

Justifications of avoiding Riba (Part VII): The success of Akhuwat

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One reason for forbidding **Riba**-based transactions is to encourage people to be involved in granting benevolent loans, which are known as **Qard Hasan** in Islam. Under **Qard Hasan**, the lender gives a certain amount of loan to a potential borrower, and at the end of the maturity, the lender receives the exact amount of principal paid back with no added amount.

Now according to conventional banking wisdom, the question remains why would a lender grant somebody a loan with no extra charge, profit or interest? This kind of benevolent loans can be granted at the individual level on a small scale, but in the long run, such a model cannot be implemented at an institutional level. It does not really make any sense, right?

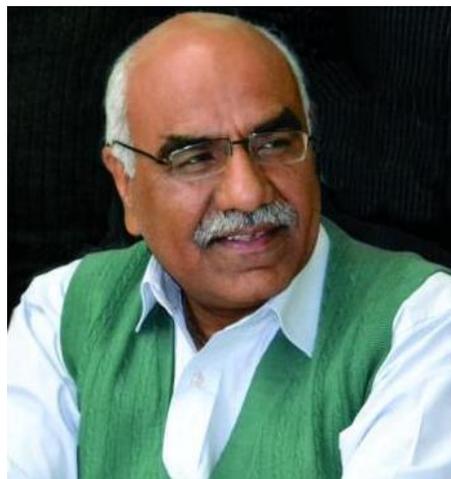
Akhuwat actually proved all of us wrong. **Akhuwat**, established in 2001, provides interest-free loans to the poor people to change their livelihood and improve the standard of living. Started with the first loan of only PKR10,000 (US\$94.31) in Pakistan, the initiative has so far grown in multiples of hundreds of thousands.

Akhuwat runs with four guiding principles, ie it provides only interest-free loans with no extra charge, it uses religious places such as mosques and churches to run its operations thus making the operational costs very low, it encourages the spirit of volunteerism among its staff and members, and it encourages existing borrowers to be donors in the future when their income increases.

The achievement of **Akhuwat** during the last 15 years is remarkable. It has disbursed almost 1.3 million loans with a total amount of PKR26.02 billion (US\$245.41 million) at the current exchange rate. It has around 500 branches all over Pakistan and its loan recovery rate is 99.93%.

The borrowers of **Akhuwat**, besides obtaining the loans, also pledge to put more emphasis on girls' education, serving the community at large, protecting and improving the environment, giving importance to plantation, observing traffic rules and local laws and following the highest ethical values in business.

The initiative started in 2001 when a group of friends were discussing about providing interest-free loans to the poor. One of the friends, Dr Amjad Saqib (pic), took charge of taking the initiative forward with a donation pledge of PKR10,000 from another friend.



Dr Amjad Saqib – leading Akhuwat Revolution

The first loan was granted to a widow who was in need of financial help, but never thought of begging or asking for charity. It was granted for six months and the widow repaid the amount exactly on time. This event established the belief among the friends that such a new model could work. So more donations came in and the fund grew in size.

During the initial years, the initiative was purely philanthropic in nature. However, within three years of inception, the fund size grew to almost PKR1.5 million (US\$14,147.1) with an astounding recovery rate of 100%, which was beyond the expectations of the founding friends. As a result, the friends decided to formalize the initiative and thus **Akhuwat** was formally incorporated as an institution in 2003.

Dr Amjad, who was then a civil servant in the government of Pakistan, left his job and joined **Akhuwat** full-time as the first executive director in 2003. Before leaving his government career, Dr Amjad's last assignment was with the Punjab Rural

Support Program (PRSP) as the general manager where he gained valuable experience about microfinance which he later used to refine **Akhuwat**'s model.

During the early years of **Akhuwat**'s operations, it gained huge publicity when the governor of Punjab, Lt General (Rtd) Khalid Maqbool showed a personal interest to learn about the model and met with **Akhuwat** clients. This event accelerated donation drives and attracted more people to become volunteers.

Unlike many other philanthropic activities, one notable feature of **Akhuwat** is that it always relied on local support, volunteerism and donations and it never sought or received foreign donations.

The term '**Akhuwat**' comes from the word 'Mwakhaat' that means brotherhood in Arabic. The word 'Mwakhaat' is particularly used to denote the strong brotherhood among the Ansars (the citizens of Medina) and the Muhajirs (the migrants from Mecca) that was formed during the time of Prophet Muhammad (pbuh).

Akhuwat today follows the same principle of brotherhood among the community members to extend selfless help to others when there is a time of need. The model is replicated by other institutions in Pakistan and its detailed methodologies and principles are being featured in various national and international university curriculums.

So the idea of benevolent loans with no interest might seem weird to many, but in reality, it works and it works on a large scale. This was beyond anybody's imagination if we were not aware of the success of **Akhuwat**.

And this revolution would not have been possible if the founders of **Akhuwat** had compromised with **Riba!**

(To be continued)

The views expressed here are the author's own and do not necessarily represent the views of the institution where he works.