Akhuwat's Microcredit Alternative

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Outline

Critiques of Conventional Microcredit

Akhuwat's vision and mission

Akhuwat Model

Research questions

Method for evaluating success

Findings

Critiques of conventional microfinance

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

Vision and mission

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

Loan process

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

Akhuwat Model

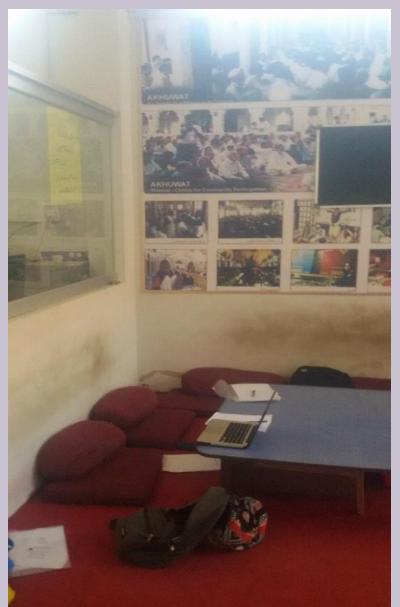
- Small loan sizes and small installments sizes spread across a (comparatively) longer repayment time
- No coercion tactics for repayment
 - Other consciousness/Empathy
 - Instead of harassment, tries to instill self-worth and selfconfidence; involved citizenries of their communities
 - Islamic ethic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

Akhuwat Model

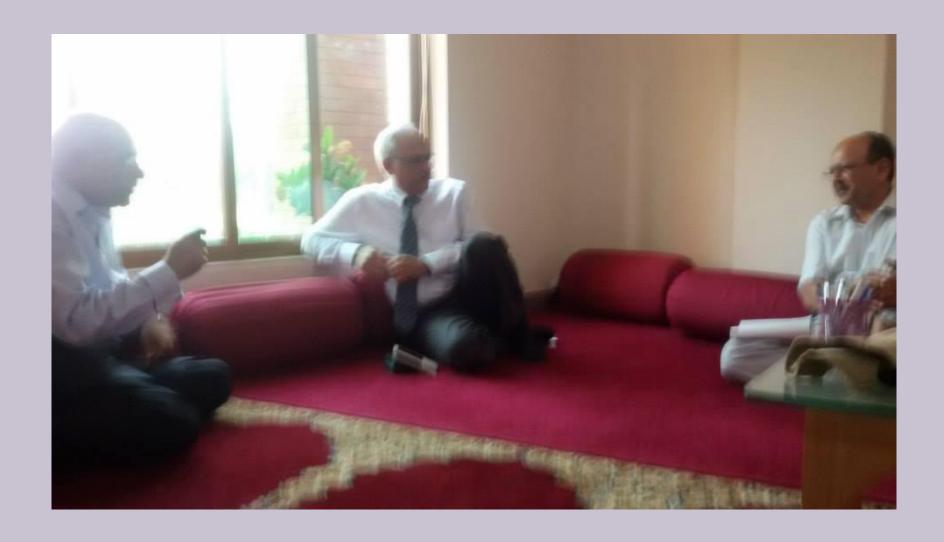
- Minimize hierarchy
 - All branch activities happen on the floor; organic; minimize impersonal exchange; facilitates solidarity
 - Founder's office has no chairs/AC
 - Senior management works on voluntary basis
 - Borrowers known as 'members,' not 'beneficiaries' or 'clients'
- Community ownership engaged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

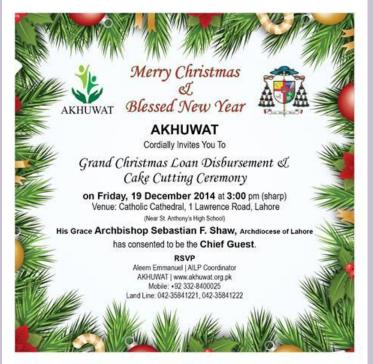
Akhuwat Model

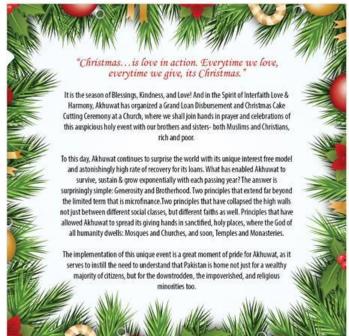
- Loan officers are friends/ advisors to the community – not agents of an MFI. Key aspect of staff training
- Expansion
 - More revenue associated with more indebtedness would violate underlying philosophy
 - Selective with loans unlike (MFIs)
 - Cautious and conservative free from incentives to expand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











Research questions

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

Research design and method 1: data collection

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

Research design and method 2: data bases

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

Research design and method 3: Why no RCT?

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

Evaluating success

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

Scope/scale

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

Conventional indicators 1

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

Conventional indicators 2

• Appendix 5.2. Akhuwat recovery rates since inception (%)

•	Year	Rate
•	2001-02	100.00
•	2002-03	99.95
•	2003-04	99.90
•	2004-05	99.95
•	2005-06	99.90
•	2006-07	99.50
•	2007-08	99.37
•	2008-09	99.50
•	2009-10	99.85
•	2010-11	99.85
•	2011-12	99.86
•	2012-13	99.87
•	2013-14	99.85
•	2014-15	99.93

Conventional indicators 3

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

	• •	
•	Year	Amount
•	2001-02	1.50
•	2002-03	1.80
•	2003-04	7.10
•	2004-05	10.90
•	2005-06	28.30
•	2006-07	17.72
•	2007-08	23.98
•	2008-09	36.17
•	2009-10	53.00
•	2010-11	108.37
•	2011-12	97.71
•	2012-13	85.04
•	2013-14	103.00
•	201/-15	1/18 60

Imitation

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

Borrower perceptions

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

Borrower quotes

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

Field staff quotes

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

Attaining mission: microeconomic findings

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

Some macroeconomic findings

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

Addressing conventional critiques (1)

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

Addressing conventional critiques (2)

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

Why successful?

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

Limitations

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

Policy issues

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