Impact of Islamic Microfinance on Borrower's Income in Pakistan- A Case Study of Akhuwat

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Abstract—**Microfinance is a process of providing financial access in the form of micro-credits, and other services such as micro-insurance, savings, checking accounts and payment systems to the poor who do not have access to conventional banking. Lack of collateral and capital assets put limitations on the marginalized community to access the funds through the conventional banking system which leads to their financial exclusion. It is grasped that the objective of financial inclusion can be achieved at its full potential through redistributive instruments (Zakah, Awqaf, Qard al-hassan) of the Islamic microfinance industry. Pakistan Microfinance Review (2017) revealed that Akhuwat (A leading Islamic microfinance organization based on voluntarism and philanthropy) had maintained its outreach top spot in terms of Active Borrowers (820,000) during the year 2017. This study is conducted to analyze microfinance services provided by Akhuwat and its effects on borrowers' income and consumption. The study adopted the qualitative research designed by applying questionnaires and interviewing techniques to collect data. The study finds that there was a reasonable increase in the income and consumption of the borrowers. Results indicate an average increase of 18 % in rural borrowers' income and an average increase of 23% in urban borrowers' income. The study recommends that vocational training should be provided to people in rural areas to enable them to engage in diverse business activities instead of solely relying on agriculture-related business.**

Keywords-Islamic Microfinance, Qard al-hassan, Financial inclusion, Demography, Literacy, Consumption

I. INTRODUCTION

Numerous developing countries afflicted by poverty applied various poverty mitigation strategies to combat poverty and uplift the economic conditions of unprivileged people in societies. Unfortunately, it is witnessed that the strategies remained unsuccessful in escalating the living standards of the poor. This phenomenon requires a multidisciplinary approach to deal with poverty alleviation which is afflicting human society. Microfinance was introduced as a tool to fight poverty [1]. Microfinance organizations are aimed to support the groups who are neglected, low-income earners and cannot approach conventional banks due to lack of collaterals. Moreover, Microfinance helps the poor to start the small business or production activity to generate additional income at the low financing cost. It is argued that microfinance organizations, on the one hand, support the unprivileged groups, on the other hand, do not escalate their living standards due to interest payments on providing credits [2].

Leikem argued that traditional microfinance services focused on empowering lower-income businesses whereas the poor could not get many benefits from microfinance and their incomes remained unchanged [3]. Furthermore, these traditional microfinance institutions (MFIs) based on interest-bearing foreign donations for their capital do not conform to shariah principles. Islamic scholars realized the need for Shariah-compliant solutions to deal with poverty in Muslim countries. Islamic microfinance was introduced, which gained popularity all over the world, to help the poor by meeting shariah principles (prohibition of *Riba* (Usury), *Gharar*(Uncertainty), *Maysir* (Gambling), illegal activities, and unearned income. Muslims and non-Muslims both are getting benefit from Islamic Microfinance Institutions (IMF). However, the Islamic financial system is based on Shariah and promotes justice, equitable distribution of income and wealth. It undoubtedly contributes to balancing the social and economic features of human society and helps in poverty alleviation by avoiding the exploitation of the poor. Islamic microfinance got more significance in the world economy after the World crisis in 2008. Islamic microfinance paved its way due to its distinct features and proved more productive as compared to conventional. Islamic microfinance products such as charity, zakah, Awqaf are more productive and efficient in poverty reduction [4].

According to the latest research in 2019 by the International Monetary Fund (IMF), Pakistan is ranked 40 in the list of top hundred countries affected by poverty. Its GDP per capita is USD 1,541. This ranking is measured by taking GDP per capita of one hundred eighty-seven countries [5]. The microfinance industry in general and Islamic microfinance institutions, in particular, are playing a vital role in poverty alleviation in Pakistan. Micro Watch Report represented a significant increase in microcredit outreach in some areas of Pakistan [6]. During the last quarter of 2018, the net growth of active borrowers in Karachi is 37,852; Bhakkar is 15,719; Sargodha is 14,681; Rahimyar khan is 14,303; Jamshoro is 14,211. However, Akhuwat (Leading Islamic Microfinance provider) remained the top-ranked microfinance provider with 820,000 active borrowers during the year 2017 [7].

Despite previous studies conducted to measure the efficiency, sustainability, and impact of microfinance institutions on various socioeconomic variables. Nevertheless, the literature on Islamic microfinance, its models, product designs and its role in financial inclusion is also available.

