in different articles.

Where hope for the future blossoms...

Akhuwat is dedicated to improving the lives of the poor; those who are financially abused, abandoned and disregarded by society. As a registered non-governmental organization, Akhuwat provides the poor with interest-free loans so that they may acquire a livelihood and the skills and support they need to reach their full potential. To this end, Akhuwat raises its funds from Civil Society. It does not depend on international funding; instead it uses the spirit of volunteerism and the tradition of giving, a cardinal principle of all religions.

Akhuwat derives inspiration from the Muslim spirit of *muakhaat* or brotherhood. The earliest example of *muakhaat* was first displayed by the citizens of Madina at the dawn of Islam, when they shared their wealth with the *muhajirin* of Mecca. Akhuwat's philosophy is based on the principle of Qarze-e-Hasna, helping someone in need with interest-free loans, which is favored over charity. From a first loan of Rs. 10,000, Akhuwat's total disbursement has now increased to **Rs. 440 million** in just over seven years. Akhuwat's greatest success is that it has been instrumental in helping more than **40,000 families** move from being dependent on others to being self-sufficient. The success stories of these people bring hope to those still in need of help.

Akhuwat started its operations in Lahore and to date has seven branches in this city. It has now recently expanded to Rawalpindi and Faisalabad in collaboration with the Chambers of Commerce and Industry and philanthropists of these two cities. Besides these big cities it has opened branches in other big cities like Multan Gujrat and Karachi. Akhuwat has also expanded its programme in small towns like Sharaq pur, Dijkot, Samundari, Chiniot, Lodhran, Jehanian, Duniyapur, Krore Pucca and Khairpur. Few more branches are under process in Rahim Yar Khan, Sarghoda and Farooqabad. Akhuwat's model is also a part of curriculum at University of Southern New Hampshire USA and Lahore University of Management Sciences (LUMS). All this has been made possible because of the tireless efforts made by our dedicated staff. Akhuwat sincerely appreciates and is grateful to hundreds of individuals and families who have donated money, time and skills to this cause. This book is an attempt to introduce Akhuwat to a wider audience like development professionals

microfinance experts, international donors, media, religious Scholars and above all the Philanthropists and community at large. As some one said, "Akhuwat is a fine example of civil society at its best". The objective is to present this fine example to others. Together we all can make a big difference. You all have shared not only your time and resources, but also your compassion. It is because of your generous support that Akhuwat is, and will continue to be, an inspirational place - a haven, where hope for the future blossoms, Inshallah.

Dr. Muhammad Amjad Saqib
Executive Director

Akhuwat

*Institutional Review**

Background and History

Akhuwat was established in 2001 with the objective of providing interest free credit to the poor so as to enhance their standard of living. At the time Dr. Saqib was working at the Punjab Rural Support Programme (PRSP) and found the 20 percent interest charged on the loans, disturbing. One reason was the fact, he felt, that it was in direct conflict with the teachings of Islam, and the other was that in the formal banking sector the interest was much lower, which was available to 'creditworthy' affluent individuals. Therefore, he wanted to start a microfinance programme where the loans were in the form of Qarz-e-Hasna¹. With an initial donation of Rs.10,000. Akhuwat was formed and the first loan was given out to a women.

Akhuwat derives its name from 'mua-khaat' or brotherhood, which was first exhibited by the citizens of Madina when they shared their wealth with the 'muhajirin', the immigrants from Makkah. The philosophy is based on the premise that poverty can only be eliminated if society is willing to share its resources with the poor and needy. For Akhuwat, microcredit is a means to an end and not an end in itself; the end is a vibrant, economically strong society, based on sharing resources.

For the initial few years Akhuwat was simply a philanthropic venture to see how interest free microfinance would do, but by 2003, the donations had increased to Rs. 1.5 million and the loan recovery rate was 100 percent. Consequently, it was decided to formalize the organization and Akhuwat was registered under the Societies Registration Act of 1860.

At present, Akhuwat has 17 branches in the Punjab and 7,150 active clients, and it has disbursed over Rs 150 million over five years. Over the years, Akhuwat has stayed true to its mission of helping the underprivileged with interest free loans and provides various loan products to meet the needs of its clients. To increase

* This institutional review is part of study conducted by FSSP/EU. The review was written in December 2006

1 Helping someone in need with interest-free loans; these are preferred over charity.

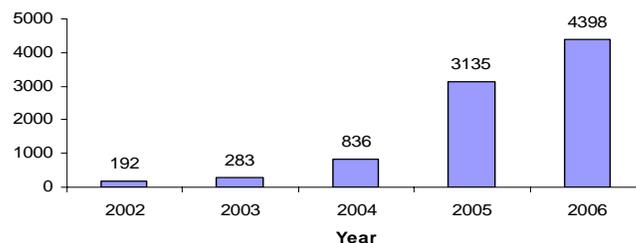
the outreach of interest free loans, Akhuwat has partnered with individuals in other cities to start similar initiatives. Akhuwat is rapidly gaining legitimacy and in the last one year FY 2005-2006 its acceptance has increased immensely as the organization received donations worth Rs. 30 million for its noble cause.

Till 2003 Akhuwat worked on a small scale out of the PRSP office with Dr. Saqib and one more employee handling the operations; but once the donations increased, the organization was formalized and the first branch in Township, Lahore, was established, which also became the head office. The loan product offered was the enterprise/family loan which was for business purposes.

The main growth thrust for Akhuwat came in 2003 when the Governor of Punjab, Lt. General (Retd) Khalid Maqbool, found out about their work and wanted to observe it in practice. He visited Akhuwat and met with clients, which generated ample publicity. The donations increased and so did the applications for the loans, and now approximately 1,000 new loans are given out every month in Lahore. Figure 5.1 shows the increase in the number of loans over the years and from 2004 to 2005 the loans have increased by almost 300 percent.

Figure 5.1

Number of Loans



5.1.2 Organizational Structure

Akhuwat is governed by a Board of ten members, consisting of philanthropists, civil servants and businessmen. The main responsibility of the internal governance rests with the Board. Their role has been well defined in the Articles of Association and they formulate and approve policies, and provide guidance and direction on different matters. The Board meets quarterly to review operations and take policy decisions. Another salient responsibility

of the board is to provide marketing services for Akhuwat and mobilize funds for loans. A Board review takes place every three years where a change in board members might take place depending on the availability of the existing members and the needs of the organization.

Akhuwat is run by Dr. Amjad Saqib who is the Executive Director. The organizational structure of Akhuwat mainly consists of the Operations department, and matters pertaining to the Human Resources, IT and other issues are handled by the Programme Manager. This system works for Akhuwat as it is still a small organization with a 52 person team. Apart from the Programme Manager, the Executive Director is supported by a Finance Manager and an Internal Auditor. Two advisors, for Finance and Credit, work on a voluntary basis and meet with the Branch Managers on a monthly basis or more frequently if an issue comes up. Dr Saqib and all the Board members have also worked on an honorary basis since the beginning, as they felt drawing their salary out of donations would be inappropriate and that it undermined their cause. Subsequently, the top management has no financial interest and work purely out of benevolence. There are many other volunteers working for Akhuwat who help in retrieval of payments and other matters. According to Dr. Saqib, Akhuwat is a blend of volunteerism and necessary compensation.

As loans are interest free, it is imperative for Akhuwat to keep the costs low. Apart from the fact that the senior management gets no remuneration, the organizational setup has been kept very simple. The organization does not own any vehicle and the staff are expected to go about on local transport or their motorcycles, for which they are reimbursed. The offices are small and simple, with very little furniture and 'farshi'² seating arrangements.

The Head Office also acts as one of the branches and is responsible for managing individual loans. The Programme Manager leads a team of two Area Managers, each responsible for four branches. Each branch is run by a Branch Manager, who leads a team of 4-6 Unit Managers, who are responsible for the field operations of Akhuwat. Some branches have a steering committee, comprised of 5-7 prominent individuals living in that area and two from Akhuwat, generally the Area and the Branch

² Seating arrangement on the floor with cushions and low tables.

Managers. The job of the committee is to oversee all the functions of the branch and also to mobilize funds in their respective areas.

5.1.3 Lending Methodology

5.1.3.1 Group Loans

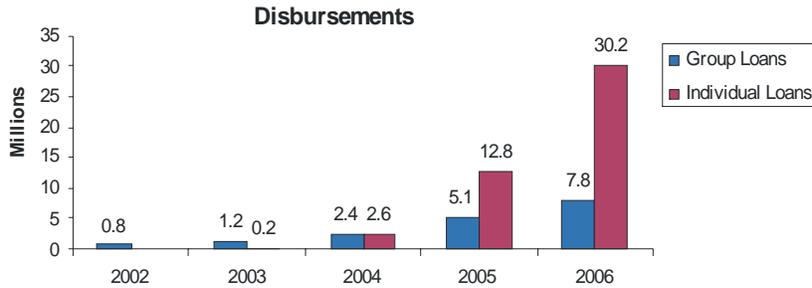
Akhuwat started lending with the group methodology in 2001 and introduced individual loans in 2003. The current plan is to phase out group loans and concentrate on individual lending. As of June 2006, Akhuwat has not formed any new groups and is waiting for the end of the loan cycles of those formed earlier. The reason for phasing out group loans is that the group leaders were found to manipulate their position and extort money from the borrowers for group membership. Most group members were selected on the basis of their popularity in the locality and not on their genuine need for credit. The LO was also sidelined by the President of the group and told that they themselves would take responsibility of recovery and that the LO did not have to worry about it. Another problem of group lending is that meetings are weekly and if the recovery is not 100 percent then the whole group has to wait till the recovery is completed.

Akhuwat's Group lending programme only focused on women who were organized in Self Help Groups (SHGs) of 10 members each and thus relied on social collateral. In each group a president and a manager were elected through consensus and the group collectively had to save Rs.3,000 before it could become eligible for receiving loans. After that, group members would receive loans by turn and as the responsibility of the repayment fell on the whole group, it was prompt. The loan has no interest on it, but Dr. Saqib feels that some of the cost of the credit has to be transferred to the clients or they would not value the loan and it will be like a free meal. So, five percent of the loan is charged as a membership fee and this makes the process professional and not charity as people demand better services when they pay the fee.

In group lending, meetings are fortnightly, which allows for frequent interaction between group members and Akhuwat staff. At the meetings, routine collection of loan instalments and savings takes place as well as discussion of grievances and problems of group members. The outcome of these latter discussions have been very constructive as Akhuwat arranged for a tutor to coach

community children during one summer and has set up several health camps.

