

Business Policy of Non Profit Organizations- Case of Akhuwat; Empowering Society through Interest Free Loans



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2016.

ACKNOWLEDGEMENTS

There are a few people who have guided and supported me throughout my thesis and whom I would like to acknowledge here. Firstly, I would like to thank Allah Almighty who gave me strength and energy to complete my thesis during my training in Lahore.

I would also like to thank my supervisor, Mr. Abid Khawaja for his help and guidance, without it I wouldn't have been able to work on the topic of my liking. His motivation has guided me through different steps of my research.

I would also like to extend my gratitude to Mr. Amjab Saqib for taking out time from his busy schedule so that he could meet with me to provide firsthand information which was important for critical analysis of my research. Mr. Amjab Saqib also arranged the tour of the head office and was very cooperative throughout the process.

Lastly, I would like to thank my family and friends, especially Hamza Butt who managed to coordinate with the exam branch for all the paper work on my behalf since I was in Lahore. It wouldn't have been possible without their support and motivation.

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Abstract

The foremost motivation behind this study was the fact that most non-profit organizations operating in Pakistan lack a definite business policy, to follow. This not only results in the organization suffering financially, but also leads to organizational ineptitudes and many operational flaws, effecting the organization, at large. The study uses the case example of the organization, Akhuwat, which operates as one of the premier non profit organizations, operating with the purposes of poverty alleviation through interest free microfinance and provision of basic services such as education and healthcare. Akhuwat operates on its unique model, throughout the country and has helped more than one million families by disbursing loans of almost PKR 2 billion. Moreover, a comparative analysis between Akhuwat and other major microfinance organizations, confirms the presence of several parallels but shows that the Akhuwat Model is unique and one of its kind. The study examines the financial and operational procedures of the organization in detail and dissects the deficiencies in them. Furthermore, it presents a thorough analysis, both SWOT and PEST, to understand the changes that may be required, and the possible improvements that those may bring to the organization.

Chapter 1 - Introduction

Scope of Study

The basic aim of Akhuwat Organization is to alleviate poverty by empowering socially and economically marginalized families through interest free microfinance and by harnessing entrepreneurial potential, capacity building and social guidance.

The scope of the project is to analyze the organization in terms of Business Policy and implementing the concepts, which I have studied in my classes (including strategy development, business model, competitive edge, institutional voids etc) to this organization. The main focus in my course work was on 'For-Profit' organizations and in order to have a better understanding of how social organizations work, I will be analyzing its operations under the light of different concepts which are usually applicable to 'for profit' organizations.

The main inspiration for choosing this topic is to create better understanding of non-profit organization's structure on a deeper level because I have plans to start my own project in a couple of years. Thus I feel this thesis provides me the opportunity to clear my concepts further so that I could apply them when the time comes.

Limitations

Time limit was a major limitation in this research study, since I am attending a training program in Lahore so it was difficult to manage both things at the same time. Due to this time limit and limited resources I wasn't able to interview major microfinance institution management and had to rely more on the secondary resources.

The topic that I chose has wide implications so I had to cut it down to focus on the key elements of business policy and I would have included other elements too if time was not a constraint. This means that all the external variables that affect the operations of the organization might not be covered in detail in this research study.

Company Overview

Akhuwat is Pakistan's largest interest free microfinance organization. The organization is built on the concept of compassion and generosity. It plans to alleviate poverty from the society by empowering underprivileged through interest free loans which would enhance entrepreneurial initiatives, social guidance and opportunities. The organization has managed to expand its operations throughout the country by keeping low costs operating units (offices, it operates through religious institutions like mosques and churches etc. The management of Akhuwat believes that working through such places keeps the organization close to masses and their needs and it also cuts costs of office space. Akhuwat has helped 1,093,216 families by disbursing loans of PKR 19,820,524,342 till October 31st, 2015. The organization has been able to establish 484 branches all over the country¹. The organization has laid its foundation on the principles of social justice and brotherhood and is working with an impressive recovery rate of 99.87%.

The idea of Akhuwat was conceived in 2001 in Lahore among a group of friends who were criticizing the intense amount of interests attached with loans. The organization started its operations with a donation of Rs. 10,000 and it was given to a widow in Lahore. After six months, loan's effective recovery established a reliable platform and donations started to pour in. It was realized by initial management and donors that underprivileged can stand on their feet if treated with trust and respect. Hence, the principles on which the organization built its structure based on compassion, trust and brotherhood. Akhuwat, started initially as a social experiment to test the idea of interest free loans and it was important to observe the involvement of society since the model relied heavily on volunteerism and donations. Thus, initially the organization did not receive any foreign help and donors. The generous response from volunteers and donors within the society made it easy for the organization to expand all over the country.

The expansion plan of the organization is two tiered. First, it plans to maximize its reach by targeting cities all over the country and secondly, the organization also urged different institutions to adapt its model. Akhuwat provides staff training and assistance in the initial set up to all such institutions which are interested in replicating the model. It also encourages the institutions to build their own identity rather than being clones of Akhuwat. The main purpose

¹ http://www.akhuwat.org.pk/progress_report.asp

of this assistance is to harness unity and support in the society so that maximum people can benefit from it.

In order to function successfully, Akhuwat laid out its four principles; **interest free loans**, the organization provides interest free loans so that economically poor can maintain sustainable livelihood and it also offers assistance for the initial set up in terms of training etc. **Using space of religious institutions**; operating through such institutions is an innovative way to cut costs and also encourages the maximum participation of community. **Volunteerism**; it inspires the masses to volunteer and sparks the sense of responsibility in them. The organization, from the very beginning, wanted to inculcate the spirit of support and volunteerism in people of the country. **Converting borrowers to donors**; this principle was not a part of guiding principles of the organization initially but after a generous donation made from one borrower, Akhuwat included in its fundamental principles. These donations do not affect the decision of loans disbursement and are completely voluntary. The success of these principles led to inclusion of Akhuwat model in different international universities curriculum.

Vision of Akhuwat:

“A poverty free society built on the principles of compassion and equity”.

Mission of Akhuwat:

“To alleviate poverty by empowering socially and economically marginalized families through interest free microfinance and by harnessing entrepreneurial potential, capacity building and social guidance.”

Projects:

During the past 7-8 years Akhuwat has expanded into arena of health and educational services along with financial services.

Akhuwat Health Services:

The organization has developed a network of low priced medical services with the help of different hospitals, clinics and pharmacies. The main aim is to provide the basic health facilities to the needy. Akhuwat has also partnered with Emergency Management Services of LUMS in order to cater to needs of deserving people through best health facility.

Akhuwat Education Services:

These services comprise of multiple units.

- Akhuwat Educational Assistance Program: This initiative awards scholarships to the deserving students so that they can attain higher education in the country. Currently, Akhuwat is supporting multiple students in medical and engineering universities.
- Akhuwat Internship Program: the organization started to train 60 interns per year through a focused 5week schedule. In 2014, Akhuwat Internship program managed to train 315 interns in nine different cities. All the interns were trained to do research and field work.
- Akhuwat incubator: Akhuwat with the help of My-Biz Pakistan Foundation launched an incubator from where 20 different micro projects are getting assistance. These projects are being provided with angel investment, assistance in marketing and integration etc.
- Akhuwat Clothes/Book Bank: the organization also collects clothes and books to form a bank and which can benefit those who cannot afford such necessities.

Organizational hierarchy and structure:

Akhuwat has ten board members who have diverse backgrounds. The responsibility of internal governance rests on the shoulders of these members. The board conducts meeting on a quarterly basis to formulate policies and offer guidance. The executive Director of the organization is Dr. Amjad Saqib. The organization is divided into four departments, IT, operations, program and Finance and HR. most of the personnel work on a voluntary basis. When asked about this simple structure Dr. Amjad replied that the structure is a blend of volunteerism and necessary compensation. Since the organization demands no interests, it has to keep its costs minimum. The staff travels on local transport and board of members work on honorary basis. The office has minimal furniture². The head office in Lahore also acts a branch. Two area managers are overseen by a program manager. Both area managers have four branches under them respectively and every branch is run by a branch manager.³

² Every official sits on the floor and follows the concept of 'farshi'

³ Some branches have committees which help locate the deserving people and helps in regulating loan disbursement.

Chapter 2 - Literature Review

What are non-profit organizations?

A Non-Profit Organization is an organizational and a business entity which aims at other tenacities than the earning of profits. These may range from the promotion of any particular social cause to the serving of public interest, at large. Generally, these organizations fulfill the charitable, educational, literary and religious purposes. (Hansmann, 1980)

What is Microfinance?

The lending services offered by the commercial banks, usually cannot be availed by the impoverished. This is mainly because of a lack of an insecurity that exists because of their economic and financial status. However, there may also be other reasons which hinder the extension of lending services by the commercial banks to the poor, which tends to enhance the aforementioned insecurities in particular cases. These may include deficient educational background, lack of experience & training, and a low rate & possibility of return. This at times, may aggravate the situation by worsening their financial situation and leading them into more poverty. Apart from that, it is certainly not easy for the poor households to generate a sustainable and a consistent earning to support their families or save, for that matter. This highlights their intense vulnerability to the foreseen and unforeseen natural, economic and social shocks. These shocks do not bode well either and may push them further into poverty. (Patel, 2004)

Mustafa & Ismailov (2008) identify this as a complex condition which certainly was the motivation behind the evolving idea of microfinance. It can be defined as a medium of financing people and extending lending services towards them. These people are particularly those who have nothing to offer as collateral, for the loan, rather it ensures the provision of social benefits, helps alleviate poverty or may be used as a startup or working capital for their respective businesses. Microfinance fosters social change and promotes economic augmentation. The microfinance institutions, today, operate mainly as separate banking entities inclusive of some non-governmental and non-profit organizations. Agion & Morduch (2005)

Microfinance is a rapidly developing subject and thus has varied definitions. According to Ledgerwood (2000) it is a tool to provide assistance to lower income class by offering financial

solutions. While according to the Asian Development Bank (2008) Microfinance includes multiple services like deposits, payment services, loans and insurance to lower income class and their small businesses. These definitions mainly lay focus on microfinance being a financial service particularly designed for the improvement of living standards of the poor.