Data of Akhuwat Foundation in Pakistanhave been analyzed in past literature to assess the socio-economic impact of microfinance on borrowers in various dimensions. However, there is still room for further research work to assess the impact of educational level and different business activities on the income and consumption level of the borrowers with their rural-urban breakdown. Moreover, this study will fill the gap in existing literature by assessing the impact of microfinance on the income and consumption of borrowers in terms of demography (Rural Vs Urban), education level (Literate Vs Illiterate), Gender (Male, Female) and nature of profession or business activities (Agriculture, Trading, Beauty Saloon etc.). Since these factors are deeply linked with the progress and economic growth of the society. This study is undertaken to identify additional factors connected with the income growth of the poor and up-lifting the basic standards of the poor population.

II. METHODOLOGY

This research is a qualitative case study that uses a field research approach. Akhuwat borrowers form the target for the case study. Since the nature of the study is exploratory. Therefore, primary and secondary data are collected to analyze different factors affecting the borrowers' income and consumption. Primary data is collected by interviewing the borrowers which are carried out with one respondent at a time. Secondary data consists of online sources such as articles, journals, thesis, books and some reports for the latest statistics.

Two hundred forty-seven borrowers are sampled for the study. One hundred and twenty-six borrowers are selected from rural and one hundred twenty-one from urban areas respectively. In rural areas, beneficiaries were selected from Jajjal, KothaKalan, MandiUsmanwala, RatiPindi, Sikandarpura, and Dera Ghazi Khan. Whereas the beneficiaries in urban areas were selected from Lahore. The list of the borrowers was provided by the Akhuwat on request. In order to interview the borrowers, a questionnaire has been developed.

III. RESEARCH LIMITATIONS AND FUTURE PROSPECTS

- The study could not cover all socio-economic factors and focused on the area (rural versus urban borrowers) and education level of borrowers. A graph within a graph is an "inset", not an "insert". The word alternatively is preferred to the word "alternately" (unless you really mean something that alternates).
- Data was collected through telephone, having an in-person interview can bring in more details for analysis.
- Data collected from twelve branches of Akhuwat organization splitting out in rural and urban locations. A large sample size from additional branches can enhance analysis.

IV. LITERATURE REVIEW

Literature Review for this study is divided into three sections. The first section entails an overview and a general understanding of conventional and Islamic microfinance, the role of microfinance institutions, and their efficiency in terms of poverty alleviation. The second section involves literature on the impact of micro-finance on borrowers' income, consumption, and living standard. Despite the availability of plenty of literature on microfinance, relevant and latest literature is reviewed to understand the current performance of microfinance institutions and the impact of their services on borrowers' income and consumption. The third section discusses Akhuwat model as a case study. Its operations and business model are reviewed for the study.

Available literature provides information on various aspects of microfinance and has discussions on almost all sections of literature reviewed for this study. For instance, Shirazi conducted a study to investigate the net impact of microfinance concerning Pakistan [8]. He applied the counter-factual "combined approach" to study the economic impact of Pakistan Poverty Alleviation Fund (PPAF) microcredit on the status of households. Furthermore, he applied the with-without approach and before-after approach. With the approach "with-without", he explored the status of borrowers and contrast with the status of non-borrowers. Whereas by approach "before-after", he investigated the change in the status of the group before borrowing and after borrowing during the period of their benefitting. Findings of Shirazi's research revealed that traditional microfinance has a positive but marginal impact on economic uplifting of borrowers. Traditional microfinance benefitted to better off than poor. Poor were found more inclined towards smoothing their consumption instead of utilizing the funds for investments. Shirazi recommended a model by which the poor can access funds for investments to become an entrepreneur and earn a meaningful living. However, it does not address how demography, literacy and business activities affect incomes and consumption of borrowers. This study will provide further information to the existing literature.

Khaleeq and Shirazi used PPAF data to find the impact of microfinance on the poor [8]. They found that the impact of microfinance was significant on the non-poor borrowers compared to the poor. They made a case for Islamic microfinance and suggested extending its scope through product diversification, innovation and downscaling operations of Islamic banks linking microfinance institutions, particularly for fund sourcing, Sharia' advisory, and technology transfer.