Figure 5.2



5.1.3.2 Individual Loans

Akhwat has a large portfolio of individual lending with a total of 14,711 beneficiaries and it has devised a rigorous appraisal method to ensure maximum recovery. In 2005, individual loan disbursements grew by almost 390 percent and in 2006 they grew by 135 percent as can be seen in Figure 5.2. A prominent feature of individual loans is that they are marketed through mosques and the disbursement of the loans also takes place in mosques. Each branch is associated with a particular mosque and is located within or just outside the mosque's premises. An introduction to the programme is given after prayers when people have congregated there. According to Dr. Saqib, the decision was deliberate as he states, 'for far too long, we limited the use of mosques to just prayers. In between, they are desolate. With our offices in mosques, we have saved tremendously on operational costs. We don't pay rent or utility bills'. Furthermore, it increases the participation of people. It also attaches a religious sanctity to returning the loan on time as the concept of accountability is intensified as it is a place of worship and also gives the whole process a feel of 'barkat'.³ "In a Muslim society, mosque has always been a centre of community interaction. We also want to utilize this institution for the betterment of people living around it. We also like to work in churches as one of our branch was established in a famous church of Lahore", Dr. Saqib explained

³ Blessing

The loan process involves interested individuals submitting their application, which is simply a letter requesting for a loan with their business idea, at the mosque or the branch. After that the Unit Manager undertakes an economic and social appraisal of the applicant which includes visiting and interviewing people at his residence, neighbourhood and place of work. The applicant and the guarantors are interviewed at the mosque.

In the appraisal process the Unit Manager has to evaluate whether the applicant is deserving and the rule used is that the household's per capita income has to be less than Rs.1,000. The business idea is evaluated to see if it is viable and whether it can generate income beyond the household expenses of the individual so that he/she can easily repay the loan. The applicant's family is interviewed to make sure they know about the loan and support the business idea and the applicant's spouse has to sign the loan application. Akhuwat believes that the support and involvement of the family is very important for credit recovery and therefore, closely involves them in the loan disbursement process. They view the family as a cohesive unit and involve everyone in the process. Akhuwat believes that all household members work collectively to maximize the benefits for the whole family. Therefore, recently the name of the individual loan for productive purpose has been changed to 'Family Loan'.

Once the Unit Manager completes the appraisal, he passes on the application to the Branch Manager who undertakes his own appraisal of the applicant. Once that is complete, the application is discussed at the meeting of the credit committee, which comprises of all the Unit Managers of the branch, the Branch Manager and the Area Manager. In summary, the main aspects looked at before loan approval are the skill and reputation of the applicant, whether he is below the poverty line and that he is not a criminal nor a drug addict. If the credit committee approves the application, the loan is disbursed to the applicant at the mosque. The appraisal process has to be completed by the branch within 30 days.

Disbursement in mosques takes place twice a month and the borrower has to be accompanied by one of his guarantors at the time. The other people present at the disbursement include community members, the imam of the mosque and Akhuwat staff from the branch and head office. However, before receiving the loan the applicant has to become a member of the organization and that requires paying a membership fee equivalent to 5 percent

of the loan amount. In addition, the applicant also has to pay 1 percent of the loan amount to buy insurance, which covers the risk of death or becoming handicapped. In case of death the loan is written off and the family is provided Rs.5,000 for funeral expenses. If the client was the only earning member of the household then the family is provided with Rs.1,000 a month for three months to meet basic expenditures. If the client becomes handicapped then again the loan is written off and he is provided a wheelchair. Akhuwat's management contemplated partnering with State Life Insurance Company for insuring its clients but the Board rejected the proposition as the company did not invest its money in accordance to the Shariah⁴. Therefore, they simply kept the insurance money in a current account though now they have moved it to MCB and Bank Alfalah Islamic Banking.

Once the loan has been disbursed, the Unit Manager has to monitor the client with regular visits to his residence and place of work. The loan repayment has to be submitted at the branch by the 7th of each month. If a payment is not in by the 10th, the Unit Manager visits the client a few times to remind him and if he still does not pay then the guarantors are contacted and asked to make the payment. In case the client has a genuine reason for not handing in the repayment he is given some leeway and a new date is set by which he or his guarantor has to give in the loan instalment. The borrower however has to make all payments by 30th of the same month as the Unit Manager has to closely monitor each individual client, they are responsible for only 250 to 300 people. This is much lower than what Loan officers handle in group lending methodology because in that they manage groups as opposed to individuals.

When loans are renewed, the main aspects looked at are how the loan was used and whether it has benefited the borrower. The loan is renewed only if he was regular in returning the instalments, if he used the loan correctly and if it benefited him and his household in the final analysis. On average, about 40 percent of clients are given loans again based on their need and how they used the loan and whether it benefited them or not. Like mainstream MFI's Akhuwat does not work on minimizing dropout clients as it wants to reach out to a large number of people.

⁴ Islamic Law

5.1.4 Loan Products

5.1.4.1 Family Loan

The most common loan type is the one for setting up or expanding a business, called the Family Loan as explained in the last section and this comprises of 91 percent of the individual lending portfolio. The loan amount can range from as little as a few thousand rupees to Rs. 25,000; the exact amount is decided by the credit committee based on the need and business plan given by the applicant. The most common amount for the first loan is Rs.10,000 and the instalments are Rs.1,000 every month. Usually an effort is made that the instalment structure is such that the monthly payment comes out to be Rs.1,000 a month so that it is easy to remember for the client. In subsequent loan cycles, the amount of the loan is raised by Rs.2-3,000.

5.1.4.2 Liberation Loan

This loan is for people who have borrowed from moneylenders and are paying exorbitant interest rates on the loan. Akhuwat pays off the principle amount in one go for the client and then the client repays it to Akhuwat in instalments. It comprises 5 percent of the Akhuwat loan portfolio as given in Table 5.1. Liberation loans are approved from the head office and if they are unusually large, more than Rs.25,000, Executive Director approves it.

5.1.4.3 Housing Loan

A housing loan has also been offered since the last year and is in the range of Rs.40-50,000 and has to be repaid in two years. This loan product has been offered in collaboration with Al-Noor Umar Welfare Trust, another voluntary organization.

5.1.4.4 Other Products

The other products offered are Health, Marriage and Education loans. Although these are non-productive loans, but important events can cause a major stress on the poor, therefore they are being offered by Akhuwat. The maximum amount loaned is Rs.15,000 but generally the amount is Rs.10,000. The loan for wedding expenses is specifically for daughters or sisters of the poorest of the poor. These loans have to be repaid within the year.

Table 5.1: Loan Portfolio Distribution

Loan Product	<i>Number of Loans</i>	<i>Portfolio %</i>
Enterprise	13,351	91
Liberation	762	5
Housing	147	1
Education	132	1
Marriage	218	1
Health	101	1
Total	14,711	100%

Akhuwat staff also provides technical training to its clients. They make the latest knowledge and market information available to the clients so that they become more efficient. Clients who lack expertise are taught and trained in the vocations of their interest. They may do “intern-ships” with borrowers who are already running some specific enterprises and are desirous of imparting skills to others. Akhuwat coordinates activities with other NGOs and Social Welfare Organizations so that social services can reach their own clients. Akhuwat focuses especially on education and health because these are basic necessities and the right of every individual and have benefits beyond the individual himself. Legal aid has also been provided to the needy by a team of volunteer law students through one of the Board member who is a lawyer and Principal at a local Law College.

5.1.5 Operations

5.1.5.1 Human Resources

Akhuwat has a low staff turnover rate which since December 2004 has been approximately 3 percent. This reflects the high commitment and motivation of the staff. Most of the staff has received thorough training in microfinance and related aspects. Akhuwat has a well defined recruitment policy and vacant positions are filled with suitable candidates having requisite qualifications. New hires start as interns and go through an intensive three month training regimen before they are made staff members. The educational level required for Unit Managers is Matric or F.A., while that for Branch Managers is F.A. or B.Com., therefore it is relatively easy to find and retain staff. Applicants for new jobs are generally found by word of mouth and by placing notices outside branches.

Unit Managers get a bonus for 100 percent recovery in their monthly pay and if they have disbursed more than 150 loans and are meeting their monthly target of disbursing 25 loans a month, they are eligible for an interest free loan to purchase a motorcycle. Akhuwat also provides its staff with some medical facilities and educational allowance for their children. Furthermore, staff members get an extra month's salary every Eid.

Akhuwat maintains a well documented Manual covering operations, administration and human resource issues. The management keeps adding new information to the Manual as it becomes policy; Akhuwat started with a 15 to 20 page Manual and now have increased it to approximately 60 pages. In the Manual, the job descriptions of all personnel are clearly laid down as are branch administration guidelines. For Akhuwat, the Manual is also a tool to pass on to other people/organizations interested in starting similar projects.

Table 5.2 shows the number of employees and borrowers per staff over the years. The growth in employees started from the third year on and by March 2006, the number of employees had risen to 45. The borrowers per staff are around 98, this is below the industry average of 147, however, Akhuwat's major portfolio is invested in individual lending and that requires extra monitoring.

Table 5.2: Number of Employees and Borrowers per staff

<i>Year</i>	<i>No. of Employees</i>	<i>Borrowers per staff</i>
2002	3	64.0
2003	3	94.3
2004	12	69.7
2005	32	98.0
2006	45	97.7

5.1.5.2 Competition and Expansion Strategy

Akhuwat has shown rapid growth since 2003. In the last year alone it has opened five new branches and expanded its client base by 4,000 clients. The organization has been able to mobilize higher donations as people have learnt about its programme and appreciate the nobility with which it is being run. It is based on Islamic values and appeals to the religious minded.

The Board is responsible for reviewing the performance of the organization and in deciding how to expand the outreach. However, growth is linked with the credit pool and the amount of donations received is unpredictable. The growth plan for the current year FY 2006-2007 was to disburse 10,000 individual loans and open branches in eight new cities. While the growth plan for the next year is to double the numbers achieved in this year.

For expansion into other cities, Akhuwat is looking for partner organizations. The partnership can vary from just providing funds to Akhuwat to run the operations, to Akhuwat training the staff and setting up the branch and leaving the operations to the partner organization. Ideally, Dr. Saqib envisages the future as one where Akhuwat would play the role of an apex organization using its credit pool as equity to assist partner organizations and help them run operations in cities outside Lahore. In this scenario, Akhuwat can provide financial and technical support to its partners. For Dr. Saqib, success is not confined to sustainability figures it also entails how widely the model is replicated and how effectively and efficiently the poor are served. "Numbers overwhelm but saving the life of one person is akin to save entire mankind. While doing so, one must also observe the limits set by Allah Almighty". This is what Dr. Saqib and other Board Members firmly believe. Currently, Akhuwat is in discussion with organizations in Peshawar, Multan, Gujrat and Jhelum.

However, Dr. Saqib feels that their primary responsibility is to work in the areas of Lahore where he and other board members live. People of other areas should work in their own locales. They do not feel pressure to grow, as they are dependent on resources donated by civil society. For Akhuwat, this work is a long-term ongoing process.

