

Story of Interest Free Brotherhood: By Fakhra Hassan

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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 fulfill 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. 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.