Iqbal & Shafiq argued on the standpoint of Islamic finance in terms of financial inclusion in their paper [9]. They focused on the importance of Qard-al-hassan (QH) and social well-being through cooperation and compassion. Authors posit that QH is vital for social and financial stability and mobilization of substantial resources for uplifting the economically weak

OIC countries. Also, Iqbal and Shafiq have recommended the establishment of some policies to reduce poverty through a model of Qard-al-Hassan. Authors stated Qard al-Hassan as one of the most efficient and effective channels for combating poverty, but other factors such as demography, literacy, and capacity building through various business activities are vital as well. This study assesses the effectiveness of Qard-al-Hassan models by taking demography, literacy and business activities of borrowers into account.

Chaudhry et al. assessed operations of Akhuwat, it's business model, its philosophy and its sustainability [10]. The authors focused on key success factors of Akhuwat foundation. Our study will be exploring more factors and potential to get maximum output from Akhuwat microfinance services in the wellbeing of existing borrowers and poverty alleviation.

Beall has provided a deep insight into the sustainability of microfinance institutions in general and Akhuwat in particular [11]. Moreover, the study provides an overview of different approaches to sustainability such as the institutionalist approach and welfarist approach. Institutionalists are of the view that operational self-sufficiency without donations is mandatory for the microfinance institutions for their long term sustainability. However, Welfarists believe that donors are a reliable source of income to be added in income/expenditure ratios. This study examines Akhuwat thoroughly to find out if Akhuwat model which is based on donations is sustainable in the long run or it has some weaknesses and threats to its sustainability. Furthermore, it provides an overview of the latest standing of Akhuwat in terms of its sustainability, threats, weaknesses besides covering the impact of its microfinance services on borrowers' income and consumption.

The study of Jaafar is an excellent addition in the literature of microfinance [12]. The author has provided a thorough review and profound insight into the Qard al-Hassan model for microfinancing. The focus of the paper is concepts of Qard al-Hassan, sources of funds of this model, a case study of Akhuwat as leading interest-free micro-loan provider. Some details on Akhuwat in terms of the effects of demography and literacy are covered in this study. It also gives an update on the sources of funds and outreach to borrowers.

Although the available literature reviewed touch on various aspects of micro-finance and Akhuwat, this study gives a detailed investigation of microfinance impact on the income of Akhuwat rural borrowers' vs urban borrowers; and impact on the income of Akhuwat literate borrowers' vs illiterate borrowers.

V. A Case Study of Akhuwat & its Operations

Akhuwat was officially registered in 2003, and its first branch came into operation in the city of Lahore. It has been achieving success and meeting its objectives year by year. Its model has gained popularity in the east and west as well. It is a representation of the phenomenon of Muakhat. It has printed an example in the history of microfinance of transforming the borrowers into donors. Akhuwat's mission is to alleviate poverty through the empowerment of families who are socially and financially marginalized. It empowers unprivileged and neglected families by providing interest-free loans and unlocks their entrepreneurial potential, builds their capacity and provides social guidance to them. All these endeavors are intended to achieve its vision "A poverty-free society built on principles of compassion and equity".

Akhuwat is a foundation that started with a donation of PKR 10,000. Later it received another donation of PKR 1.5 million during 2003. This foundation was registered under the Societies Registration Act of Pakistan in the beginning. Currently, it is registered under Securities & Exchange Commission of Pakistan. Akhuwat is considered as a pioneer in the Islamic microfinance industry in Pakistan. It has applied the model of Qard al-Hassan which is by shariah principle (Interest-free borrowing). This model has embraced significant progress and popularity on the globe [10].

Akhuwat is not only providing interest-free microfinancing, but its scope and services are also much beyond than interest-free microfinancing. Akhuwat is serving humanity in various dimensions. It is providing house building/ repair loans to those who want to repair their houses or enhance their houses by constructing additional rooms but have not sufficient funds. Marriage loans are given to those who have a deficit of funds to marry their children. Akhuwat is also offering its services to raise the education level in society. It provides a 100% scholarship to those children/youth who are committed to getting higher education but cannot afford the educational expenses. Akhuwat is running a cloth bank to provide new and old clothes to the needy. It is being operated by the transvestite group (a neglected group) so that this group gets some reasonable status in society and can have a decent living. Akhuwat is also engaged in offering training, coaching for developing skills to start any business. It supports capacity building in society so that the poor can live with dignity by utilizing their skills instead of depending on charity.