Akhuwat management feels that they are not in competition with other MFIs because they have a different model and they do not charge interest, nor do they take funds from the same sources as other MFIs. Furthermore, the market is still quite open, so Akhuwat does not feel threatened by competition from commercial players.

5.1.5.3 Policy Environment

As Akhuwat is registered as a society, it does not have to comply with the State Bank of Pakistan's regulations for MFIs. The rules

for societies are not as stringent and Akhuwat easily fulfils them. Recently, Akhuwat got a tax exemption certificate from the Pakistan Centre of Philanthropy. It was awarded after a complete scrutiny of internal governance, financial management and programme delivery of Akhuwat. Akhuwat is also registered with the Pakistan Microfinance Network and has to share information with them on certain indicators which promotes transparency of their operations. The only constraint Akhuwat finds in the regulatory environment is that it cannot use the savings it collects from its members for onward lending.

5.1.5.4 Operational Systems

Akhuwat has a computerized accounting and management system both at the Branches and the Head Office. The system was borrowed from PRSP at inception and is still being used. The software can generate 40 different kinds of reports for tracking operational and financial performance on a regular basis along with efficient tracking of the overdue portfolio. However, new software has been designed by the help of FFSP customized to Akhuwat's needs and is currently in the testing phase. The software is more comprehensive and will be better suited to the microfinance operations of Akhuwat.

In terms of reporting, information from all the branches is sent to the Head Office for consolidation. The branches send liquidity status and cash flow reports to the Head Office on a weekly basis to enable it to monitor compliance with the cash reserve regulations. The financial statements (balance sheets, profit and loss accounts), summary of loan releases, list of current accounts and list of overdue and past-due accounts, are sent to the Head Office on a monthly basis for monitoring and consolidation.

5.1.5.5 Audit System and Financial Planning

The organizational structure is well defined and the hierarchies provide various internal checks. The Area Manager spends one day a week in branches under his control, while the Programme Manager visits branches every 15 days. The Finance Manager visits the branches monthly; the Internal Auditor audits the branches quarterly, while an external auditor appraises the branches annually. The Executive Director makes surprise audits, while the Steering Committee also has to oversee all the functions like credit quality, recovery and so on. The finance and credit

advisors also review the performance and policies with all the branch managers on a monthly basis. Therefore, there is constant inspection going on and the status of recoveries and targets is being checked. This also prevents accounting errors and helps in identifying any misappropriation, leakage or pilferage.

The finance department prepares the overall budget for the organization. All financial transactions are properly maintained such as a cash book, salary ledger and so on. A professional Chartered Accountant reviews the accounts annually. Budgets and financial targets are set several times during the year based on available funding. As soon as funds are available, Akhuwat tries to increase its target disbursement so that they are loaned out. Targets are also set at the branch level, where Area and Branch Managers together decide on the targets.

Budgets for all kinds of branch expenses, like telephone, stationary, and so on, are also set and if these are exceeded, the branch staff has to pay them out of their own pockets. Four of the branches are decentralized and they have to give out a minimum of 125 loans to meet their expenses and to contribute 10 percent of their membership fees towards the Head Office expenses. If they have left-over funds, then these are transmitted to the Head Office every few months. The decentralized branches make their own cheque for disbursement, can approve loans up to Rs.25,000 and take care of their own expenses. The other branches send the approved applications to the Head Office, from where the loan cheques are issued, as are their own salaries and other expenses. Gradually all branches would be decentralized.

5.1.5.6 Portfolio Performance

The membership fees are the main funds from which operational expenses are met. They help cover 76 percent of the expenses. Akhuwat, generally, does not use the grants it receives to cover the operational costs, they are only used for onward lending. Therefore, the 24 percent shortfall is covered by the Board of Directors. Akhuwat's percentage recovery since it was established has been 99.7 percent and the PAR>30 is 0.1 percent. This PAR>30 is a lot healthier than the industry average of 3.2 percent. Akhuwat's Yield on Portfolio is only 5 percent and lower than the industry average of 18 percent, but this is understandable considering Akhuwat provides interest free loans. Akhuwat writes off loans in its accounts after two years, however not in its

operational records as they feel it is their responsibility to get the money back.

The portfolio is geographically concentrated in the area of Lahore; however, Akhuwat has opened some branches in other areas recently. In terms of the activities the loans are given out for, the portfolio is reasonably diversified with loans given for rickshaws, fruit and vegetable carts, grocery stores, establishment of PCOs, stitching, sewing, plumbing, working as black smith, electrician, cobbler, barber, opening beauty parlours, preparing leather goods, book binding, kite making and so on.

5.1.6 Financial Management

5.1.6.1 Funding Mobilization

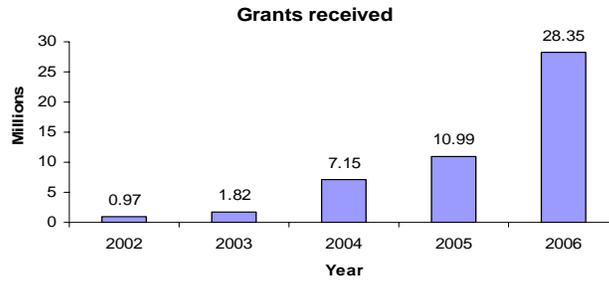
One of the key functions of the Board is to mobilize funds for Akhuwat. The Steering Committee of each branch also has to undertake initiatives to mobilize funds. Every year before Ramzan, the organization hosts a function for fund-raising and invites 500-1000 people. Akhuwat has been widely written about in the press and that has helped raise funds as well. Akhuwat has a website with details on how to donate, so people who hear and are interested in donating, can visit the website.

Akhuwat has an awareness campaign in which it sends letters requesting donations to members of different associations such as the Chambers of Commerce. Some volunteers are also working on a marketing plan for funds mobilization. The Board also tries to identify partner organizations which can help with bringing in funds.

5.1.6.2 Asset, Liability and Equity Composition

Akhuwat's asset utilization (percentage of assets comprising loan portfolio) is around 78 percent and this is better than the industry average of 42.5 percent. This high rate of asset utilization will allow Akhuwat to increase its profitability rather than leaving the assets idle as cash. Akhuwat has very few liabilities as it does not borrow to finance its microfinance operations. Its operations are exclusively financed by grants and donations, and over the years, Akhuwat has received more than Rs.60 million as grants. Last year Akhuwat received almost Rs.30 million (Figure 5.3) in grants and this was an increase of 158 percent on the previous year.

Figure 5.3



5.1.6.3 Profitability and Sustainability

The organization's performance on profitability and sustainability has been steadily improving. However, as Akhuwat does not charge any interest on its loans, and only charges a membership fee of 5 percent, it is unable to cover its costs which stand at 7 percent. Nonetheless, as Akhuwat increases its outreach it will be able to lower the cost and in time will be able to cover its operating expenses. Similarly, OSS and FSS were 77 percent for 2006 and show that Akhuwat is not sustainable at the present as it cannot cover its operational and financial expenses. But, Akhuwat's operational efficiency is very high at 7.13 percent, while the industry average is 22.4 percent. In this regard, Akhuwat is performing much better than its peers and due to this indicator, Akhuwat will be able to achieve sustainability in time.

Akhuwat has an impressive lending model built on local traditions and it would be more than 100 percent sustainable if it were charging interest on its loans as its recovery is almost 100 percent, and operating expenses are very low. But the premise on which the organization has been established, prohibits it to charge any interest; consequently, as outreach increases over time and costs per borrower fall due to economies of scale, sustainability will also increase.

Microfinance with a Difference

Ghaznavi D, Ahmad S

Akhuwat Pakistan

Akhuwat⁵ was formed in the most unlikely circumstances. In the early months of 2001, following a visit to a Punjab Rural Support Program (PRSP) community site in Raiwind, Dr Amjad Saquib and his 1985 Civil Service Academy batch mates decided to meet for dinner at the Gymkhana Club. At the dinner, conversation veered toward the efficacy of poverty alleviation programs such as those operated through the Punjab Rural Support Program, where Dr Saquib was General Manager. Dr Saquib's colleagues said that with such high lending rates (20 %), the microfinance activities could not make a real difference in the lives of the poor. While access to credit was a big advantage in itself, the cost of capital added to the cost of delivery made the rates high.

Dr. Saquib suggested that with free capital, the rates could be brought down and poverty alleviation efforts made more effective. Mr. Saleem Ahmad Ranjha, made a spontaneous contribution of Rs 10,000, and requested Dr Saquib to implement his ideas. Thus the Akhuwat credit pool was established and the first donation was loaned to a woman. The group to which she belonged was symbolically named Bismillah⁶ Group. Eventually the lending pool expanded to Rs.100,000. In a few months, a contribution of Rs.200,000 extended the lending arrangement to five-six groups of women.

Akhuwat was registered under the Societies Registration Act of 1860 in 2001. The Board of Directors comprises of a few philanthropists, business men, and civil servants. The Executive Director, Dr Amjad Saquib, is essentially a Board member who handles management and operational issues. He was a full time employee of the Punjab Rural Support Program, and he volunteers his time and some space in his office to run the organization. ⁷

⁵ Akhuwat, which means Brotherhood in Arabic, refers to the period of the Hejira, when financial support was offered to Muslims fleeing to Medina from Makkah by Muslims living in Medina

⁶ Begin in the name of Allah the most Beneficent the most Merciful

⁷ Dr. Saquib has since resigned from PRSP and now works for Akhuwat only.

By the 2006, Akhuwat has fifty five full time employees and several volunteers. There are no overheads, no large or palatial offices and no vehicles. The endowment, called the Akhuwat Credit Pool, was originally based on contributions by the Board members, and was regularly enhanced by the same persons. The operational expenses are based on membership fees paid by borrowers, and shortfalls if any are made up by the Board members. Prospective changes to these arrangements include the offer of free office space by one donor, use of mosque space to manage the individual lending program, and increasing contributions to the credit pool by external donors.

Operations

Akhuwat provides group loans, mainly to women, and as of 2003, individual loans mainly to men. Some initiatives have also been taken in the rural areas. Group loans are provided to groups of 10 women each. Once the organization identifies the most suitable neighbourhood to work in, women are invited to form self-help groups of 10 per group. This enables them to choose members of the community whom they trusted, or have links with. The group designates two heads for the group, who provide leadership and are responsible for financial discipline of the group. They have to ensure that loan repayments are punctual, as are monthly savings. Once groups had been formed, Akhuwat staff orients the members into the philosophy and ideas behind the organization. They also vet the ideas put forth by the members on small business ventures. After a venture is approved, each group is asked to open a bank account for their savings, to be deposited by individual members each month.