Activities and Characteristics of Microfinance:

In contrast, to the lending dynamics of the commercial banks, the microfinance institutes usually do not invest in the consumer finance rather extends finances for micro enterprise. This warrants sustainability and helps the borrowers indulge in business activity by which they learn to maintain consistency. The salient features of a microfinance loan have been identified by numerous studies. Mostly, these loans are small in amount and duration, because of social collateral being involved instead of financial collateral which impacts the guarantee of the loan being paid back. However, upon timely repayment, the microfinance institutes may extend a larger amount of loan. The lack of financial collateral also leads to thorough monitoring of the business or the household by the lender to make sure that the loan amount is utilized for the stated purpose. Furthermore, the lending institute may offer skill development training and access to health and social services which may help them in business and personal development, at large. (Ledgerwood, 2000)

Microfinance – as a tool for development:

Most people in the developing nations of the world suffer from a dearth of financial resources to establish their respective businesses, despite having acumen, an innovative approach or a product and the skill to manufacture and market the product well. This lack of economic activity, as stated earlier leads them further into poverty, as stated earlier, increasing the overall social costs, in addition to the economic costs of living. The microfinance institutes, therefore, not only focus on the financial intermediation, but also the social intermediation, including awareness campaigns, trainings and improving the access to social services. This mix of financial and social intermediation by the microfinance institutes makes these organizations unique and their lending dynamics different from those of the commercial banks. It also enables them to play a pertinent role in the general development of the state. (Mustafa & Ismailov, 2008)

The chief aim of the microfinance institutions is the financial intermediation. Previous deliberation on the subject is suggestive of the fact that the poor face numerous obstacles in obtaining financial assistance in form of loans, from the commercial banks. The microfinance institutions, thus are recognized as an important component for the provision of financial services which in return contributes towards the alleviation of poverty and improvement of living and health standards, at large (Ahmad, 2007). In the words of Ledgerwood (2000), the decision to choose the type of financial service and method of providing that specific service depends on three factors; objectives and mission of MFI, the market which the institution targets and its changing demands and the organizational structure of the institution.

Social intermediation is the secondary objective of the microfinance institutes, whilst lending to their borrowers. This strategy aims at introducing the concept of sustainable development in the lives of the poor borrowers by investing in and developing the social capital. This may be done by trainings, cooperative learning and improving the access of the poor to the relevant and required social services. Edgcomb & Barton (1998) presents the definition of social intermediation as a method through which human and social capital is constructed which is a requirement for financial assistance of the poor. Both logic and literature suggest that the problem of increasing poverty can be addressed by means of increasing the accessibility of poor to basic needs of life, such as food, healthcare, shelter, education and family planning. The most effective approach towards this kind of social development is by creating awareness about the importance of efficient healthcare and good education to groups of people, most vulnerable to poverty and deprived of these amenities. The microfinance institutes thus enhance their service portfolio by offering supportive and social services in addition to its primary objective of financial support and services. These social services are a very important tool for sustainable human development and the improvement of living standards of the poor (Khan & Rahman, 1998).

Furthermore, the kind of support these institutions offers to its borrowers is rather diverse and dependent on the state at which the enterprise is operating. In some cases, the institutes may not offer support, at all. In the state of enterprise formation, the institute may provide the borrowers with technical assistance in the business startup process and may work towards honing the ideas and skills of the borrowers. For the case of enterprise transformation, the lending institutes may arrange trainings relevant to the subject of their business.

Microfinance experts argue that financial assistance is necessary for uplifting the economic status of poor but it is not the only way to eradicate poverty and must be used along with other services to have a more lasting impact. Poor needs more than microfinance to address the problems of poverty and accessibility to other life needs like food, health, family planning, education, social support network and so on. Therefore, Ledgerwood (2000) addresses that MFIs serve to their clients with additional social services with financial intermediation. The best way to contact with their clients is in the form of group, that is the easy way to literate them, giving health care and other facilities. So in this way, MFIs role is productive in the life of poor by offering financial services with supportive services. These supportive services, actually, play important role in sustainable human development and livelihood of the poor (Khan & Rahman, 1998).

Islamic Microfinance:

Majority of the microfinance institutions extend their lending services with a price attached to it. The price attached is in the form of interest, which is measured at 20 percent in most and may range up to 30 percent, magnanimously higher than the interest charged by commercial banks. The motive behind charging the interest rate this high is to meet the costs attached, which may not be fulfilled because of the small amount of the microfinance loan. This in turn, may also affect the business being financed, its survival and future success, as the high interest ratio may exert immense pressure on the borrower of the loan.

An emerging approach to this is the Islamic Microfinance. Islam, through its teachings and beliefs prohibits the charging of interest (Riba) on liquid cash and states that money is not an asset for earning profit. Dhamale and Sapcanin (1998) were the first to deliberate upon the practical application of Islamic microfinance. In their study, they observe and prove that since the Islamic microfinance lays more emphasis on risk sharing and collateral-free loans, for some particular amenities. (Dhamale & Sapcanin, 1998)

Islamic teachings believe that equal and just distribution of wealth in the society leads to social and economic justice, which within this framework can be achieved by an equal involvement of lender and borrower in endeavors such as profit and risk sharing and collective struggle for business development. The ultimate gains from this are a maximized social benefit rather than a private benefit in form of abnormally maximized profits, which are supposed to be prepositional

for microfinance and micro entrepreneurship. The major ways of Islamic microfinance are Mudarba, Musharka and Qard-e-Hasna. (Segrado, 2005)

Mudaraba basically entails to participation financing. It refers to the transaction between the financial institution and the borrower, however they both agree on having no pre-decided interest rate. The profit earned is shared between the lender and the borrower. Zaher & Hassan (2001) define this as “*Mudaraba is a trust based financing agreement whereby an investor (Islamic bank) entrusts capital to an agent (Mudarib) for a project. Profits are based on a pre-arranged and agreed on a ratio. This agreement is akin to the Western style limited partnership, with one party contributing capital while the other runs the business and profit is distributed based on a negotiated percentage of ownership. In case of a loss, the bank earns no return or negative return on its investment and the agent receives no compensation for his (her) effort*”. (Zaher & Hassan, 2001)

Another method of Islamic microfinance is the Musharka. It entails to a joint venture involving two or more entities. Segrado (2005) states, “Two parties provide capital for a project which both may manage. Profits are shared in pre-agreed ratios but losses are borne in proportion to equity participation” (Segrado, 2005). Thus, this form of business may not be based on the profit sharing notion, but entirely depends on the power one holds in the respective business.

Qard-e-Hasna is another type of Islamic financing; however, it differs greatly from the other types mentioned as those are for the purposes of business activity only. This teaching of Islam encourages the privileged in the society, to help those who are deprived. In the bigger picture, it encourages equal distribution of wealth in the society and a greater social benefit.

The underlying principle of this medium is rather simple. The lender is supposed to give loan without any interest on it, whereas the borrower should return it, as quick as possible or on the decided date. There is no fine either for late payment of the borrowed amount. (Mirakhor & Iqbal, 2007). Hossain (2004) states that there must be a written contract between the lender and the borrower, in presence of witnesses, the date of payment must be specified; however the rules permit for the charging of a membership or an administrative fee.

In his study, Obaidullah (2008) believes that for the growth of the Islamic Microfinance industry, multi-level and multi-dimensional linkages need to be developed at all possible levels. He asserts

that a mix of governmental agencies, the State Bank, commercial banks, NPOs and NGOs will be able to reach to the most impoverished and assist them out of poverty by taking the measures mentioned above. This, according to the study can be one of the mammoth steps towards the absolute alleviation of poverty.

If the particular case of Pakistan's Islamic microfinance industry is observed, the situation is nothing short of appalling. The latest Economic Survey defines almost 75 percent of the country's population as poor or vulnerable, with an even smaller percentage having an access to microfinance services. A study by the US Agency for International Development (USAID) in 2010 estimated that only 900,000 people had benefitted from microfinance services in Pakistan, only 0.5% of the affected population. However, it must be noted that a large number do not prefer the orthodox microfinance banks because of their interest-based financing systems or its reliance on Riba, which remains prohibited from the spheres of Islam (Goud, 2007). Pakistan is home to very few prominent entities which bring in practice the concept of Islamic microfinance, Akhuwat and Islamic Relief.

Microfinance Models:

Grameen Model -

The Grameen model lends to a homogenous set of people, applying for a microfinance loan. The lending is divided into different phases. Under the first phase, the loan may be given to at least two prospective borrowers with the purposes for investing in their respective business. Upon timely repayment of the loan, within the fixed parameters, the following two people receive the loan amount. If that amount is repaid completely, then the last person in line is entitled to the receipt of the loan, and the cycle continues. Any defaulter leads to the disqualification of the entire group and each repayment process leads to the grant of the loan to a new borrower.