Akhuwat Qard al-Hassan model is more successful than conventional microfinance. This organization receives funds for its operations from the public, local philanthropists, government, institutional donors and Pakistanis who are living in foreign countries. In contrast to conventional microfinance institutions, Akhuwat does not depend on international aids for the sake of avoiding the interest involvement in loans. As conventional institutions charge high-interest rates due to the credit line based funding. The foundation depends on local donors. The board of directors and the team is very dedicated to working hard towards collecting donations by initiating some fundraising activities.

VI. Sources and Funds

Akhuwat aims at shariah-compliant loans and eliminates all shariah prohibited elements. Akhuwat has prominently participated in financial inclusion. Moreover, Akhuwat is successful in its recovery of loans. Its recovery rate is 99.9% with zero interest rate. Akhuwat borrowers are so satisfied with Akhuwat services that they are also willing to becoming volunteers. Some borrowers who had benefited from Akhuwat loan and able to expand their business, they are voluntarily becoming donors for the wellbeing of others. Akhuwat is sourcing its funds through donations, Application fees, insurance, and partnering with local and foreign organizations and governments.

VII. Business Model of Akhuwat

According to Akhuwat founder Dr. Saqib, processing each loan incurs an expense of 6% -10% (Annual Report, 2017). This cost is not being charged from the borrower despite no harm or shariah violation involved in charging this expense. So far Akhuwat has accepted this financial burden at its end without putting any pressure on the poor in the society. However, US$1 for the application fee is accepted from borrowers as a voluntary contribution to a moral purpose.

Moreover, Akhuwat has a dedicated workforce who are also participating in donations. They are willing to work on low wages for the sake of serving humanity and committed with the achievement of Akhuwat's mission. Akhuwat borrowers are also free to donate as per their capacity and volunteering cause. Unlike traditional microfinance institutions, Akhuwat provides equal opportunities on the basis of justice without any discrimination. It is witnessed that some MFIs focus on women empowerment only. However, in case of Akhuwat, we find no gender discrimination, women and men, old and young, rural and urban, educated and uneducated are equally being benefitted. A quarterly update on microfinance outreach in Pakistan has indicated that Akhuwat continued its leadership in the market during the first quarter of 2018 with capturing 15% of total market share. It remained the largest supplier of the net increase in Active borrowers for the quarter 59,767 borrowers. [6].

VIII. Sustainability

Akhuwat has managed its expenses and income through contributions from its donors, local governments and international corporates. It is witnessed that Akhuwat can raiseits funds and donations constantly, which indicates its operational sustainability [13]. Also, Akhuwat has not only transformed its borrowers into donors but rather has also maintained its rapport with its donors. Various studies revealed that MFIs are focusing on profitability and effective outreach to the poor result in a trade-off between both objectives. Therefore, MFIs should revisit their objectives. Nevertheless, judged by its continuing ability to raise donated funds and other forms of grants, Akhuwat can be considered operationally and financially 'sustainable [12].

Akhuwat had surplus funds of PKR 186 million in the year 2013. This amount increased to PKR 986 million in 2017 [14]. This shows Akhuwat long term operational strategy to maintain parity between its income and expenditures. Despite all the positive indicators, there have been risks associated with Akhuwat relying heavily on local governments, grants, donations and running welfare programs with the collaboration of certain international organizations. With the change in the political scenario, if the new government has a change in its priorities, the operational sustainability of Akhuwat can be at risk.

IX. Data Analysis & Findings

The prime focus of this study is to investigate the extent to which literacy and various business activities affect the income of Akhuwat borrowers. As mentioned earlier, one of the main aspects of Akhuwat operations is to provide interest-free loans to its borrowers to facilitate their businesses and help them increase their income levels and increase their living standards. However, the demography and literacy levels of these borrowers could affect the economic results of the borrowers. Here we analyze how the literacy level of the borrowers and the various business activities that can play a role in the income levels of Akhuwat borrowers.

Data collected from the Akhuwat borrowers from rural and urban branches are analyzed to see the impact of gender mix, education level and business activities available in rural and urban on the income increase.

A. Gender Impact on Borrower's Income (Rural vs Urban)

Out of a total sample of 247 borrowers provided by Akhuwat officials, 126 were from rural areas, and 121 were from urban areas making up a split of 51% and 49% respectively.