At the start of a loan agreement, a membership fee of up to 6 per cent of the loan is paid towards the operational expenses (5 % servicing, delivery, and 1% insurance) of the organization. Minimum loans are for Rs 1,000 and maximum are for Rs 20,000. Loans amounting to less than Rs. 4000 are exempt from membership and insurance fee. Most loans are in the Rs 10,000 range. These are paid back at Rs 1,000 per month. Loans are paid back by the tenth of each month, and savings are deposited by the twentieth of each month. Once full repayment had been made, the group is eligible for another loan, in some cases even an increased loan.

According to Dr Saquib:

“The current aim is to eventually eliminate group lending completely and allow the expansion of organization to be largely led by individual loans. Individuals have greater potential as entrepreneurs. This is a reality which should be exploited.”

Disbursement of the individual loans had started in the spring of 2003 and loans are disbursed once guarantors have been identified, and the economic venture approved.

An important and novel idea associated with individual loans is the use of the local mosque infrastructure as the centre for loan disbursement. A very supportive *Imam* (prayer leader) of a local mosque Dar-ul-Haq in the Township area offered space in the mosque between the afternoon prayer timings, to Akhuwat staff to discuss problems and disburse loans to its beneficiaries. Dr Saquib terms this “re-appropriation” of mosque space from one of purely *ibadat* (worship) to *khidmat-e-khalq* (service to mankind) as a momentous development in the character of both Akhuwat and the local communities that the mosque serves. With the mosque playing a pivotal role in the social and economic development of its locals, an important offshoot of Akhuwat’s work is that it also involves the *namazis* in poverty alleviation.⁸ Additionally, Akhuwat minimizes its operational costs by using the existing infrastructure of the religious centre. In fact, Dr Saquib said, “Churches could be used in a similar way, and eventually, mosque/church committees could take over the operational role of allocating and disbursing collected donations.” Such an expansion of the organization’s work would ensure that infrastructural and delivery expenses remain at the bare minimum, and as much of the donations as possible are used for economic uplift and poverty alleviation.

With time, Akhuwat has built the systems and procedures for its lending policies. These developed slowly, and in response to the

⁸ Dr Saquib narrated the example of Chandi Baba, an old man who sold silver rings at the entrance to the mosque. This regular visitor to the mosque had taken it upon himself to volunteer his help during times of repayment collection. “He visited the homes of those who had borrowed and reminded them that repayment dates had arrived.” Neither he, nor his family, had benefited from these loans but he felt that for the greater good of the local community, he had a responsibility to remind people to repay their loans, “How else will others benefit?” Many other examples existed of volunteers from the mosque assisting in Akhuwat’s work.

experiences faced by Akhuwat and its employees. These procedural requirements include household surveys; prioritisation of members eligible for loans; fortnightly meeting reports; credit sanction approval forms with each group member; repayment schedule forms with each group member, and insurance forms for each group member.

These procedural requirements also allow for bi-monthly meetings between Akhuwat and the Groups. Tabassum Zubair, one of two core workers delegated to the management of group loans, emphasizes that the frequent meetings allowed for substantial social interaction within the group itself, and with Akhuwat staff. These gatherings allow for the routine collection of repayments and savings and also provided the space for airing group grievances and needs. The outcome of two such needs expressed by the groups in their bi-monthly meetings is the provision of teaching staff over one summer to tutor community children, and setting up of health camps with the collaboration of the Pakistan Medical Association.

The recovery rate of loans is estimated by Dr Saquib to be above 99 percent. Peer pressure is said to have played a crucial role in this high recovery rate. Women miss repayments at the risk of other group members losing their credit sanction. According to Dr Saquib this zero-tolerance for non-repayment is an effective penalty since further loans are threatened. The loans, in 90 percent of the cases, target the poorest of the poor, i.e., those with incomes less than Rs 4,000 per month.⁹ However, in 10-15 percent of the cases, families with incomes around Rs 7,000-8,000 per month are also given loans. These income levels, as Dr Saquib justifies, are amongst the ones that are more enterprising and provided more leadership in groups.

The granting of individual loans also aimed to exploit the entrepreneurial potential of borrowers. Aftab Hussain, the first of three core workers responsible for managing individual loans, had three years experience in PRSP itself. He felt that the screening process for individuals and their guarantors was lengthy and detailed. Additionally, the proposed business venture also had to be assessed. Many visits were required before the loan was approved, and at least two further visits were required after the

⁹ Rs 5,000 is considered marginal subsistence in cities

loan was sanctioned. The recovery rate of these loans, according to Aftab Hussain was 100 percent.

Mechanism

Akhuwat works according to the principles of social mobilization as followed by the Rural Support Programmes. It also believes that in a society where religion is an important sociological force, the religious institutions should be utilized for social and economic development. This minimizes social exclusion and promotes efficiency besides giving the development efforts more credibility and acceptance. To achieve these objectives and meet the diverse needs of the poor, Akhuwat has adapted a unique methodology and has made the mosque and church a centre for socio-economic development. All its branches are located in or adjacent to mosques/churches where most of programme activities take place.

Organizational Structure

The organizational structure is flat. Dr Saquib plays the role of the Executive Director, and by 2006, there are fifty five full time employees, and some volunteers. The Board of Directors comprises of the original set of like-minded friends. A proper fundraising strategy is also being developed. As part of the latter, Akhuwat had asked graduates of Lahore University of Management Sciences to develop a website in 2003. Another well-wisher suggested a 'Friends of Akhuwat' program for the UK, where individuals can donate £100 a year to the credit pool of the organization. These ideas need to be strengthened and developed.

Dr Saquib, the Executive Director, works on a voluntary basis. The use of the mosque as the organization's infrastructure has replaced the use of PRSP's premises. Group loans are mainly administered from the houses of the group presidents where all fortnightly meetings are convened.

Core staff consists of fifty five main workers, paid through the operational pool. There had been only two core workers in the organization's early years. No vehicles have been bought, and those using personal conveyance for Akhuwat work are compensated according to a fixed rate. Volunteers help in the retrieval of payments at the beginning of the month, as well as in

reminding borrowers to repay. Audits have been carried out voluntarily by some experts in the earlier years when donations to the credit pool were mainly internal by the Board of Directors. With the increase in external donations, Dr Saquib has contacted a professional firm to carry out regular annual audit.

Reasons for Akhuwat's Success

According to the Executive Director:

The main reason for Akhuwat's success is the commitment, passion and spirit with which the organization was conceived and with which it is being run. My friends and I work day and night but never feel tired. In fact these are the best and most rewarding moments of my life.

As narrated by Dr Kamran, one of the Directors of Akhuwat:

“A chance visit to a PRSP site in Raiwind, a chance encounter with a woman who said that the loan, even at 20 percent, had made the difference between half a *roti* (bread) and a full *roti* for her children, had turned around all our pre-conceived notions.”

Dr Saquib from his experience knew that microfinance worked even at 20 percent and he was convinced that it could be improved further. His conviction in the “rightness” of the cause led to the first donation being made at the Gymkhana dinner, when the Akhuwat credit pool was established. Dr Kamran also felt that the attitude of all the Board members exemplifies their passion and commitment to the cause. “We feel no embarrassment in asking for favours or contributions from others, or using our contacts for Akhuwat.” All the Directors use their personal contacts and influence to further Akhuwat's work. They are all apparently convinced that their remuneration lay in the fact that “they are able to carry out God's work.” Dr Saquib is convinced that the passion and spirit behind the conception and operation of the organization has now extended beyond the Directors and staff – to persons like Chandi Baba who also chose to do God's work voluntarily. Additionally the support given by the Governor of Punjab also proved crucial. He was most instrumental in convincing philanthropists to donate generously for Akhuwat's cause.

The lack of institutional donors, government and otherwise, and the fact that all contributions are voluntary also allows for considerable flexibility in the way Akhuwat is run and managed. However, in Dr Saquib's words:

“This trust and commitment also conferred on Akhuwat an enormous responsibility. We need to demonstrate complete transparency and financial integrity if we want replication, and the establishment of a permanent foundation.”

According to the staff, the success of Akhuwat was a result of the exemplary leadership and the “right selection process” used in screening and vetting prospective borrowers. The presence of peer pressure in group lending, and guarantor pressure in individual lending, allows for an above average recovery rate. Another indicator of success is the return of borrowers for their second, sometimes third loan. The microfinance package provided by Akhuwat has proved to be different from other measures targeting poverty alleviation. The loan is practically interest free. The savings and insurance payments are part of a complete welfare package in which the return is to the borrower. Akhuwat is also planning to set up an arrangement with local hospitals to provide Akhuwat members with health cards. Health camps have already been introduced in the community, and certain communities have also benefited from tuition centres.

While the will to expand is clearly there, Dr Saquib wonders about the scaling up of such a simple, flat structure. Would he be able to expand the program to other communities, cities, rural areas, and still retain the minimal operational expenses that have been the strength of the program so far? Dr Saquib envisages the future as one where Akhuwat would play the role of the “apex” organization using its credit pool as equity to assist partner organizations to run operations in cities outside Lahore. In this scenario, Akhuwat can provide financial and technical support to its partners. Whether this apex organization will look like a microfinance bank, will have to be worked out along with other details of his strategy.

Akhuwat Today:

“Whosoever has saved the life of one person has saved the life of entire mankind (Holy Quran)”.

Akhuwat is a concept where a well-to-do family sponsors one or more poor families. Many poor families can be saved from abject poverty by sharing some of our resources. The loan, Akhuwat provides is given for one year and once returned it is lent again to another underprivileged family. The more the society donates the more benefits the poor will reap. The programme was started with a paltry sum of Rs. 10,000 and has been able to create a Qarz-a-Hasna Fund or Credit Pool of 60 million rupees. The President of Pakistan, General Pervaiz Musharraf and the Governor of Punjab, Lt. Gen. Khalid Maqbool is amongst the many donors of the fund. The donations range from a few thousand to millions of rupees. The hallmark is total reliance on civil society and on the Pakistani philanthropists imbued with the spirit of Mua'khat.

Presently, Akhuwat is following both; group and individual lending but it aims to eventually curtail group lending and give individual loans exclusively. The reasons for this are many; group lending deprives many needy borrowers of credit since they cannot be incorporated into a group for whatever reasons, also many group leaders manipulate their position and extort money from the borrowers for group membership and most group members are selected on the basis of their popularity in the locality and not their creditworthiness or their genuine need for credit.

With modest beginnings but a noble vision Akhuwat has progressed substantially, in the year 2006 Akhuwat has over 6,000 active borrowers including both the individual borrowers and group loans. Akhuwat has served 13,000 beneficiaries through a credit pool of Rs. 60 million and it has disbursed loans worth Rs. 130 million. Akhuwat has expanded outside Lahore and now has a total of 11 branches in Lahore, Rawalpindi and Faisalabad. All this expansion is done whilst keeping the loans interest free with the same membership fee of 5%.