Every group has its set hierarchy which is responsible for the intra and inter group coordination and organization. The group office bearers maintain transparency and ensure the timely repayment of loans to avoid debarment. The grouping system is not random, however the model ensures that the neighbors are grouped together, which increases reliance, mutual understanding, cooperation and maintains a check and balance over all borrowers, pressurizing them to comply

with the group rules, increasing the loan security and reducing the risks associated with lending, particularly in a socio-economic setting as in Bangladesh.

Sengupta & Aubuchon (2008) suggests that the repayment process is designed in such a manner that the borrowers are encouraged to save, whilst repaying the loan amount. This also promotes a greater social welfare and improves the access of social services to the needy as well. Five percent of the loan amount is supposed to be deposited to group for the purposes of emergency and social need.

The loans disbursed, however, are not interest-free. The interest ranges between 0 percent to 20 percent, depending on the socio-economic status of the borrower and the nature of the loan. An income creation loan may be charged at 20 percent, whereas the oppressed members of the society would be granted a loan at a 0 percent interest rate. (Younis & Jolis, 2008)

Kashf Foundation Model -

Another of such initiatives that promote social change through microfinance schemes is the Kashf Foundation. It was established two decades back, in 1996, with the purpose of absolute alleviation of poverty. However, the foundation adapted a rather unique model where its focus was limited to women belonging to low income families only. It not only works towards the provision of loans but also develops the entrepreneurial and financial skills of the women involved, which help them, progress with their respective businesses. It, however, charges an interest rate of almost 22% on the money it lends to the women in need. (Kashf Foundation, 2010)

Akhuwat Model –

This area focuses on the research subject of this paper, the Akhuwat model. Earlier and later chapters of this research have discussed and analysed this model in great detail; this section however, aims at the discussion of its philosophical background and the basic methodology adapted by Akhuwat, which makes it the premier Islamic microfinance entity operating in Pakistan. Akhuwat was formed by the replication of the Grameen model, with some amends to cater the Islamic microfinance service that it provides. The philosophy of Akhuwat rests on four masts. These show the extent to which Akhuwat has incorporated the principles of Islamic microfinance in its operations and strategy. *Qarz-e-Hasna* is the foremost principle of the Akhuwat model, whereby interest free loans are provided to the borrowers, contrary to the conventional microfinance systems. This gives birth to the second principle upon which this organization is based, which is that of *Mwakhaat*, Compassion and Social Justice, where equal treatment and an establishment of a brotherly bond between all Muslims is encouraged. It also stresses upon the need for an equitable distribution of income in the society. Akhuwat also redefines the role of places of religious worship in the modern day society by utilizing their respective spaces for work as offices, donation points and for conventions. This reduces the costs associated with space and land and furthermore, attaches a religious fervor to the cause, which in itself is motivating for most people involved, either as donors or volunteers. The last, but a very important component of the Akhuwat model is that of volunteerism. The model further suggests that the change needed can only come through social participation, which is practiced in this case through volunteerism. (Akhuwat, 2013)

Replication of Models:

The Grameen Model and the philosophy behind Dr. Muhammad Yunus's initiative of introducing a unique microcredit scheme to the impoverished Bangladesh was basically the motivation for Dr. Amjad Saqib to establish his organization, by the name of Akhuwat, which is Pakistan's premier Islamic microfinance entity. However, Dr. Saqib did not adapt the dynamics, the methodology or the principles of the Grameen Model, itself as he resorted to the medium of Islamic microfinance to achieve the same objectives as Dr. Yunus. This has been regarded as an innovative addition to the Grameen model. (Mustafa & Ismailov, 2008)

With time, the methodology adapted by Akhuwat has evolved into a separate model, which concentrates not only on financial assistance, but also sustainable, social and entrepreneurial

development of the individual borrower, the household and the society, at large. Many organizations have been established in Pakistan which are operating on the same principles as Akhuwat and have replicated the Akhuwat model. Even though they serve as separate entities, Dr. Amjad Saqib, the founder of Akhuwat, believes this to be as an expansion of Akhuwat and the cause it is promoting.

Akhuwat has been encouraging its replicators and ensures that they are able to replicate the model efficiently. For the purposes of efficient replication, they offer curriculum, support materials and training to the staff of those respective organizations. Akhuwat also helps them set their Standard Operating Procedures, keeping in mind the objectives and resources of the respective program. Moreover, it helps them develop their monitoring and evaluation systems which are pertinent to maintain transparency. It also teaches them the key financial management rules and procedures which help with the analysis and taking important management decisions. (Akhuwat, 2013)

Some of the replicators of the Akhuwat Model include Haral Bunyad, Islah Trust, Kawish Welfare Trust, Salamat and Yaseen Trust, and Zad-e-Rah. These organizations cover more than 53 cities and towns in the Punjab province. They mainly grant the Qarz-e-Hasna to the needy borrowers and their lending range includes loans for enterprise, housing, marriage, healthcare, education, emergency and liberation. More than twelve thousand families have benefitted from these replicated entities alone and an amount of PKR 175,851,500 has been disbursed till now. It is interesting to note that the average rate of recovery was measured at 99%.

Strategic Thinking for Non Profits

Non profit organizations have to rely on funds and grants for their operations unlike For Profit organizations and that limits their growth opportunities. In order to remain sustainable such organizations must explore alternate ways to generate income streams and strategic planning can help them achieve sustainability. Building a strong strategy gives a holistic view of the business and grants it the ability to grab the future opportunities and tackle the potential threats. The strategic thinking process also enables the organization to monitor and evaluate its performance by aligning all the business activities throughout various business units. (Dossi & Patelli, 2008)

Non profit organizations have this notion that since they are not competing for profit they should not have strategic goals. Such low expectations coupled with reliance on funds and grants restrict the organization to perform to its full potential. Strategy captures the vision of organization and helps it to lay out achievable goals and targets which would eventually have an impact on day-to-day operations. In order to survive and thrive in the current dynamic environment even Non Profits need to realize the importance of strategic thinking so that they inculcate flexibility and adaptability in organization's culture. (Thach & Thompson, 2007). Many Non Profit organizations prefer to indulge in planning at convenience instead of strategic planning because of their unpredictable nature of grants and funds which decreases the chances of success. (Kraus, Harms, & Schwarz, 2006). According to the research of Carriere, Bourque and Bonaccio (2007), one of the major reasons for failure of Non Profits is poor communication channel. When employees are not being communicated regarding their input and impact that creates in the business overall it results in low job satisfaction and high turnover rate.

Institutional Voids

Khanna in his work "Winning in Emerging Markets" used the term of institutional voids to refer to the lack of developed infrastructures which can connect the buyers and sellers efficiently. Thus, institutional voids can pose a threat to businesses running in emerging markets and at the same time provide opportunities to entrepreneurs who can fill these black holes and turn them into prospects. These voids are normally those factors which are taken for granted in developed economies. The microfinance industry in Pakistan presents many such black holes. Microfinance banks and other such institutions in the country charge high rates of interests ranging from 18% to 40%. All the other high end banking institutions refuse to provide basic services to almost 70% of the banking population of the country⁴. Thus this black hole provides an opportunity for social enterprises and nonprofit microfinance institutions to provide access to financial capital minimum interest rates to the huge chunk of population which is not being served right now. Furthermore, lack of training institutes which can strengthen and support these entrepreneurs presents them with difficulty to survive own their own even after the loan. So for nonprofit microfinance institutions it is of immense importance to offer such supporting services like skill learning and business management training to the individuals. The third void is lack of research institutes which can gather and present relative and accurate data on the industry every year. The

⁴ <http://tribune.com.pk/story/743799/a-banking-void-microfinance-for-the-less-fortunate/>

research institutes can help the institutes to evaluate their performance regarding much population have they targeted and it can chalk out the future pathways to target the untapped population.

Competitive Advantage:

Non profit institutions fail to realize that they also act as economic institutions like For Profit organizations. The general notion that since we do not aim for money so we do not have to worry about competition and creating a competitive advantage can be precarious for nonprofits. Due to the scarcity of resources all such organizations compete for same elements like funds, grants, staff, volunteers, low cost operations etc. According to Herrington Bryce:

“The most fundamental change in perspective that is needed to improve the management of nonprofits is to view them as economic institutions with the charitable missions of improving the public or community welfare, rather than as charitable institutions with charitable missions. As an economic institution, revenues must be raised and managed; costs must be identified and constrained. Whatever the mission, the organization has to pay its bills.”