TABLE I. Gender Mix in Rural vs Urban Areas

Area & Gender	# Of Borrowers	%	Avg Income before borrowing	Avg Income After borrowing	Income Difference	% Change
Rural	**126**	**51%**	**61,270**	**72,262**	**10,992**	**18%**
Females	1	0.79%	60,000	70,000	10,000	17%
Males	125	99.21%	61,280	72,280	11,000	18%
Urban	**121**	**49%**	**82,281**	**100,901**	**18,620**	**23%**
Females	51	42.15%	80,882	98,627	17,745	22%
Males	70	57.85%	83,300	102,557	19,257	23%
Total	**247**	**100%**	**71,563**	**86,291**	**14,729**	**21%**

1) Rural and Urban: Out of the sample of 126 borrowers from rural areas, 125 are male borrowers, and only one is a female borrower with a proportion of 99.21% and 0.79% respectively. Out of 121 borrowers from urban areas, 70 are male, and 51 are female borrowers making up a proportion of 42.15% and 57.85 %.

The findings revealed that the average income of the rural household before borrowing was Pak Rs 61,270 and the average income of the urban household before borrowing was Pak Rs 82,281. After borrowing, the average income of the rural borrowers, rose to Pak Rs 72,262 and the average income of the urban borrowers increased to Pak Rs 100,901.

After, borrowing, the average income of rural borrowers rose by Pak Rs 10,992 (18%) whereas the average income of the urban borrowers increased by Pak Rs 18,620 (23%).

2) Male and Female: The average income of the rural female borrowers before borrowing was Pak Rs 60,000 and the average income of the urban female borrowers before borrowing was Pak Rs 80,882.

After, borrowing, the average income of the female rural borrowers, rose to Pak Rs 70,000 and the average income of the urban female borrowers increased to Pak Rs 98,627. The average increase in income of rural female borrowers is Pak Rs 10,000, and urban female borrowers are Pak Rs 17,745 with an average increase of 17% and 22% respectively. Female borrowers in urban areas are earning 5% more than female borrowers in rural areas.

The average income of the rural male borrowers before borrowing was Pak Rs 61,280 and the average income of the urban male borrowers before borrowing was Pak Rs 83,300.

After, borrowing, the average income of the male rural borrowers, rose to Pak Rs 72,280 and the average income of the urban male borrowers increased to Pak Rs 102,557. The average increase in income of rural male borrowers is Pak Rs 11,000, and urban male borrowers are Pak Rs 19,257 with an average increase of 18% and 23% respectively. Percentage increase in male urban borrowers is 5% more than the percentage increase of male rural borrowers

Out of a total sample of 247 borrowers provided by Akhuwat officials, 126 were from rural areas, and 121 were from urban areas making up a split of 51% and 49% respectively.

B. Education Level Comparison of Rural and Urban Borrowers

The results indicate that the average education level of borrowers from urban areas is higher than the borrowers from rural areas.

TABLE II. EDUCATION LEVEL OF RURAL AND URBAN BORROWERS

Area and Education	# of Borrowers	% Split	Income before borrowing	Income After borrowing	Income Difference	% Change
Rural	**126**	**51%**	**61,270**	**72,262**	**10,992**	**18%**
Illiterate	74	100%	58,750	70,500	11,750	20%
Primary	13	18%	63,581	74,122	10,541	17%
Middle	16	22%	58,333	70,667	12,333	21%
Matric	13	18%	60,000	71,000	11,000	18%
Intermediate	6	8%	55,938	67,688	11,750	21%
Graduate	4	3%	58,077	69,846	11,769	20%
Urban	**121**	**49%**	**82,281**	**100,901**	**18,620**	**23%**
Illiterate	66	100%	83,333	105,500	22,167	27%
Primary	7	11%	84,773	103,742	18,970	22%
Middle	21	32%	81,000	99,400	18,400	23%
Matric	15	23%	90,000	105,000	15,000	17%
Intermediate	5	8%	79,533	97,800	18,267	23%
Graduate	6	5%	80,143	98,000	17,857	22%
Masters	1	2%	70,000	86,000	16,000	23%
Total	**247**	**100%**	**71,563**	**86,291**	**14,729**	**21%**

Out of the sample of 247 borrowers, 74 (59%) were illiterate in rural areas, whereas 66 (55%) were illiterate in urban areas. The remaining population in urban areas has a higher education level.

The average income of rural illiterate borrowers before borrowing is Pak. Rs. 58,750 and after borrowing is Pak. Rs. 70,500. This shows an average increase in Pak. Rs. 11,750 (20%).

The average income of urban illiterate borrowers before borrowing is Pak. Rs. 83,333 and after borrowing is Pak. Rs. 105,500. This shows an average increase in Pak. Rs. 22,167 (27%).