Akhuwat is a novel initiative, which entirely banks on civil society; it has been able to use the existing network of mosques and churches as its branch offices and to bring marginalized communities together for community meetings, loan appraisals and recovery and training events. Akhuwat operates with a small team of core staff and has succeeded in mobilizing volunteers to perform various administrative and professional tasks which have contributed to the low operational costs of the organization. Akhuwat does not seek funding from international aid agencies but depends on the generous spirit of its board of directors, local

businessmen and philanthropists to contribute to its credit pool. The loans are interest free and their repayment schedule is flexible and decided by the borrowers according to the size of loan and the nature of expected return on micro-enterprise.

On the whole, the success and originality of Akhuwat lies in demonstrating that operational cost of an organization can be lowered by eliminating the organization's expenses through the active incorporation of the civil society, philanthropists and the utilization of religious/ community infrastructure.

Akhuwat

*Malcolm Harper**

In early 2001 a group of senior civil servants met at the Gymkhana Club in Lahore to talk informally about the problems of poverty, and the difficulties experienced by both government and non-government organisations which were trying to assist the very large numbers of people in Pakistan who live below the poverty line. Dr Amjad Saqib, one of those present, was managing the Punjab Rural Support Programme, a government institution. He mentioned that one of the many problems he experienced related to the issue of the 20% annual interest which was charged on loans made by his institution. This was a problem for two reasons: first, the cost itself made it more difficult for borrowers to repay, and secondly many borrowers were reluctant to pay any interest at all since fixed interest on loans, or on savings, is specifically forbidden in the Holy Koran. Some of the staff of the institution, including Dr Saqib himself, agreed on the same religious grounds.

There is endless debate in Muslim circles, as there is indeed elsewhere, about the definition of 'usury', and whether this means excessive interest or any fixed interest at all. We have already referred to the 'liberal' interpretation of the term which is advocated by some Christian authorities, who believe that the sustainability of any financial institution serving the poor is more important than the interest rates it charges. This view is supported by the fact that the returns on investment in petty trading and most other activities in which microfinance borrowers invest their loans are extremely high, averaging over 800% per annum, so that the interest paid on micro-loans is far less important than their accessibility. From a purely commercial point of view, high interest rates are also not an issue for microfinance institutions, since their only competition is informal moneylenders. In urban Lahore, the area of immediate concern to Dr Saqib and his colleagues, moneylenders typically charge ten per cent or more per month.

The traditional Islamic view, however, is that it is wrong to charge any fixed interest at all. This is based on the belief that it is unjust for anyone to earn an income purely from money itself, without any labour, and also because a fixed interest rate implies total confidence in the outcome of a business venture, whereas only

God can know the future. As a result of this, a complete alternative system of Islamic financing has been developed, which bases the reward for savings, and the cost of loans, on the cost of the services which have been provided by the lender, and on the actual outcome of the ventures in which the savings or loans have been invested.

There is now a large and rapidly growing Islamic financing sector, in which not only specialised Muslim institutions but also Western banks are playing a major part, but Islamic principles have generally not been applied in microfinance (Harper, Partnership Financing for Small Enterprise, Some lessons from Islamic credit systems, ITDG Publications, London, 1997). There are a number of reasons for this, including the 'Western', Christian or secular origins of most microfinance institutions, and the practical difficulties of calculating the profitability of microbusinesses.

One solution to this, of course, is not to make any charge to borrowers for loans, or at least only to charge for the operating and transactions costs of the lending operation, and to ignore the 'cost' of the money itself. This is legitimate in Islamic financing, but it of course implies that the money which is lent out should come free of cost, from a source that demands no return.

Dr Saqib and his colleagues discussed the issue at some length, and they concluded that common charity, ordinary people's desire give money to help those less fortunate than themselves, could be the answer. One of the people round the table offered Rs 10,000 or about \$150, there and then, to start a pool of free money for lending to the poor, and Dr Saqib volunteered to manage the process of identifying suitable borrowers, lending the money, and recovering it so that it could be recycled indefinitely.

This first donation was loaned to a woman, on the basis of a guarantee from the other members of a small group which she formed with Dr Saqib's assistance, and the institution took off from that point. Friends of the original founding members contributed a further \$1,000 within a few weeks, and a few months later a wealthy well wisher made a donation of \$2,000, and Dr Saqib, with the help of a few friends, lent this money to the members of five more groups. He followed the same group lending method that was used in the Punjab Rural Support Programme.

At the end of 2001 it was decided to formalise the activity. Dr Saqib and his friends registered it as a Society under the 1860 Act, which is fundamentally similar to the Charities Act in the United Kingdom or the regulations for Foundations in the United States, and they chose the name Akhuwat, which means 'brotherhood', in recognition of the fact that it had been started by a group of friends, and that their intention was to build an institution which would develop a sense of common ownership and community among borrowers, donors and whoever was managing the institution. Akhuwat, which means Brotherhood in Arabic, refers to the period of the Hejira, when financial support was offered to Muslims fleeing to Medina from Makkah by Muslims living in Medina.

Dr Saqib and his friends continued to give their leisure time free of cost to the managing of the new institution, but it soon became clear that it was growing too fast to be managed and run totally on a voluntary basis. They decided that they would charge borrowers an administration fee of five per cent of their loans, irrespective of the timing of the repayment.

By the end of 2003 Akhuwat was employing six people, and the pool of funds had increased to four million rupees, or approximately \$40,000. They had lent out almost \$100,000 to a total of 900 men and women in about forty groups, by recycling the funds. There had been no defaults. The five per cent administration fee is not levied on loans for less than Rs 4,000, because such borrowers are felt to be too poor to be able to pay this without hardship.

The group formation and management process was quite time-consuming, for Akhuwat staff and for the members of the groups. Some members, both men and women, complained that the regular group meetings which were part of the system which had been copied from the Punjab Rural Support Programme were taking too much time. Some potential borrowers who were very poor and clearly needed loans to enable them to start or expand their petty trading or other activities found it difficult to form or join a group, and some people, quite often those who were more enterprising than their fellows, did not want to work in groups; they were individualists, and wanted individual loans just like better-off people who did business with banks. Akhuwat's management were also aware that they had competition from other microfinance institutions in Lahore, and that groups were

unpopular. Akhuwat might be able to use individual lending as a 'selling point' to attract new clients. It was therefore decided to experiment with individual loans as well as working through groups.

This was an immediate success. The staff had to spend less time on each loan, since they had only to visit the applicant to check on his or her income level and reputation in the community, and on the feasibility of the proposed or existing microbusiness. They had to do that in any case for group members, but they also had to help to form the groups and to attend the weekly meetings.

Around this time there was also some evidence from Bangladesh that lending only to women could cause severe and sometimes tragic social problems. Some Bangladeshi men were very frustrated at what they saw was their loss of prestige, as their wives were able to take over the financial affairs of their households and to marginalise their husbands. There were many cases where men beat up their wives, or even disfigured them by throwing acid on their faces.

Akhuwat's very name implied solidarity and mutual support, rather than conflict, at all levels, and in pursuance of this, when they moved from group to individual lending, in order to strengthen family relationships rather than to promote conflict, Akhuwat instituted a policy of lending to households rather than to individuals. Wives and husbands were required to sign loan agreements, or mothers and sons, or fathers and daughters, and the loans were known as family loans. Every member of the family knows that they have taken a loan, and this creates a sense of unity in the household and avoids duplication of loans in the same family. The entire family is the guarantor and the beneficiary.

Borrowers are also required to bring two other guarantors, who are not from the same household, to co-sign their loans, in order to replace the group guarantee. These guarantors do not have to be any wealthier than the people whose loans they are guaranteeing; they have merely to be respectable people in the same communities who know the applicants well and are prepared to stand behind them.

Akhuwat was by this time attracting some attention among practitioners of more conventional microfinance. They had initially been very doubtful whether Dr Saqib and his friends would be

able to attract enough funds to finance any significant expansion, and, if they did, whether borrowers would repay regularly. Akhuwat was not following normal practice in many respects. It relied completely on generous individuals to give funds for on-lending, rather than raising commercial money, it relied quite significantly on volunteers to give their time. Its five per cent fee, which was the same irrespective of how long the loan was outstanding, seemed to be an invitation to delay repayment. Akhuwat's individual loans, which were rapidly replacing group-based loans, were also made to men as well as to women. This was completely contrary to accepted best practice in microfinance, where the vast majority and often all the borrowers are women.

The many sceptics frequently pointed out these potential difficulties to Dr Saqib and his colleagues. Initially, when Akhuwat only had a handful of clients, they had said that the system would surely break down after it reached a few hundred clients. When Akhuwat achieved one thousand clients, without major problems, the sceptics said that it could never grow much beyond that number. In 2006 when the figure of ten thousand clients was reached, some sceptics changed their views. Dr Saqib felt that in a modest way Akhuwat was doing for conventional microfinance what Professor Muhammad Yunus had done for conventional banking in the late 1970s; it was showing that things could be done differently, and that the 'accepted wisdom' could be challenged.

By 2007 Akhuwat was lending to over 15,000 clients. They are still charged a fixed membership fee of five percent of the loan amount, irrespective of the repayment period. Potential borrowers are carefully screened by Akhuwat's field staff, and 90% of them have incomes of below \$70 a month, which is close to destitution in the city of Lahore. A small number of better-off borrowers are also accepted, whose incomes may be up to twice this amount, because they wish to start or expand small businesses which can employ others in the same community.

The financial picture of Akhuwat at the end of March 2007 was approximately as follows:

<i>Assets, or uses of finance</i>		<i>Liabilities, or sources of finance</i>	
Long term loans	\$ 11,000	Donations	\$ 983,000
Loans	\$ 831,000		
Cash and bank	\$ 141,000		

Total	\$ 983,000	\$ 983,000
-------	------------	------------

Income and expenditure for the year 2005/2006

Grants	\$ 8,000	
Fees	\$ 57,000	
Total		\$ 65,000
Expenses	\$ 75,000	
Loss		\$ 10,000

(Pakistani rupees have been approximately converted to US\$ at the rate of Rs 60=\$1.00)

The operating losses were covered by special grants, which were made for the purpose, and it was calculated that the five per cent fee would cover the full operating costs by the end of the year, as the programme expanded.

All the funds come from individuals. These include large sums from prominent people such as General Musharaf, the President of Pakistan, the Mayor of Lahore and prominent business leaders, and much smaller donations from ordinary citizens. The Governor of the Punjab has been particularly helpful; he contributed three hundred thousand rupees from his own pocket and organised three fund raising dinners at his official residence, as well as introducing Akhuwat to other influential people such as the President. Most of the donors are residents of Lahore, but some are living in the United States and elsewhere, and wish to give something back to the city where they have come from.