Thus nonprofits can be identified as economic institutions because they need land, labor, capital and resources to process them and produce services and products which can help the society at large. Another factor which makes the competition intense for nonprofits as compared to For Profit organizations is lack of barriers to enter the industry. In order to remain ahead of the competition such institutes can adopt following pathways

- Creating alternative resources of revenue streams by diversification; it can also enhance the impact of the organization
- Building and relying on low cost operations like cutting down office costs and labor costs
- Joint ventures with different institutions; sharing and benefiting with each other’s expertise and resources
- Focusing on a market niche; when organizations try to be everything to everyone they lose control and focus and thus the social impact that they want to create lose its value
- Investing surpluses from one business unit or activity to low performing units or activities (Barry & Bryan, 1986)

Chapter 3 - Research Methodology

I have carried out both primary and secondary research for this study. In order to get better understanding of this industry and Akhuwat model following people were interviewed:

- Mr. Amjad Saqib (Board of Directors)
- Mr. Humayun Ehsan (Board of Directors)
- Mr. Saleem Ranjha (Honorary Director)
- Ms. Amna Hassan (Donor for the past few years)
- Ms. Roshaneh Zafar (Managing Director, Kashf Foundation)

Following visits were also conducted:

- Loan disbursement of Akhuwat at Badshahi mosque, Lahore
- Head Office of Akhuwat, Township Lahore
- Head Office of Kashf Foundation, Garden Town Lahore

For the purpose of secondary research numerous journals and research articles were consulted:

- Akhuwat ka Safar by Amjad Saqib (Autobiography)
- Research Studies and Progress reports available on Akhuwat's website
- Pakistan Microfinance Network (For statistical data)

Operations

Methods of lending:

Group loans: Akhuwat initially started its operations by disbursing group loans but it plans to phase out of this category. For the past few years the main focus of the organization is to complete the cycle and duration of group loans which have already been disbursed so that it can restrict itself to individual loans only. In group loans the chances of group leader manipulation his members are high. Furthermore, the members were chosen on the basis of their popularity in a particular location and not on genuine need for loans. The loan given to groups had no interest but posed a fee of five percent of the loan. This fee ensured that members don't take it as charity or for granted.

Individual Loans: Throughout the years Akhuwat managed to increase its individual. They are marketed through religious institutions like churches and mosques.

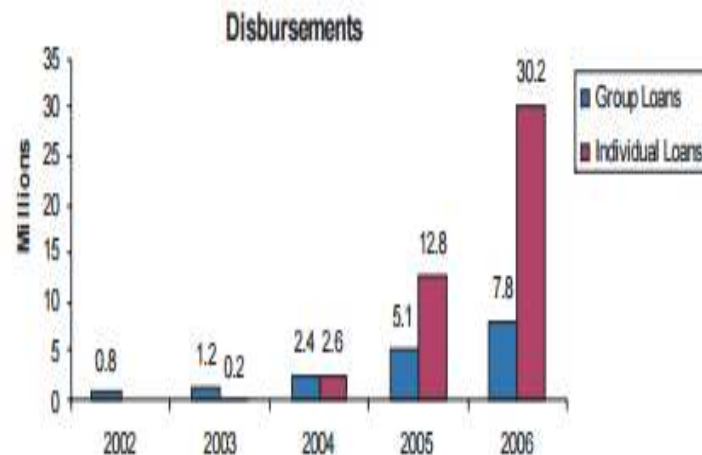


Figure 1 - Disbursements Comparison (2002-2006)

The loan process starts with request letter explaining the business idea. It is the responsibility of unit manager to review these applications and interview people around the person who has put forward the request. The criteria for selection is that the person's household per capita income

must be below Rs. 1000. Furthermore, the business idea is evaluated for its feasibility and viability. This evaluation is given much importance because only then the management can safely assume that a person can repay the loans. The management also ensures the involvement of family in the loan disbursement process in order to create mutual trust. Once the unit manager completes his evaluation, the branch manager reviews the application and evaluation and it is discussed and debated at the committee meeting. The whole process is completed within a month. The repayments are required to be submitted on 7th of every month and if the person is not able to oblige by these terms for a genuine reason, his case is reviewed and more time is given to him.

Types of Loans

Family Loan:

The individual loans are termed as family loans because of the high level of involvement of family. The exact amount to be given as a loan is decided and finalized by the committee after careful reviews.

Liberation loans:

This category of loans helps those people who have borrowed money from other institutions and are unable to pay the high interest amounts. Akhuwat tries to pay the principal amount of such loans in one go and then these people can pay back Akhuwat in installments which makes the process easier for them.

Housing Loans:

Housing loan is the recent addition to loan products of Akhuwat. It ranges between Rs.40-50000 and it can be paid back within two years. Akhuwat offers this category of loans through partnerships with other non-profit organizations.

Miscellaneous:

Few other loans include health, marriage and educational loans. People who cannot afford the basic necessities of life are helped through such efforts. Such loans have different ranges according to the needs of the people and they can repay it within a year.

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

Figure 2 - Loan Portfolio of Akhuwat

Role of ICT in Akhuwat

The nature of the responsibility of Akhuwat and the clients it serves do not require it to offer any web based solutions to its clients; however the use of software solutions enables it to facilitate its operations and establish a link between the donors and the organization. The complete process of giving loans right from analyzing and scrutinizing the application of the borrower to the issuance of loan and all financial matters such as funds transfer and purchase sanctions are monitored in real time using state of the art Enterprise Resource Planning (ERP) system. The data security is ensured by maintaining the data backup at two different locations. They are planning to build an integrated SMS service for courier management which will enable the donor and the receiver to receive an SMS when the shipment reaches its destination. In the backdrop of ongoing energy crisis in Pakistan and in an effort to move towards clean and non-conventional energy sources, Akhuwat has powered its head office using solar energy.

Objectives of Akhuwat

The objectives of Akhuwat have been formulated considering its mantra of brotherhood and kindness. The organization has laid out following objectives:

- Provide interest free microfinance services on the basis of principles of Shariah, to poor segments of society and empower them financially;
- Promote model of Qarz-e-Hasana as a viable and effective solution for poverty alleviation;
- Provide social guidance, capacity building and entrepreneurial training;
- Institutionalize the spirit of brotherhood, compassion and volunteerism;
- Transform Akhuwat borrowers into donors through such lending and empowerment; and
- Make the Akhuwat model a sustainable and replicable one.

Strategy implemented by the organization

In order to achieve the mission and objectives of the organization, Akhuwat has devised a strategy which includes following actions:

Loan disbursement method

- i. **Step 1: Launch:** Awareness of the program and services is generated in poor localities through mosques and churches. The organization mainly relies on word of mouth and assistance of previous borrowers proves to be of great help in this regard.
- ii. **Step 2: Selection Process:** the applications are processed and scrutinized by following four conditions (a) the applicant must fall below the poverty line (b) the applicant must not be involved in any kind of illegal activity (c) he/she should possess reliable social capital and (d) the applicant should have basic know how of business or possess entrepreneurial skills. The responsibility to evaluate the application lies with the Unit Manager (Loan Officer).
- iii. **Step 3: Choosing Viable Business Plan:** The filtered and screened applications are then evaluated on the basis of viability of business plan and whether the idea of business can

generate enough income to repay the loan while covering the household expenses of the borrower. Furthermore, family of the borrower is also involved in the process to gain their support.

- iv. **Step 4: Credit Review:** The Unit Manager forwards the applications to Branch Manager and then the applications are scrutinized by Loan Approval Committee. The committee consists of Area, Branch and Unit Managers. The whole process of application till distribution of loans can take three weeks.
- v. **Step 5: Reference for Borrowers:** Every borrower is required to have two reference person or guarantors to guarantee the credentials of borrowers and assure the timely repayment of loans.
- vi. **Step 6: Loan Disbursements:** Loan disbursement takes place in a mosque/church or branch office 2 to 3 times a month. At each event almost 100-150 loans are disbursed, borrowers are required to be present at the event with their guarantors. The selection process also helps in categorizing the capacity building requirements of the borrower and thus, every case is handled accordingly.
- vii. **Step 7: Repayment and Feedback:** It is the responsibility of the Loan officer to carry regular visits to the borrower's house in order to keep a check on the progress of repayments. He also has to ensure the effective utilization of the loan. Borrowers are required to deposit the payment by 10th of every month. The regular visits of the Loan Officers reduce the potential problems in recovery of the loans.

Chapter 4 - Findings and Discussions

Industry Analysis

Pakistan with its increasing population has high ratio of labor force. According to Economic Survey (2014-2015), the country has 60.09 million active labor force and the unemployment rate is 6.0%. If the figures are analyzed gender wise then we can see that women participation is really low. Many steps have been taken by the government and multiple nonprofit institutions to increase the involvement of women but still there is a lot of room of improvement. Hence there are a lot of opportunities to work for or in a microfinance industry. It will encourage people and especially women labor to start their own businesses and contribute to country's economy. Poverty cannot be reduced by relying only on public sector and big multi nationals for job creation; microfinance industry will empower people to create a productive society.

Microfinance gained popularity in South Asia after development of Grameen bank in 1976. Since after that, it is considered to be one of the most important ways to curb poverty. The Akhuwat model is different from Grameen bank because Akhuwat charges no interest just one time membership fee which is used for operating expenses of the company. The industry is relatively new in Pakistan and hence has a lot of opportunities to grow and progress. Agha Khan Rural Support Program laid the foundation of microfinance in Pakistan in 1980. Shoaib Sultan Khan took the initiated and started AKRSP with collaboration with Orangi Pilot Project (OPP). After these institutions, government also started a project in 1991 under the name of National Rural Support Program (NRSP). Pakistan Poverty Alleviation Fund (PPAF) and Khushali Bank are also among the projects of government, but all these institutions charge high amount of interests on loans. Before 2000, only four microfinance banks were operational in Pakistan; Tameer Microfinance Bank, First Microfinance Bank, Network Microfinance Bank and Rozgar Microfinance Bank. After 2000, much nonprofit organizations joined the industry to make their mark. Soon after these developments, many private sector institutions also showed their interest in this industry and organizations like KASHF foundation came into being.

Pakistan Microfinance Network conducted a survey in 2011 and concluded that the industry in the country has grown up to 15%. It showed that in 2011 there were 6-7 million active borrowers. The survey also pointed out that 29 microfinance institutions were operational in the

country in 2011. The potential of this industry can be seen by analyzing the target market, which is population living on, below and slightly above the poverty line.

