“PAKISTANIS HAVE BETTER STORIES TO TELL”

A Harvard University student narrates the story of an interest free microfinance NGO

Microfinance has lost its halo. The word has increasingly started to incite feelings of nostalgic hope. Once touted as the instrument for economic advancement of the poor, an enterprise model that was not only self-sustainable but also socially responsible, the microfinance sector’s efficacy and earnestness have been put to doubt.

Microfinance started out mainly as the work of nonprofit organizations, where small loans to struggling entrepreneurs were given to help them in their struggle out of poverty. But there has been a drift away from this starting principal, and it is now commonly understood that the organization should be able to make high profits on these loans in order to pay back the debt based on which these loans were financed, and at the same time meet operating costs. High interest rates were also often justified by the high rate of returns these small entrepreneurs earned, who would otherwise have no access to credit at all. And then there was a gradual transition of microlending operations to for-profit organizations and banks – a new untapped market had been discovered and banking to the poor started becoming more of banking the poor. Loans were extended to the poor left, right and center, as microfinance institutions (MFIs) increased their portfolios, charged high interest without taking into account the ability of the clients to repay, and displayed amazing growth rates at the end of each fiscal year. Effects of these growth are starting to show. Krishnamurthy Subramanian, in his recent article “Microfinance Lenders: To Profit or Not To Profit”, finds that for-profit MFIs in India tend to have higher costs and expenses, and consequentially higher interest rates.

These high interest rates, coupled with not-so-pleasant recovery mechanisms have led to events such as suicides by around 30 borrowers in the Indian state of Andhra Pradesh, and Sheikh Hasina, the Prime Minister of Bangladesh, stating that MFIs were “sucking the blood from the poor in the name of poverty alleviation”. MFIs in Pakistan are having a hard time in recoveries post multiple natural disasters, where some of the Programs have had to wrap up their operations in some locations hit by the 2010 flood. MFIs are having trouble recovering loans from over-indebted borrowers who were given the loans for non-productive purposes in an attempt to increase loan portfolios.

In an environment where different MFIs are concerned about financial sustainability and are looking for ways to increase interest rates even further in order to meet growing costs, one Pakistan based organization, Akhuwat, is not actually looking for ways to reduce interest rate – it is simply giving microloans totally interest-free. Zero interest rate. No hidden cost.

Malcolm Harper, Chairman Micro-Credit Ratings International and author of ‘What’s wrong with Microfinance?’, noted in his paper ‘Akhuwat – it sometimes makes sense to break the rules’ how the organization is unique “because it breaks just about all the generally accepted rules of microfinance, but has nevertheless (or perhaps for that reason) survived and grown”. The most significant of these is the insistence on interest-free loans. The organization derives inspiration from teachings of Islam, though it serves all religions, and considers charging interest not only against the principles of Islam, but morally unjustifiable when dealing with the poorest strata of society. Working since 2001, Akhuwat has expanded into above 30 cities in Pakistan, served more than 100,000 families and disbursed around $15 million. So what's the deal?

The secret lies in the name: Akhuwat, literally translated as 'brotherhood', a spirit whereby each member looks after the other in the community. The gratitude that the borrowers feel towards Akhuwat is genuine, unforced, and has been translated into voluntary contributions by clients who have fared well due to these loans. This system has been formalized, where voluntary contributions taken from borrowers now cover sixty percent of the operating costs. There is no compulsion in these contributions, and those who give are not treated any differently from those who don't. The other end of this brotherhood lies with the civil society – Akhuwat has relied so far totally on donations by civil society to distribute these loans, with no or little funding from 'official' sources or international organizations. The credit pool for operations has been funded totally through donations from individuals, clients and well-wishers. This translates to no cost of capital, which allows the organization to extend interest free loans. Is this source of funding reliable? Dr. Amjad Saqib, the Executive Director of Akhuwat, does not believe in a society where the generosity of the people, or the desire to help, will not exist – he claims he will have no purpose running the organization in such a society.

While it is easy to give money, the human charity is tested when it comes to giving time. Akhuwat has tapped into this resource, carrying forward the same philosophy of brotherhood and generosity, whereby many of senior staff members of the organization are working either voluntarily or for much less than market salary. While the lower staff, field workers mostly, are paid the market salary, their commitment to their job often outweighs this monetary compensation. An economist will have a hard time defining these features that defy all rules of the almighty market.

Dr. Amjad is aware of the concerns raised by many regarding the sustainability and scalability of an organization working on donations, voluntary contributions and voluntary efforts. He explains his take on this:

We do not view Akhuwat as a short term experiment nor are we interested in gaining some sort of permanence through profit alone. Instead through a spirit of volunteerism, the principle of low operational cost and dependence on generosity of the community, Akhuwat has not only sustained itself but is also expanding and being replicated.

With a recovery rate 99.85%, Akhuwat is a challenge to conventional MFIs, to high interest rates, and traditional practices – in spite of which recoveries are falling. It might be a model worth considering, for there is no doubt that there is something wrong with MFIs at large, and

Akhuwat, in Malcolm Harper’s words “takes us back to the early days of innocence, when poverty alleviation was what microfinance was for, and this reminder is healthy, and necessary.”