Not all the donors are wealthy. A local mechanic whose property had been destroyed by a flood had successfully restored his business with the assistance of a loan from Akhuwat, and he then got a job in Dubai. A year later, he donated a substantial sum to Akhuwat from his foreign earnings, in order to enable others to benefit as he had. Many other borrowers have made similar smaller donations when their businesses prospered, because they felt a sense of identification with the institution. In this way the local branches of Akhuwat are slowly becoming self-financing, and local small business people who do not need Akhuwat's loans are also making contributions. Borrowers, donors, volunteers and the paid staff feel that they stand on the same footing. Although the loans are only made possible by the charitable generosity of

donors, there is no sense of obligation; all the stakeholders feel that share a common purpose.

Akhuwat deliberately avoids grants from official foreign donors or other similar sources. Dr. Saqib and his colleagues feel that these would inevitably come with 'strings attached', and that there are in any case enough generous individuals in Pakistan, and overseas, who sympathise with and understand the basis of Akhuwat's operations. On the same principle, funding has not been requested from the Pakistan Poverty Alleviation Fund, which has been established by the Government, with foreign assistance, to finance microfinance institutions. It is unlikely that such funds would be suitable for Akhuwat in any case, since they are generally provided as interest bearing loans. It is possible however that in the future Akhuwat might receive funding from the Pakistan Government's zakat fund, which is financed by contributions from taxpayers who prefer to leave the disposition of their zakat donations to the government, rather than identifying suitable recipients themselves.

The average Akhuwat loan is for about Rs.11,000, or just under two hundred dollars. This is partly because the institution is growing very fast, and the first loan to any borrower cannot exceed ten thousand rupees. Depending on the borrower's need, and repayment performance, larger sums can follow, but the maximum is Rs 25000 or about four hundred and twenty dollars. Akhuwat's lending is restricted by the amount of funds it can raise from donors, and their goal is in any case to relieve poverty and to help people to better themselves, rather than to grow for the sake of growth, or to create permanent dependence.

Borrowers who have reached the maximum loan can borrow again if they wish, but they have to revert to the first loan level of ten thousand rupees. They can then climb back up again to the Rs.25,000 level, but the hope is that this will be less than they need, because their businesses have grown during the three or four years they have been borrowing from Akhuwat, and that they will therefore look to banks or to other lenders for larger sums. Akhuwat has successfully introduced one women borrower to First Women's Bank. The Bank was impressed by her record as a good client of Akhuwat, and approved her loan application for fifty thousand rupees.

The loan terms are flexible, but the maximum period is eighteen months. Most of Akhuwat's loans are repaid in eleven months, and most borrowers repay at the rate of one thousand rupees a month. If any installment is overdue more than 30 days it is considered as being in default, and pressure is brought to bear on the borrower, and his or her guarantors, to bring the repayments up to date. The most important sanction is the knowledge that those who fail to pay promptly risk losing any chance of receiving loans in future. Up until early 2007, the repayment rate has remained at about ninety nine percent.

International experience shows that group loans are more likely to be repaid on time than loans to individuals. Akhuwat's group loans are being phased out in favour of household loans, which are similar to individual loans. The repayment on group loans has been 98.4% on time, and the overall repayment rate for all kinds of loans is 99.7%; this is marginally reduced by the slightly poorer performance of the group loans, and the repayment rate on the individual household borrowers is 99.9%; the difference is very small, but is quite contrary to what might have been expected.

In addition to the five percent fee, borrowers also pay a compulsory one percent insurance charge. In case of death or permanent disability, outstanding loan balances are waived, and needy families receive a five thousand rupee cash payment as well as a stipend of three thousand rupees a month for three months. This fee has so far been sufficient to cover such problems as may occur, in that by early 2007, after five years of operation, only half the total amount which had been collected as insurance fees had been paid out. The balance of half of one per cent is treated as the fee for managing the insurance operation.

Akhuwat's operating expenses have been maintained at a very low level, in spite of the rapid rate of expansion. From July 2005 to June 2006, around 6200 loans were disbursed amounting to 63 million rupees. The total of all the costs was 4.7 million rupees, including loan loss provision and a substantial donation to the victims of the 2005 earthquake in Northern Pakistan. The total income from the five per cent membership fees was 3.4 million rupees, plus a small amount for the administration of the insurance programme. The cost per rupee lent during last financial year was thus seven percent, and Akhuwat had to provide an operating subsidy of 1.3 million rupees to make up the difference.

This was drawn from the funds which were donated, both for this purpose and from the general fund.

Management anticipates that as the volume expands costs will eventually fall to five per cent by the end of 2007, so that the membership fees will cover them and the operating losses will thus be eliminated. This may take some time, however, as Akhuwat is expanding quite rapidly and the costs of hiring and training staff, and purchasing equipment, must be incurred before any revenue is generated.

There are eight branches in the city of Lahore, and six branches outside the city, with about sixty full time staff, paid at approximately the same level as they could expect elsewhere. It is Akhuwat's policy, however, to recruit staff from the same communities as their borrowers, and not to hire highly qualified professionals. This reduces costs money, and it also ensures that staff turnover is much lower than in other microfinance institutions whose staff is more highly qualified. The operating systems are very simple, partly because no interest charges are levied, and success depends mainly on inter-personal relationships rather than professional skills. Akhuwat owns no vehicles; its loan staff can take loans from the organisation to buy motorcycles if they wish, and they receive a small allowance to cover the costs of fuel.

Dr Saqib himself is a former civil servant who resigned from the civil service and works on a voluntary basis. He is assisted not only by the full-time staff but also by a large team of volunteers, at all levels. One vendor of perfume and ornaments from a small stall at the entrance to a mosque has taken and successfully repaid four loans from Akhuwat, but he also voluntarily helps by visiting other borrowers at their homes to remind them when repayments are due. Several hundred students at a local university have also volunteered to 'adopt' borrower families, to help them with their businesses, to learn from them, and generally to try to bridge the wide gaps between the middle class and poorer people such as borrow from Akhuwat.

Another important way in which costs are reduced and the general spirit of Akhuwat is supported is the use of local mosques as meeting places for loan disbursement. The *Imam* of the Dar-ul-Haq mosque in the Township area of Lahore initially offered space in his mosque for this purpose in between the afternoon prayer

periods, for Akhuwat staff to discuss any problems and to disburse its loans. This extension of the use of the mosque from purely *ibadat* (worship) to *khidmat-e-khalq* (service to mankind) has become central to the approach of Akhuwat, and it builds and strengthens the links between Akhuwat and the local communities that the mosque serves.

This means that Akhuwat's offices can be very small and inexpensive, since meetings are held in nearby mosques, and it also reinforces the sincerity of borrowers' commitment to repay; nobody likes to break an undertaking he has made in a place of worship. The imams are also pleased that their premises are being more regularly used, and borrowers who come to receive their loans also remain for prayers; this reinforces the position of the mosque in the community. Women do not participate in the prayers if these are taking place before the disbursement, but they sit at the side of the mosque and then move to take their place along with the men to receive and sign for their loans.

Akhuwat has also made use of a local church in the same way to serve its Christian clients; unfortunately the priest who initiated this was transferred to another church outside Akhuwat's area of operations, and his replacement was unwilling to continue the arrangement. The priest is trying to persuade the Bishop to encourage priests throughout the diocese to work with Akhuwat in the same way. In the meantime, the Christian borrowers come to their nearest mosque to receive their loans, just like their Muslim fellows, and the few loan officers who are Christians are also welcome in the mosques. Some imams are also reluctant to allow financial transactions to take place in their mosques, but this resistance is being overcome as they see the benefits that it brings to the community.

Akhuwat's expansion depends on continuing donations to finance growth in the loan portfolio, and on the continued willingness of the voluntary staff. There is as yet no evidence that these will stop, and although substantial effort has to be put into fund raising, and further initiatives will be required in future, there does not seem to be any reason why a programme which depends on brotherhood, generosity and goodwill should be any less 'sustainable' than one which depends on purely financial incentives. In the three years from early 2002 to 2005 Akhuwat raised donations of about a third of a million dollars; in the following one year, they raised half a million dollars.

A number of influential individuals in Rawalpindi and Faisalabad and other cities in the Punjab have observed Akhuwat's success, and have raised local funds to start what are effectively locally managed 'franchisees' of Akhuwat. They and their locally recruited staff and volunteers have spent time in Lahore with Akhuwat's staff, and it is hoped that this will eventually extend the institution's outreach throughout Pakistan, without straining the management or financial resources of Akhuwat in Lahore.

***Author's Introduction**

Malcolm Harper was educated at Oxford University, the Harvard Business School and the University of Nairobi. He has published some twenty books and numerous articles on various aspects of self-employment, enterprise development and micro-finance. He has advised and evaluated a number of enterprise development and micro-finance programmes and institutions in India and in East and West Africa, Latin America and the Caribbean, the Middle East and Gulf area, South and South East Asia, as well as in the United Kingdom.

The Microcredit success story*

Zofeen Ebrahim

(Akhuwat's philosophy is based on Islamic teachings – the principle of Qarze-e-Hasana or helping someone in need with interest free loans, which are preferred over charity.)

When Shamim Akhtar's twenty years old daughter developed an acute case of ulcers last year and had to be hospitalized. Her husband was unemployed. She had little choice but to approach a neighbourhood moneylender and borrow Rs. 20,000/- at 200 per cent interest rate; it meant that she had to pay Rs. 2,000 to the moneylender every month. In eighteen months, she had paid Rs. 36,000 as interest but the principle amount she owed from the moneylender remained unchanged.

A couple of months ago she heard of Akhuwat, a Lahore – based non profit organization that gives out interest free loans to the poor, and even settles the outstanding amounts the NGO calls it "liberation loans".

Now Akhtar is one of 400 people, mainly women, which Akhuwat has liberated from the clutches of loan sharks. "One of their managers came with me to the money lender and paid him off in one go. I've never felt so relieved", she says, "I now pay them Rs. 1000 every month and will be able to clear my loans in twenty months".

"We really target the poorest of the poor, the ones who cannot access microcredit", says Amjad Saqib the executive director. Their philosophy is based on Islamic teachings – the principle of Qarze-e-Hasana or helping someone in need with interest free loans, which are preferred over charity.

"Most microcredit professionals regard Muhammad Yunus as the micro crediting; we believe this practice to be 1400 years old, from the time of Prophet Muhammad (PBUH), who inculcated the spirit of brotherhood - that poverty can be eliminated if we are willing to share our resources with the needy", he explains.

Grameen Bank, the microcredit organization that Yunus founded in his native Bangladesh in the 1970s, created banking history by giving small loans to the impoverished without asking for

collateral, reposing faith in the ability and willingness of the poor to repay their debts.