The micro credit institutions can be categorized into following

- Rural Support Program (RSP)
- Commercial Financial institutions or Microfinance Banks (MFB)
- Microfinance institutions (MFI)

Rural Supports programs are nonprofit companies but they are different than MFIs in terms of their focus as they have complete focus on rural areas. MFIs are also nonprofit institutions but they target wider population. MFBs also provide financial services but they are licensed and supervised by State Bank of Pakitsan. MFBs have the largest share around 40% in active borrowers in 2013, followed by MFIs having 35% and RSPs 25%. The share of MFIs in 2009 was 19% and over the years it has showed steady growth. (Exhibit 1)

The industry started with group loans methodology ad slowly started to shift towards individual loans. As it can be seen from the table below that individual lending methodology has gained momentum over the years but still group lending dominates the industry.

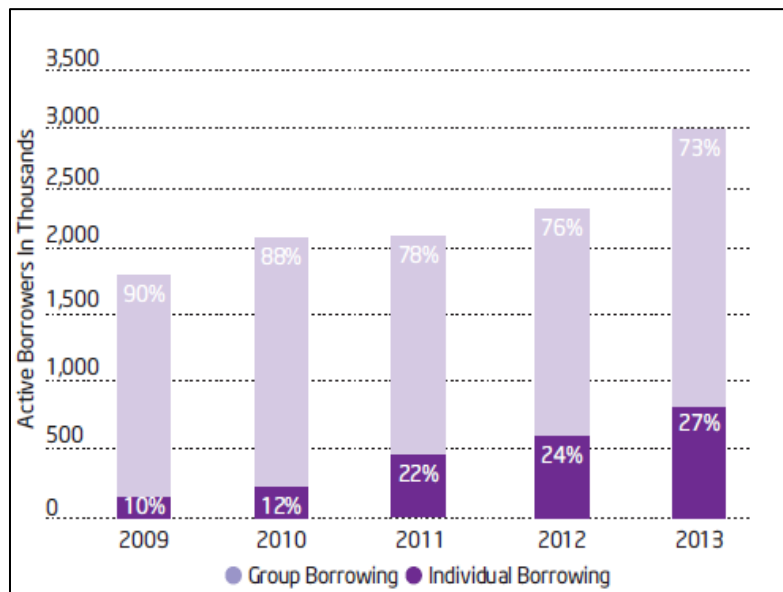


Figure 3 - Industry's Lending Methodology

Source: Pakistan Microfinance Network, 2013

The industry can be analyzed in terms of distribution of financial credit to male and female borrowers. Many institutes and regulatory bodies encourage lending to women so that they can contribute to the economy of the country. Pakistan Poverty Alleviation Fund (PPAF) gives donations to the institutions on condition that at least 40% of the borrowers will be females.

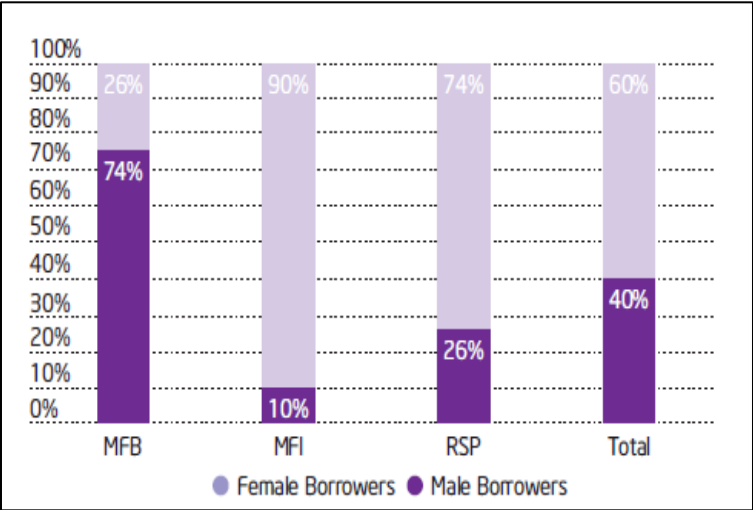


Figure 4 - Distribution of Loans according to Gender

Source: Pakistan Microfinance Network, 2013

Due to financial limitations borrowers do not have many basic amenities of life. In order to help them become independent it is important that supporting services are provided by these institutions. MFIs and RSPs also provide such facilities where they help the borrowers with capacity building and skill development. Furthermore these institutions also provide health and educational support to borrowers. These services may vary from institute to instate depending on the capacity and mission of the specific institution.

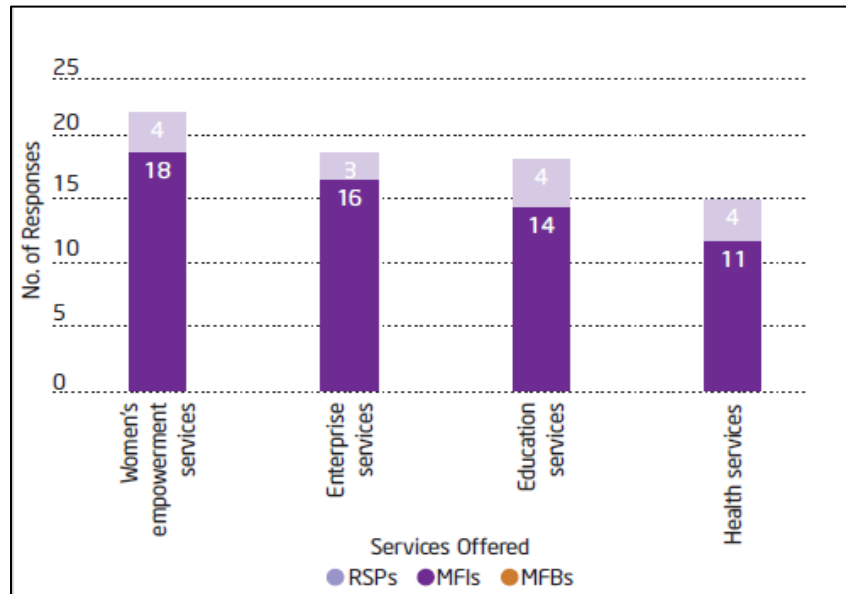


Figure 5 - Supporting Services by Microfinance Providers

Source: Pakistan Microfinance Network, 2013

Most of the MFPs have poverty reduction as their main goal but few of the institutions contribute to other development goals too. (Exhibit 2) in terms of rural urban division, borrowers from rural areas are increasing over the years with the help of outreach plans of MFIs and RSPs (Exhibit 3). Data reveals that maximum numbers of borrowers take loans for agriculture, trade and livestock sector; as these sectors dominate the industry. (Exhibit 4)

All microfinance institutions provide micro credit loans to people while charging 30%-40% of interest on the principal amount of the loan. However in 2001, Dr.Amjab Saqib proposed a new dimension of microfinance industry and launched Akhuwat, which started operating with zero interest rate. It was unknown to the industry that a microfinance institution can be run

successfully without charging interest. As of Dec, 2014 Akhuwat has managed to disburse loans of Rs. 12,251,936,842 to 728,899 families. The organization has recovery rate of 99.8%.

Comparative Analysis

This section of the report aims to carry out a comparison of Akhuwat with other institutions offering more or less same solutions and services. In order to understand the uniqueness of Akhuwat's business model it is of immense importance to study the norms of the relevant industry and operations of other institutions.

Comparison with Grameen Bank

Akhuwat model is said to be one of its kind in South Asia region even though Grameen Bank was one of the earlier microfinance institutions to gain popularity throughout the world. The pioneer of Grameen Bank, Prof. Muhammad Yunus believed in the strength of small businesses and enterprises of people which they can carry out with the help of small loans.

One of the major differences between both the models is that Grameen bank emphasizes on creating a multiple homogenous groups in the society with the help of loans. These groups have the power to plan their respective businesses collectively whereas no such norm or compulsion is found in the Akhuwat model. Grameen focuses on the sustainability of the business hence the institution links savings with the loan in the later stages. The institution believes that the only way that borrowers can escape the poverty trap is to ensure the sustainability of their businesses. Such an arrangement is missing from Akhuwat model.

Another major point of difference between the two models is rate of interest. Akhuwat operates on zero interest rate whereas Grameen bank has four different kinds of interests for different segments. The recovery rate of Akhuwat is 99% which is higher than Grameen Bank.

Comparison with KASHF Foundation

Kashf Foundation was formed in 1999 and used to target women clients initially but with the passage of time the organization has managed to broaden its client base by targeting other segments too. Kashf Foundation covers its operational costs by charging interest rate at 22% on loans which serves as the major difference between Akhuwat and Kahf model. Furthermore,

Kashf focuses on developing the entrepreneurial and financial skills of women borrowers. The training of borrowers is one of the main elements in the Kashf model and Akhuwat cannot afford to provide these services to each and every borrower because of its low cost strategy. Kashf has also managed to secure the level of risk by offering micro level insurance services to the borrowers.

Comparison with other Microfinance Institutions (“MFI”)

All the microfinance institutions operating in the industry charge interests and thus non-exploitative nature of loans offered by Akhuwat sets it apart from other models. The top management of Akhuwat tries to make every decision which is aligned with the model of the organization. The low cost strategy motivates them to follow philosophy of farshi and set an example for all the other employees. The organizational culture of Akhuwat differs vibrantly with other MFIs since it does not follow corporate culture. The culture of simplicity and brotherhood encourages borrowers to maintain a strong bond with the organization and develop a sense of ownership. The fact that borrowers of Akhuwat eventually turn into donors shows their connection and involvement with the organization and other MFIs lack this relationship.

Most of the MFIs of the industry are dependent on foreign donations and are under constant pressure of IMF whereas Akhuwat model works through local donations and aims to cover maximum costs by the donations of people who were once borrowers. Another striking difference of other MFIs with Akhuwat model is that they operate in isolation without establishing links with the society whereas Akhuwat uses the platform of religious institutions for its operations.

Competitive Advantage of Akhuwat:

The main factor which serves as a competitive edge for Akhuwat is zero interest rates on loans, all the other current microfinance institutions are charging interests and this factor alone sets it apart from all the competition. This factor also fills the institutional void that has been present in the industry for years where poor had no access to financial capital without getting buried under the weight of huge interest rates. Akhuwat has aligned its business activities around the zero interest rate, which strengthens its business model. Some of the supporting activities of cost cutting are reliance on mosques instead of offices and volunteer network instead of permanent

employees. Akhuwat has been operating and thriving by breaking all the normal conventional rules of microfinance industry where it was believed that interest rates are the only pillars on which a MFI can stand.

The research by Elstrott and Hecht suggests that nonprofits can enhance and sustain their competitive advantage by taking four measures:

- a) **Communicate the need:** When organizations depend on external aid like funds and grants they must clearly communicate the need which business fulfills. Non-profits must gain the trust of donors by providing the information of exact type of target market that they serve and how they plan to serve them. Akhuwat has an online presence with detailed mission and activities of the organization. The official website also provides information regarding the process of donation. Furthermore, it has Audit reports, progress reports and publications available for the donors and general public. In order to sustain constant stream of donations, Akhuwat has to give value to access to information.
- b) **Escape Mission and Vision creep:** Nonprofits often try to be everything to everyone and fail miserably. The defined mission and vision sets the pathway for an organization and can help them to set and align all the business activities which are specific to the purpose of the organization. Hence, it is important that all the employees are clear about the purpose of the organization so that their performance can contribute towards achieving its goals. Akhuwat has managed to remain true to its mission over the years by introducing all the new initiatives which serve the poverty reduction target. However, Akhuwat's main purpose of existence is interest free loans and the model still requires few improvements. The organization needs to focus on the model first so that it can become sustainable rather than diversifying into other sectors so soon. In addition, keeping mission and vision of the organization alive and well communicated to volunteer network is a challenge for Akhuwat. The volunteer network keeps on changing frequently and with every new addition to the network it becomes difficult for the organization to bring them all to the same level of understanding.
- c) **Impact Evaluation:** The donors want to donate to those organizations which can clearly measure and communicate their impact on the society. Thus, for public awareness and attracting doors, nonprofits must measure and share the impact they are creating through

reliable data. Akhuwat shares progress reports with all the stakeholders where it is mentioned that how many individuals and families have benefitted through its services. The website also provides multiple testimonials of the borrowers and donors.

- d) Achieve sustainability: Nonprofits can only achieve financial sustainability when they minimize their dependence on donations and grants and that can be done by generating alternative stream of revenue. Akhuwat currently solely depends on the grants and has no commercial investment, it uses 5% membership fee to cover the operational costs which stand at 7% per loan, and the difference is covered through donations.

This reliance on external sources poses a major challenge to the organization but the management thinks that with the help of expansion and outreach programs the cost per borrower will decrease due to economies of scale and thus sustainability will increase over the years.

According to these four factors, we can conclude that Akhuwat has been trying to maintain and enhance its competitive advantage but as long as it depends completely on donations it will be difficult for Akhuwat to sustain its competitive advantage.

PEST Analysis

Political:

The microfinance sector of the country has shown tremendous growth over the last couple of years and the government has played its part in it. The Economic Intelligence Unit has termed Pakistan as one of the top few countries which have potential and favorable environment for expansion of microfinance industry. The contribution of PPAF to the industry is about Rs. 14 billion. The government has also set a target of targeting 10million customers by the end of 2015 and thus State Bank plays an important part in setting the legal and operational framework for microfinance institutions.

The Current Punjab government has also donated around Rs.1 billion to Akhuwat and helps the organization in its operations. This dependency will affect the organization when the current government changes after its tenure. Furthermore, the change in policies by government and State Bank will also have an impact on Akhuwat and its operations.

Economic:

The effect of economic factors on the operations of Akhuwat is nominal. Since the organization functions without interest rates, the change in interest structures does not affect its working. Similarly, changes in exchange rate have no impact on its operations because the company does not rely on foreign aid. Changing inflation rate has an impact on the salaries of workforce but this impact is also relatively minimal because of the low cost strategy of Akhuwat.

Social:

A country like Pakistan with majority Muslim population poses favorable condition for the Akhuwat model which follows Islamic microfinance. Moreover, the role of mosques has been redefined as social and religious institutions with the help of this model. The organization caters to people belonging to different faith, race and sects and has no discriminatory standards. But people below the poverty line and who are above the age of 60 are not being accommodated by Akhuwat. The concern for social responsibility and virtue of brotherhood is actively demonstrated by all the employees and volunteers. The increase in the ratio of women loaners also depicts the high involvement of women in running small businesses in order to earn livelihood.

Technological:

The advent of technology is revolutionizing all the industries in the country but Akhuwat is slow paced in terms of implementing these changes. The handling of accounts is still manual and the staff is not qualified to handle the automation. Specialized and customized software can be developed to handle all the accounts and the staff must be trained to achieve efficiency and effectiveness. It is a short term cost which can strengthen the low cost operations of the organization in the long run. Technology can also benefit Akhuwat in launching branchless banking.

SWOT Analysis

Strengths

Interest free model

The biggest strength of the organization is the interest free loan model and the relation with religious places. The aim behind the involvement of religious places is not to take oath while taking loans but to build relation of brotherhood and unity which are the founding principles of Akhuwat. Furthermore, it follows the principle of no loan recovery in case of death which eases the burden on the family of the deceased. The procedure of loan application with no hidden charges is simple enough for people to understand and follow.

Borrowers to Donors

Over the years, the organization has inculcated the sense of responsibility in the people who borrowed at one time. This sense of payback has led to the process of borrowers becoming donors. When the borrowers start earning fair amount they donate a portion of it to Akhuwat so that the organization can help others. This cycle is not being forced on the borrowers and it is their free will to donate whatever amount they deem feasible to the organization.

Recovery rate

One of the biggest strength of Akhuwat is its recovery rate of 99.87%. This recovery rate is highest in the region and the founder of Akhuwat believes that it is a result of founding principles of the organization which help in building the relation of trust between borrowers and the employees.

Volunteer Network

The organization has managed to build a strong and wide spread volunteer network. The volunteers are working with dedication with limited or no salaries because they truly believe in the cause of the organization. This network helps the organization to remain true to its low cost operations and generate awareness in general public regarding services offered by the organization.

Diverse offerings

The organization offers its clients with multiple financial services which cater to different needs. The loan portfolio of Akhuwat consists of family loans, liberation loans, education loans, housing loans etc. the availability of several different financial solutions serve as a major strength of Akhuwat.

Empowering the society

The organization creates a support system while giving out the loans to women so that their husbands and male family members support their income and economic activity. Furthermore, in order to make the society more integrative and equitable it has multiple projects for transgender. They work in Cloth Bank on decent salaries and are treated with respect and equality. Akhuwat also has an impact on the society by generating capable workforce through its business loans thus it can be said that it creates employment opportunities.

Weaknesses

Lack of professionals

The micro finance industry is relatively new in the country and due to low cost strategy Akhuwat cannot hire many professionals. Employees are under qualified and lack the knowledge of modern tools of management and micro financing which can lead to wastage of time and resources. Specialized skills can further improve the business model of the organization.

Salaries and Rewards

Salaries of employees are increased on a yearly basis and the increase is just 10% of the basic pay. There are no bonus and increments. The reward system is dependent on the low cost strategy and thus fails to satisfy few employees.

Turnover rate

The major weakness of the organization is inability to retain the employees. Frequent resignations pose a great problem to Akhuwat. No defined salary and bonus structure just adds to the problem. Furthermore, lack of career development programs and training opportunities are also reasons for such frequent resignations.

Decentralized Branches

The decentralized branch offices where enhance the reach of the organization on the other hand also act as a weakness in terms of misuse of authority. The employees are not well trained and thus cannot make the decision of loan disbursement process on their own. The organization tries to keep a check on this by forming a multistage process but this problem needs to be solved at the grass root level. Since employees are not well trained, complaints regarding them being abrasive with clients have also been received.

Dependence on donations

The business model of Akhuwat is still not self-sustainable and it depends solely on donations and funds which makes the future of organization uncertain. In order to establish solid

foundation, the organization must find a way to become self-sustainable and reduce the dependency on foreign elements.

Lack of succession planning

The organization relies heavily on the leadership and management style of Mr. Amjad Saqib. During the interviews conducted with them it was found that there is no proper succession planning which leaves the future of the organization uncertain. Mr. Amjad has delegated all the responsibility to three members but no proper succession plan has been conceived yet which create problems for the organization.

Minimal role of research

The expansion plans of the organization are not based on research but general assumptions and trends. The management is uncertain about how many new areas it will target in the next few years. Due to lack of resources and low cost strategy, Akhuwat fails to develop reliance on research in its strategy which can lead to inefficient use of resources. Furthermore, limited research is applied while disbursing loans and most of the people end up buying things for their everyday use like motorcycles instead of investing in a business. Thus lack of proper research can lead to borrowers misusing loans for consumerism.