Where does Akhuwat raise its funds from? "From Pakistan," says Saqib with pride. "Unlike most NGOs that depend on international funding, it taps the spirit of volunteerism and tradition of giving that is central to Islam", he explains. A national survey of individual acts of charity conducted by Pakistan Centre of Philanthropy revealed that "an equivalent of Rs70 billion in monetary donations, volunteer time and gifts in kind were given out in 1998".

From a start-up donation of Rs10,000, Akhuwat's kitty has swelled to Rs70 million in just five years with even President Gen. Pervez Musharraf contributing Rs200, 000 and his mother another Rs100,000. The Punjab governor has contributed generously.

"We've really never had to worry about getting the money, it just comes", says Saqib. "Anyone can become a life member by donating a sum of Rs10,000. This amount is credited for one year, returned to the credit pool and lent again, and the donor this way saves many families from the abject poverty by just this initial amount".

He is convinced that Akhuwat's philosophy is a solution to poverty alleviation. Most micro-finance institutions (MFIs) charge at least 20 per cent interest, which necessarily excludes the 'dirt poor'. "Ours is an indigenous model a blend of volunteerism and necessary compensation...all one needs is the will to help the poor", he asserts.

For now, Rawalpindi Chamber of Commerce and industry, has said it will start its own loan programme by March, while in Peshwar, another organization has already begun lending to the poor without interest. In Multan, a church-supported initiative is about to take off.

All eight Akhuwat branches function within the premises of mosques. According to Saqib, the decision was deliberate. "For far too long we limited the use of mosques to just prayers. In between, they are desolate. With our offices in mosques we have saved tremendously on operational costs. We don't pay rent or utility bills", he explains.

While Pakistan's mosques are mainly male spaces, half of the organizations beneficiaries are women, and quite a few of them

non-muslims who face no discrimination. "Our only criterion is they should be poor", says Saqib.

Thanks to two loans from Akhuwat Ayub Masih, a Christian wage earner, now has a vegetable cart. Very soon, he plans to apply for a bigger loan of Rs20, 000 to start a PCO, a public phone booth. "The fights at home had stopped", he says cheerfully, while admitting, "I was a bit reluctant to visit a mosque, although I've been coming to the *dargah* of Shah Jamal (Sufi saint revered by people of all religions) since I was a child".

Liaquat Ali, a young tailor, believes the loans from Akhuwat are lucky. "It has helped me get back on my feet and feed my children...brought me luck as my business has prospered. It has to do with the holiness of the place", he asserts. Previously working on his own, he tailored only one *shalwaar kameez* a day. Now, with two helpers and two more machines he makes eight to nine sets daily.

According to Aftab Hussain Awan of Akhuwat, loans are given for enterprise development like Liaquat Ali's or education, emergency (accidents or medical care), marriage (only very small amounts for the dowry of daughters or for a simple feast for wedding guests) and freeing borrowers from moneylenders.

In addition Akhuwat gives alternate livelihood to sex workers – the first initiative of its kind in Pakistan. In Lahore's famous red light district of Heera Mandi, 25 women, either old or physically unfit, have been provided money to set up small kiosks that sell cigarettes or candy and betel-nut sachets, or food stalls.

The women are identified by 'Sheed', an NGO that helps sex workers. "This is one of the poorest areas of Lahore with dismal social and economic indicators and where women's rights are completely trampled", explains Lubna Tayyab, general secretary of Sheed. Indeed, Akhuwat's spirit of brotherhood is all encompassing.

** Published in Daily Dawn dated February 16, 2006*

Microfinance made easier

Syed Mohammad Ali

Malcolm Harper, a well known figure in the world of microfinance who visited Akhuwat recently, commented that it is already doing for conventional microfinance what Professor Yunus did for conventional banking in the late 1970s.

Numerous microfinance institutions have been created within developing countries to provide poor people access to much needed credit facilities, but most of them charge rather exorbitant interest rates. Interest rates exceeding twenty percent are justified by microfinance institutions on the basis of institutional costs incurred in providing credit at the doorstep of the poor, and due to the need to sustain and scale up their lending operations to reach out to even more poor people. Nonetheless, high interest rates often end up making life even more difficult for poor borrowers.

However, there are some striking examples of how microfinance can be dispensed while charging only minimal operating and transactions costs for its lending operations. One such example is that of a Lahore based organisation, Akhuwat, which came into being in 2001, with an individual donation of merely Rs 10,000, lent to one poor woman. By 2007, however, Akhuwat has over 15,000 clients. Individuals who have donated funds to the pool of money which Akhuwat lends onwards include the President, the Governor and Nazim of Lahore, prominent business leaders, ordinary citizens, and even former borrowers. Akhuwat deliberately avoids grants from donor agencies or even from the Pakistan Poverty Alleviation Fund, which finance microfinance institutions through interest bearing loans.

Akhuwat decided it would only charge its borrowers an administration fee of five per cent, irrespective of the timing of the repayment. Even this administration fee is waived on loan amounts of less than four thousand rupees. Around ninety percent of Akhuwat borrowers have monthly incomes of approximately four thousand rupees a month, which is close to destitution in a city like Lahore. A small number of better-off borrowers, whose incomes may be up to twice this amount, are also given loans provided they want to start or expand small businesses that can employ other poor people within their communities. This is a good idea which must be consistently insisted upon in practice.

The average Akhuwat loan thus far is around ten thousand rupees. Depending on the borrower's need, and repayment performance, larger sums can follow, but the maximum amount of funds lent by Akhuwat to any individual is twenty-five thousand rupees. Borrowers who have reached the maximum loan ceiling can borrow again, but they have to revert to the first loan level of ten thousand rupees. The loan terms are flexible, but the maximum period is eighteen months. Most of Akhuwat's loans are repaid in eleven months, and most borrowers repay at the rate of one thousand rupees a month. Up until early 2007, the repayment rate remained at about ninety nine percent.

Initially Akhuwat was making its borrowers form a group to qualify for loans like other micro-finance organisations. However, the group formation and management process was seen to be rather time consuming. Akhuwat's management thus decided to experiment with provision of individual loans. Its staff had to spend much less time on processing individual loans, since it only required verifying income level and reputation of borrowers in their community, and reviewing the feasibility of their proposed micro-business. In the case of group lending, forming groups and attending weekly meetings to ensure group solidarity and mutual responsibility in the case of default is much more cumbersome. The fact that Akhuwat does not insist on lending through groups not only saves time but also gives the organisation an image of respecting the privacy and time value of its poor clients.

However, Akhuwat borrowers are now required to bring two other guarantors to co-sign their loans to ensure social collateral. These guarantors do not have to be wealthier than the people whose loans they are guaranteeing, they have merely to be respectable people in the same communities who know the applicants well and are prepared to stand behind them in case they have a problem returning their loan. Borrowers are also required to pay a compulsory one percent insurance charge. This insurance is used in case of death or permanent disability, so that outstanding loan balances are waived, and needy families receive a five thousand rupee cash payment as well as a stipend of three thousand rupees a month for three months.

In view of evidence emerging from micro-finance programmes in Bangladesh, where lending only to women was causing numerous types of inter-household disputes, Akhuwat decided to begin

lending to households rather than to individuals. Wives and husbands were required to sign loan agreements, or mothers and sons, or fathers and daughters, and the loans were known as family loans. Akhuwat's individual loans, which are rapidly replacing group-based loans, are now being made to families, which include men, which are contrary to accepted best practice in microfinance, where most borrowers are primarily women.

Since Akhuwat depends significantly on voluntary support, its overheads therefore remain modest. Akhuwat has even been using mosques for disbursement of loans to cut costs by utilising an existing public space, instead of renting an expensive venue.

But Akhuwat is now considering tapping into zakat funds to secure access to more funds. While using mosques for promoting the economic welfare of poor people is certainly a good idea, trying to secure zakat funds seem a bit riskier. The principle of zakat being used for lending purposes seems contentious. Moreover, Akhuwat should be wary of dealing with the archaic and bureaucratic systems in place to disburse zakat funds. Otherwise, it risks diluting the impact of its efforts for the sake of increasing the scope of its operations. Instead, Akhuwat should just focus more on building the skills of its borrowers, and putting in place more innovative measures in this regard, which could then serve as models of emulation for the more ambitious micro-finance institutions.

Malcolm Harper, a well known figure in the world of microfinance, who visited this organisation recently, commented that Akhuwat is already doing for conventional microfinance what Professor Yunus did for conventional banking in the late 1970s. Professor Yunus proved that the poor also need credit and can be credit worthy. Perhaps Akhuwat can go on to definitively show that microfinance can in fact remove poverty.

The writer is a researcher. He can be contacted at ali@policy.hu

Daily Times
Tuesday, July 24, 2007

I feel really enlightened.....

Arshed Rafiq

I feel really enlightened by the case study of Akhuwat. There are two very obvious reasons for liking. One is to be introduced with an alternate model of microfinance which is running in none other than my own city and the second is the idea itself, in which I personally believe also, that the purpose of Zakat or other religious charities is not to create a permanently idle class of people with "arms outstretched for alms".

My humble religious knowledge allows me to claim that there are two cardinal principles of disbursing charities in Islam. i.e. the charity amount should be substantial enough that a person can start a sustainable business and be able to donate next year instead of receiving. Secondly, the operational cost of Zakat disbursement can officially be drawn from the Zakat funds itself. I am happy to find both in Akhuwat case study that their loans range from Rs. 10,000- 25,000 and also that "Akhuwat might receive funding from the Pakistan Government's zakat fund". For poverty alleviation, Akhuwat has not as such invented a model, it has just rediscovered it.

We find enough historical evidence in early Islamic era that at times Islamic charities rooted out poverty to such an extent that generous people were unable to find the needy. The Akhuwat has rightly learnt that "there are in any case enough generous individuals in Pakistan, and overseas" and therefore they predict no substantial problem in their way ahead to help the poor. As a last word, I would add that the element of philanthropy can not be detached for any set of reasons because micro finance inherently addresses the poor who need to be characteristically subsidized, be it their utilities or loans. The purpose of any poverty alleviation program should be to encourage enterprise development spirit among the poor and not to develop into a Money Lending Financial Enterprise itself. The host organization should remain and act like a small enterprise by containing its operational cost as has been done by Akhuwat. I'd wish that such models are academically taken up for their replication in a more refined way elsewhere if the world has to seriously pursue MDGs.

Story of interest-free Brotherhood

Non-Government Organizations (NGOs) and various Rural Support Programmes (RSPs) have been major players in the micro-finance sector in Pakistan, which, according to the State Bank of Pakistan (SBP) is still a relatively new concept compared to other developing countries, NGOs and RSPs in micro-finance have been involved in poverty alleviation of hundreds of thousand poor households across the country since the early 1980s.

In Pakistan, small-scale loans account for basic consumption needs for more than 56.8 per cent of extremely poor borrowers and 65.1 per cent poor borrowers in the urban areas. Whereas, in the rural areas, loans fulfil basic consumption needs for a staggering 69 per cent and 57.5 per cent, according a study conducted by United Nations Development Programme (UNDP) in 2003. Since there is very little or no institutional involvement for the official provision of loans for basic consumption purposes, majority of the lenders for such people are usually relatives and friends.

Lahore-based Akhuwat (Brotherhood) is one such NGO in the microfinance sector that has been providing interest-free loans to the poor and poorest of the poor in 14 cities across Punjab and Sindh. Founded in 2001 with a donation of PKR 10,000 (\$164) that was lent to a poor women, Akhuwat has 20 branches serving the needs of the poor at the grassroots level. Since six years of its conception, the organization has disbursed PKR 240 million (\$ million). Akhuwat's first branch and head-office is located in Township, Lahore and runs entirely on donations. The first loan product offered by the organization was enterprise of family loan which was meant to help poor develop business.

"We have served more than 22,000 borrowers to-date. For us it is neither business, nor industry, hence, there is no question of profitability ". Dr. Amjad Saqib, Executive Director, Akhuwat tells NGO World.

The loan applicant, however, has to become a member of Akhuwat in order to qualify to receive the loan. That requires a membership fee equivalent to five per cent of the loan amount

applied for. In addition, the applicant also has to pay one per cent of the loan amount to buy insurance, which covers the risk of death or getting handicapped. In the event of death, the family is provided with PKR 1,000 (\$16) for three months to suffice for their basic expenditure. However, loans amounting to less than PKR 4,000 (\$66) are exempt from membership fee and insurance charges.

“We have more than 10 thousand active borrowers at this stage and 40 per cent of our borrowers are women. We specifically encourage women”, says Saqib.

According to Akhuwat’s Group Lending Programme (GLP) – only focussed on women – Self Help Groups (SHGs) are formed which consist of 10 members each. In each group, a president and a manager are elected through consensus and the group collectively has to save PKR 3000 (\$49) in order to become eligible for receiving loans. Akhuwat is governed by a board of ten members, consisting mainly of philanthropists, civil servants and businessmen, some of whom are also donors for Akhuwat.

“For us it is a basic human need that should be provided on nonprofit basis. It is more of a responsibility like provision of education, health and housing.” Saqib adds.

Dr. Saqib contends that the loan recovery rate so far has been 100 per cent, which owes to effective screening of applicants, thorough screening of applicants, thorough appraisal, social guidance and regular monitoring.

In 2005, Akhuwat initiated individual loans, which are marketed and disbursed through mosques. Each Akhuwat branch is associated with a particular mosque and is located within or just outside the mosque’s premises. An introduction to the programme is given after prayers when people have congregated there.

“We, at Akhuwat, believe that utilization of the mosque or church is crucial for human development purposes as well as to promote socio-economic development of the poor”, says Saqib. By using the existing infrastructure of mosques and churches would also help Akhuwat to minimize its operational costs on delivery of funds from donations.

“The current aim is to eventually eliminate group lending completely and to be largely led by individual loans. Individuals have greater potential as entrepreneurs, a reality which should be exploited”, he says.

By: Fakhra Hassan.

NGO World November-December 2007.

www.thengoworld.com

Comments and Views

Poverty Alleviation through Interest-Free Microfinance

C. Naseer Ahmad,

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.

Ms. Leslie Barcus, President,

Microfinance Management Institute, C/o Open Society Institute,
1120 19th Street, NW 8th Floor, Washington, D.C. 20036.

Gaama Hishigsuren, PhD,

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.

Gaama Hishigsuren, East Benson Street GA 30030, USA.

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.

M S Sriram, Indian Institute of Management, Ahmadabad, India.

Professor R. Srinivasan

Indian Institute of Management, Bangalore

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.

R Srinivasan, Professor Finance & Control Area & Chairperson, Microfinance Group Indian Institute of Management, Bangalore India.

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, 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, 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.

Saboohi Jamshed,
News Reporter/Producer, 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, 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, CGAP

Extremely interesting to see a creative approach to microfinance.

Roomi S. Hayat,
Director HRM, NRSP

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

Syed Mohsin Ahmed,
General Manager, PMN

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

M. Zahoor,
Freelance Consultant

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

Shahnaz Kapadia Rahat,
CEO, 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,
CEO, 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 a unique experience, an unexplainable one! It has added a new dimension to my vision.

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 Akhuwat's 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!

Board of Directors

1. Dr. Muhammad Amjad Saqib
2. Dr. Kamran Shams
3. Mr. Khawar Rafique Sheikh
4. Mr. Humayun Ehsan
5. Dr. Izhar-ul-Haque Hashmi
6. Mian Anwar Sadiq
7. Ms. Kulsoom Fatima
8. Ms. Kausar Akif

Honorary Directors

1. Mr. Muhammad Saleem Ahmed Ranjha
2. Mr. Muhammad Zahid Khokhar
3. Mr. Fazal Yazdani Khan
4. Mr. Zubair Nawaz Chatha
5. Mr. Ali Arshad Hakeem
6. Mr. Syed Abu Ahmed Akif
7. Mr. Omar Mujeeb Shami
8. Dr. Abdul Razzak Khan
9. Ms. Humera Sheikh

- Akhuwat is operational in following towns:

Lahore, Rawalpindi, Faisalabad, Multan, Gujrat, Chiniot, Samundari, Dijkot, Lodhran, Jehanian, Krore Pucca, Dunya Pur, and Sharaq Pur. The programme is also being replicated in Karachi, Khairpur and Bahawalnagar

- Akhuwat is about to start its operations at Kotmoin (Sargodha), Rahim Yar Khan and Farooqabad

We Support Akhuwat

(Following men and women have supported Akhuwat with generous donations)

Mr. Mian Muhammad Mansha

Mr. Mian Amir Mehmood

Mr. Mian Raza Mansha

Mr. Sheikh Muhammad Naeem Shafi

Mr. Malik Riaz Hussain

Mr. Jehangir Khan Tareen

Mr. Mian Muhammad Hanif

Mr. Javed Bhatti

Mr. Shahid Abdullah

Dr. Saeed Naz

Mr. Sheikh Afzaal Ahmad

Mr. Javed Iqbal

Mr. Gohar Ijaz

Mr. Sheikh Muhammad Yousaf

Mr. Sheikh Abid Hussain

Mr. Khalid Maqbool

Ex-Governor Punjab

Mr. Chaudary Shujaat Hussain

Mr. Pervez Musharaf

Ex-President of Pakistan

Mrs. Zahra Musharaf

Mr. Malik Iftikhar Ahmad

Mr. Malik Muhammad Shafee

Mr. Muhammad Javed Ehsan

Mr. Yawar Irfan

Mr. Liaqat Chughtai

Mr. Mian Misbah ur Rehman
Mr. Maqsood Butt
Mr. Kamal Nasir
Mr. Mian Muhammad Shakeel
Mr. Azam Sehgal
Mr. Fazal Ahmed Sheikh
Mr. Saqib Elahi
Mr. Muhammad Abdullah
Mr. Main Muhammad Latif
Mr. Sheikh Mukhtar Ahmad
Mr. Muhammad Rafique
Mr. Arif Habib
Mr. Jamal ul Din
Mr. Ashraf Khushi Muhammad
Ms. Maha Rehman
Mr. Gohar Butt
Mr. Muhammad Usman
Mr. Javed Iqbal
Mr. Hamesh Khan
Mr. Shahzada Dawood
Mr. Umer M. Sheikh
Mr. Muhammad Ramzan Sheikh
Mr. Justice Muhammad Sharif
Judge Lahore High Court
Mr. Farooq Naseem
Mr. Iqbal Zahid
Mr. Zahid Hussain
Mr. Mian Muhammad Idrees
Hajji Inam Elahi Asar

Mr. Kaleem Butt
Mr. Ajmal Baig
Mr. Abdul Razzaq Dawood
Hamza Foundation
Citi Foundation
M/s Ghosia Builders
M/s New age Cables
M/s Style Textile Mill
M/s Ejaz Spining Mill
M/s Manzoor Textile
M/s Sahir Associates
M/s Zarco Exchange Co.
M/s Jamshoro Joint Venture
M/s Habib Rafique Developers
M/s Haier Group
M/s D.G. Khan Cement
M/s Nishat Mills Ltd
M/s Western Union

We Seek Your Support

Throughout the ages the sagacious have promoted a culture of generosity and philanthropy which nurtures and fosters the human spirit. As Pakistanis we are witness to the extreme economic disparity within our country; millions survive in abject poverty. The poor are indeed too poor to help themselves.

Akhuwat was founded on the principles of humanity and generosity. The aim of the organization, from the start, was to help alleviate the suffering of the poor our poor. Poverty is a disease that has permeated all corners of our land. In order to help the impoverished break this vicious cycle of poverty, Akhuwat provides interest free loans in order to help people get ahead in life.

Akhuwat believes that the needy need not remain forever “needy”. If given an opportunity they can live a financially stable life. What this organization does is truly worthy of admiration. Not only does it give interest free loans, it does so very willingly and reaches out to the destitute through community centers such as mosques and churches. What is even more astounding is the fact that it has an almost one hundred percent recovery rate, thus shattering the myth that the poor are not credit worthy.

Akhuwat's main aim is to reach out to as many poor as it can. It would also like to promote a culture of micro finance, which does not contradict, or offend any religion. When the first Muslims left their homes at Mecca and embarked on a journey to a foreign city they were not left to fend for themselves. They were not exposed to the elements without shelter nor did they perish because of hunger or thirst. This is because the people of Medina welcomed them with open arms and helped them build their business. This is what Akhuwat is doing. It is working towards building a more humane society that does not believe in charity and doles but believes in dignity of human kind.

Progress Report upto 31st December, 2008

CREDIT PROGRESS

Progress	Total
Beneficiaries	38,018
<i>Family Loans</i>	<i>27,807</i>
<i>Female</i>	<i>10,211</i>
Amount Disbursed	Rs. 404,566,042
Average Loan Size	Rs. 10,641
Percentage Recovery	99.50%
Active Loans	13,565
Outstanding Loan Portfolio	Rs. 81,070,120

AKHUWAT MEMBERSHIP FORM



Name _____

Designation / Profession _____

Institution / Organization _____

Address _____

Tel. No. _____ Fax No. _____

Mobile No. _____ E-mail _____

I would like to become:

- Life Member (Rs. 25,000) Donor (Rs. 50,000 or above)
 Annual Member (Rs. 10,000) Volunteer

Signature _____

Note: Kindly make all payments through cross cheques payable to Akhuwat.

For official use only:

Life Member Donor Annual Member Volunteer

Membership Amount _____

Donation Amount _____

Ref. of Member/Donor _____

Date of Joining _____

Signature of Official _____