Limited availability of entrepreneurial training

Due to financial constraints, Akhuwat cannot offer entrepreneurial training to every borrower and thus borrowers are left on their own to develop their businesses. The lack of business development sense also increases their dependence on loans and the risk for the borrowers to fall into poverty trap. This situation undermines one of the major objectives of the organization to alleviate poverty by introducing self-sustainability in borrowers businesses.

Apprehensions of borrowers

During my research I conducted few informal interviews with the borrowers and it was found that borrowers find the process of extension of loan random and uninformed. For example one woman received loans of Rs.100000 in four years whereas another received Rs.35000. This

arbitrary system of extension of loans may create dissatisfaction in the borrowers and can also affect their plans of extending their businesses.

Inefficient use of volunteer network

The presence of volunteer network proves to be one of the strengthening factors for the organization but the poor management of this resource is organization's weakness. The network consists of more than 2500 volunteers but the organization has no platform where they can coordinate. Due to lack of technology, volunteers cannot virtually connect with each other and the management and hence cannot be allocated effectively.

Opportunities

Even though Akhuwat has tried to expand its operations, there are still many areas which remain untargeted like Sindh. Moreover, many rural areas are yet to be targeted even in Punjab. Rural areas offer extended target market to the organization since majority of the population lives below the poverty line over there. Additionally, diversification is another opportunity for Akhuwat. It has already initiated multiple new projects which cater to different segments like students loans and can penetrate into different sectors like agriculture etc.

Few countries in the region have also shown interest in Akhuwat model and they have requested the organization to assist them replicating this model. However before going international, the organization needs to overcome its weaknesses.

Projects and Partnerships

The success of Akhuwat model led to the collaboration of the organization with Punjab Government's Rozgar Scheme. According to this scheme, loans will be disbursed by following Akhuwat model. This initiative strengthens the trust of public in Akhuwat and it will lead to more capital available for the masses. Akhuwat should look for other such arrangements in private sector and which can help increasing its outreach and efficiency by utilizing expertise and resources of other organizations.

Threats

Firstly, the lack of self-sustainable model poses a threat to the long term development of the organization. Secondly, charity in a particular way acts as a threat to the purpose of the organization. Poor, who rely on charity, don't have to give it back and thus lack the motivation to work and start earning a respectable livelihood. Comparatively, charity is a short term solution to poverty whereas interest free loans provide a medium to lift the social and economic status of people.

The success of the organization despite its zero interest rate raises many questions of transparency. Although such apprehensions do not impact the operations of the organization but they pose a threat of mistrust of public. Few people also blame the organization for being involved in political agendas. For a non profit organization credibility and gaining trust of public is of utmost importance and even if a small segment develops such a perception it would prove detrimental to the organization's name.

Solutions implemented/proposed by Akhuwat management

The management is well aware of the weaknesses and threats and when asked proposed following plan of action:

The organization is trying to motivate and retain the employees through leading by personal example of senior management. The senior members do not demand any luxuries and lead a simple lifestyle. Furthermore, they have started to take initiative of announcing employee and volunteer of the month and referring to them as “akhuwateers” to appreciate the hard work and create ownership among the employees. .

In order to be more transparent, the management is working to create ways to make the website more informative for the donors and the public. Donors are provided with complete access to information regarding where their money is being spent. The management believes that by granting access to information, they will manage to reduce the doubts of public regarding transparency and credibility.

The management also believes that in order to eradicate poverty Akhuwat should focus on few other sectors too. One such sector is education and the organization has already started few projects for example Akhuwat Institute of Social Enterprise & Management and Akhuwat Faisalabad Institute of Research, Science and Technology.

Chapter 5 - Conclusion

Akhuwat model remains one of a kind in the country and raises many questions on its success. The model is known to be defying many pre conceived notions regarding business policy, nonprofit organizations and dimensions of microfinance industry. It has gained acknowledgement worldwide and it is spreading throughout the country at a fast pace. The microfinance industry in Pakistan is relatively new and Akhuwat has managed to revolutionize it with zero interest rate loans and 99.8% recovery rate.

Business policy of nonprofit organizations is not much different than for profit organizations, however, priorities of nonprofits are not the same as other organizations. For instance, they focus more on making their competitive edge more sustainable than rare or non-replicable because the main purpose of such organizations is to serve the society. The major threat that these organizations face is to fall into mission creep as they try to be everything to everyone which leads to ineffective operations. Akhuwat, with its diverse new projects is prone to fall into such a trap and it can have long term effect on its main business operations.

In conclusion it can be established that Akhuwat model is at a growing stage and in need of investment and improvement before it can reach its full potential. The success of this unique model will turn out to be short term in nature if the management does not plan to expand strategically.

Chapter 6 - Recommendations

Akhuwat wants to keep following its interest free model and thus the financial constraints have been kept in mind while proposing following recommendations for the organization. Although, low cost strategy sets many limitations but I believe that organization can further strengthen and stabilize its model even with this strategy:

- ❖ The management must focus more on the apprehensions of borrowers regarding the extension of loans. The process should have set standards and criteria like timely repayment of previous loan, purpose of loan etc. which should be followed while considering the potential borrowers. Moreover, the process needs to be communicated effectively to the borrowers so that they don't perceive the system as unfair or biased.
- ❖ In order to minimize the risk of borrowers falling into a poverty trap, Akhuwat must prioritize its projects accordingly. There should be more focus on training and development of the borrowers. The training sessions should not only cover development of entrepreneurial skills but also long term planning. One of the factors which have been missing from Akhuwat model is the emphasis on saving and the impact it can create on borrower's economic well-being. The organization faces limitation in the shape of funds but this can be solved by arrangements like public-private partnerships.
- ❖ Public-private partnerships have proved to be successful in Pakistan especially in the cases of education sector. Such collaboration requires both the parties to share their expertise and resources to gain mutual benefit. Government's funds can be utilized efficiently following Akhuwat's disbursement mechanism, similarly the organization can benefit from the resources and expertise of private organization by entering into such an arrangement.

- ❖ Technical Education and Vocational Training Authority (TEVTA) presents perfect opportunity for Akhuwat to use its platform to train the borrowers in developing business capacity. Akhuwat can collaborate with different universities and can utilize their resources like incubation centers which can help in development of businesses of borrowers. Furthermore, it can also generate awareness through the platform of universities and strengthen its volunteer network. This platform can also be used for conducting research on the industry and potential new target areas.
- ❖ Akhuwat should also establish an online platform for the interaction of volunteers and loan officers. Such a platform can be used to share ideas and information. It would serve as more formal way to keep records of the human resource and its allocation.
- ❖ Akhuwat can enhance its efficiency by communicating its strategy to all level of employees. In order to bridge this gap, loan officers must be trained so that they can evaluate business plans and their viability more accurately. The loan officers should be evaluated by 360 degree method so that input of borrowers is also taken into account. The organization needs to convert decentralization from its weakness to strength.
- ❖ The management of Akhuwat believes that Akhuwat model can be sustainable once they have expanded their operations which would result in low costs and the organization will be able to cover its cost by membership fee of loans. However, they need a constant revenue stream until they become self-sustainable, for this purpose they can offer their expertise to government and charge fees for their services.
- ❖ The organization has started multiple new projects in education and health sector which indicates that they have enough donations to diversify. In order to avoid mission creep, these investments should have been made to improve the interest free loan model. Akhuwat needs to prioritize its investing criteria and it should include public-private partnerships and training of borrowers and loan officers, only then the model can attain sustainability.

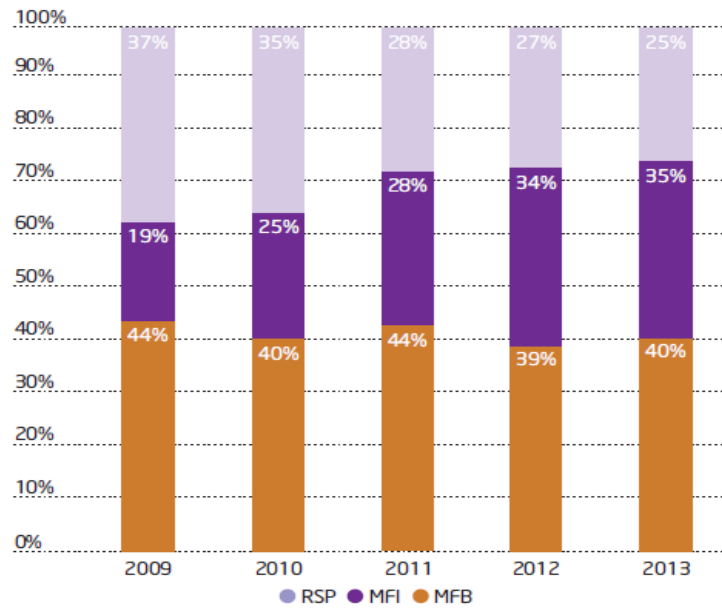
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Annexures

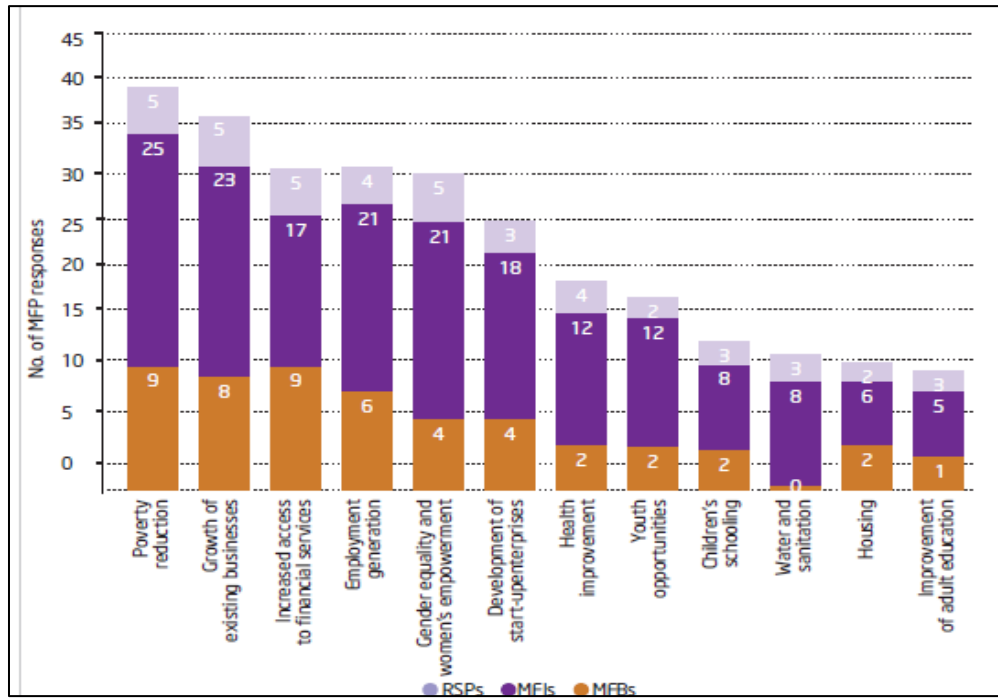
Annex 1



Annex 1 - Supporting Services by Microfinance Providers

Source: Pakistan Microfinance Network, 2013

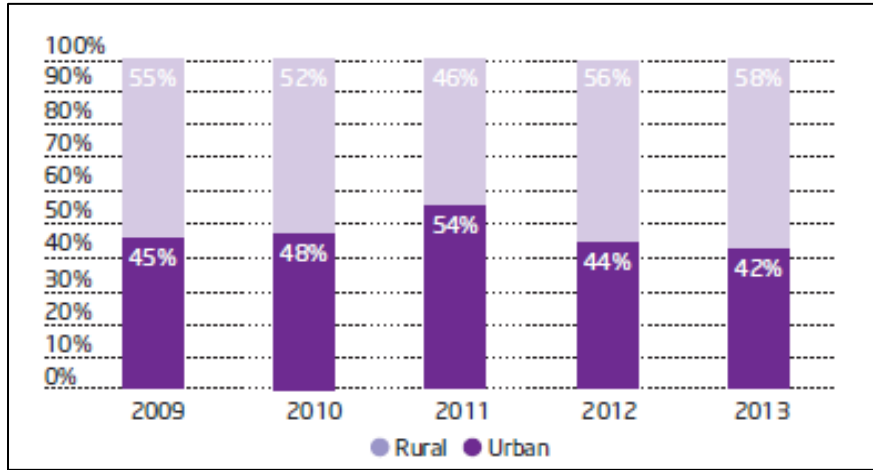
Annex 2



Annex 2 - Development Goals and Microfinance Providers

Source: Pakistan Microfinance Network, 2013

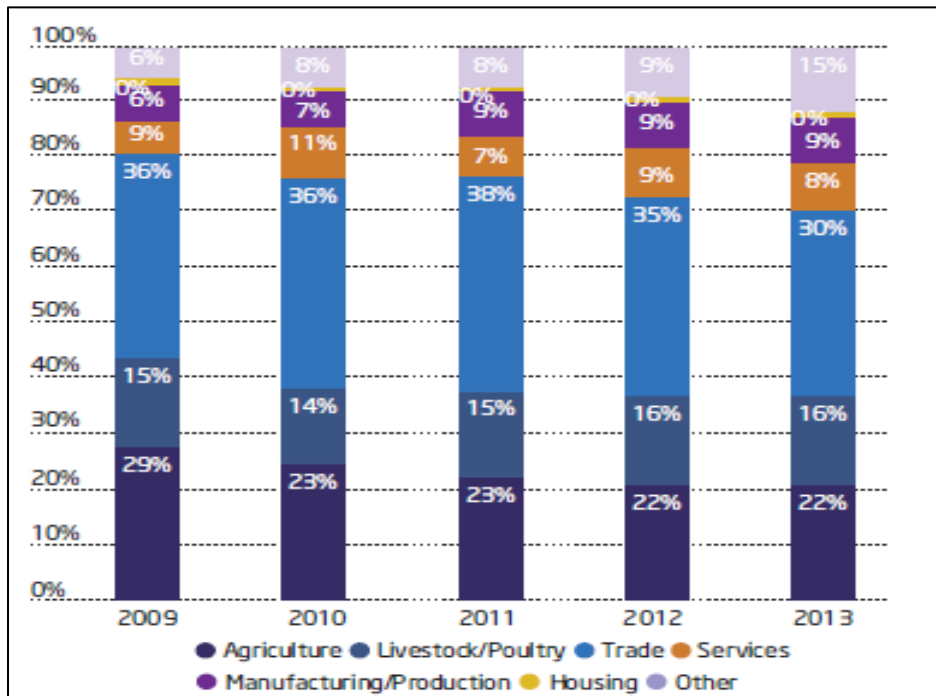
Annex 3



Annex 3 - Rural Urban Divide

Source: Pakistan Microfinance Network, 2013

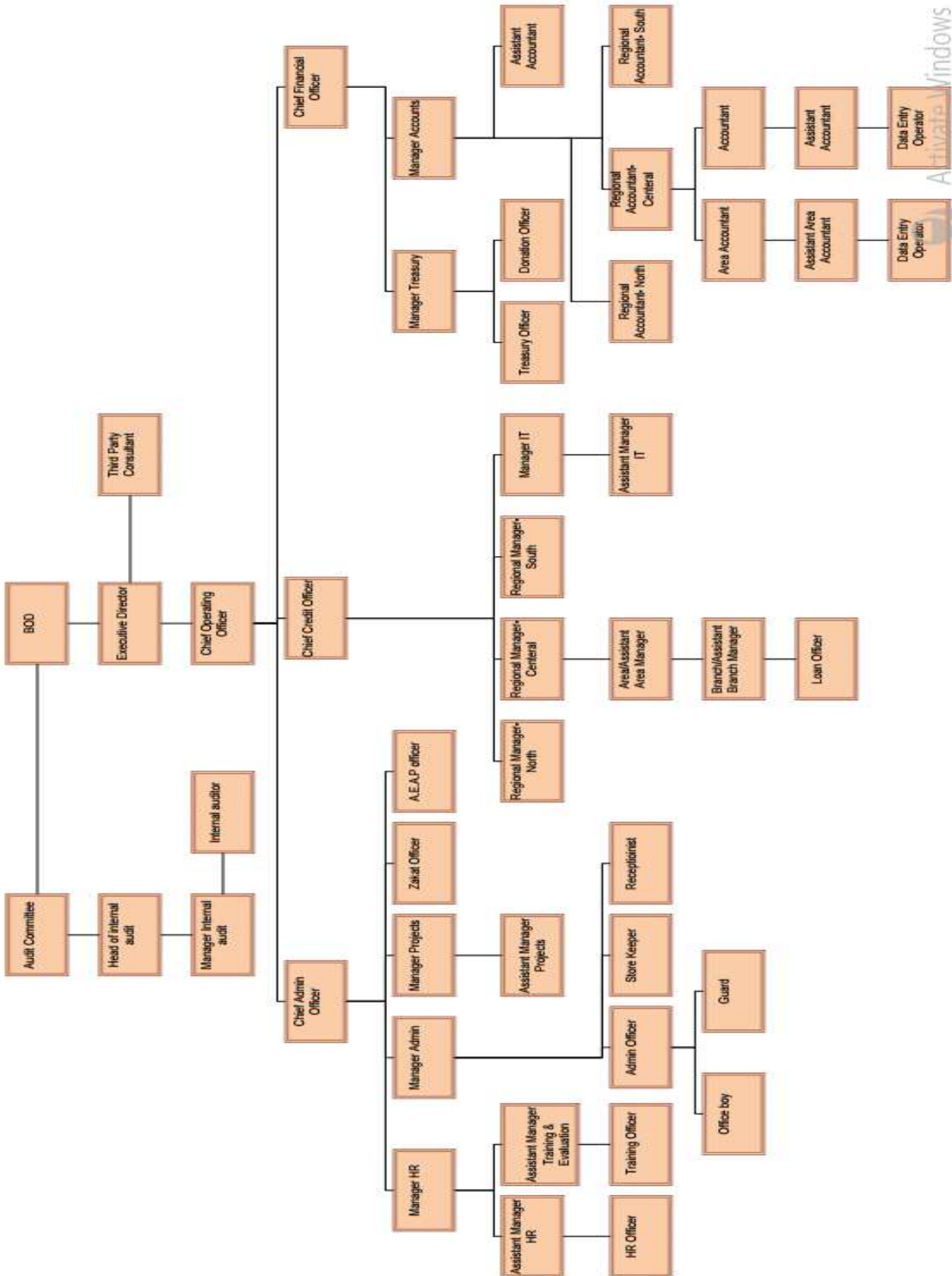
Annex 4



Annex 4 - Sector Distribution

Source: Pakistan Microfinance Network, 2013

Annex 5



Annex 5 - Organizational Structure