These results indicate that illiterate borrowers from urban borrowers have a 7% higher increase in their income compared to rural counterparts.

The average income of rural 'Primary' borrowers before borrowing is Pak. Rs. 63,581 and after borrowing is Pak. Rs. 74,122. This shows an average increase in Pak. Rs. 10,541 (17%).

The average income of urban 'Primary' borrowers before borrowing is Pak. Rs. 84,773 and after borrowing is Pak. Rs. 103,742. This shows an average increase in Pak. Rs. 18,970 (22%). These results indicate that borrowers with education level primary from urban areas have 5% higher increase in their income compared to rural counterparts.

However, the average income of rural borrowers with education level 'Middle' before borrowing is Pak. Rs. 58,333 and after borrowing is Pak. Rs. 70,667. This shows an average increase in Pak. Rs. 12,333 (21%). The average income of urban with education level 'Middle' before borrowing is Pak. Rs. 81,000 and after borrowing is Pak. Rs. 99,400. This shows an average increase in Pak. Rs. 18,400 (23%). These results indicate that borrowers with education level 'Middle' from urban areas have 2% higher increase in their income compared to the rural counterpart.

Moreover, the average income of rural borrowers with education level 'Matric' before borrowing is Pak. Rs. 60,000 and after borrowing is Pak. Rs. 71,000. This shows an average increase in Pak. Rs. 11,000 (18%). The average income of urban with education level 'Matric' before borrowing is Pak. Rs. 90,000 and after borrowing is Pak. Rs. 105,000. This shows an average increase in Pak. Rs. 15,000 (17%). These results indicate that borrowers with education level 'Matric' from rural areas have a 1% higher increase in their income compared to the urban counterpart.

The average income of rural borrowers with education level 'Intermediate' before borrowing is Pak. Rs. 55,938 and after borrowing is Pak. Rs. 67,688. This shows an average increase in Pak. Rs. 11,750 (21%). The average income of urban with education level 'Intermediate' before borrowing is Pak. Rs. 79,533 and after borrowing is Pak. Rs. 97,800. This shows an average increase in Pak. Rs. 18,267 (23%). These results indicate that borrowers with education level 'Intermediate' from urban areas have 2% higher increase in their income compared to the rural counterpart.

The average income of rural borrowers with education level 'Graduate' before borrowing is Pak. Rs. 58,077 and after borrowing is Pak. Rs. 69,846. This shows an average increase in Pak. Rs. 11,769 (20%). The average income of urban with education level 'Graduate' before borrowing is Pak. Rs. 80,143 and after borrowing is Pak. Rs. 98,000. This shows an average increase in Pak. Rs. 17,857 (22%). These results indicate that borrowers with education level 'Graduate' from urban areas have 2% higher increase in their income compared to rural counterparts.

The average income of urban with education level 'Masters' before borrowing is Pak. Rs. 79,000 and after borrowing is Pak. Rs. 86,000. This shows an average increase in Pak. Rs. 16,000 (23%). However, there was no borrower from rural areas with education level 'Masters' in the sample provided by Akhuwat.

Generally, the educational level affects the earning capacity of the household, however, the results do not show any increase in earnings due to education level. This difference could be due to the business experience rather than the education level only. Further, the business skills and experience are more relevant than the education level of the borrowers engaged in these small scale basic business activities.

C. Business Activities of Rural and Urban Borrowers

TABLE III. BUSINESS ACTIVITIES OF RURAL AND URBAN BORROWERS

Area / Activity	# of Borrowers	Income Before borrowing	Income After borrowing	Income Difference	% Change
Rural	**126**	**61,270**	**72,262**	**10,992**	**18%**
Farming	126	61,270	72,262	10,992	18%
Urban	**121**	**82,281**	**100,901**	**18,620**	**23%**
Construction & Materials	5	60,000	76,750	16,750	28%
Grocery Shop	27	94,000	111,000	17,000	18%
Stationery & Printing	4	95,000	120,000	25,000	26%
Transportation	12	79,074	99,444	20,370	26%
Mechanical Workshop	8	60,000	75,000	15,000	25%
Housing	1	87,108	104,595	17,486	20%
Beauty Saloon	4	92,500	113,250	20,750	22%
Manufacturing	37	60,000	75,545	15,545	26%
Workshop	5	73,750	90,500	16,750	23%
Electronics	7	84,833	98,583	13,750	16%
Other Small Businesses	11	90,000	119,000	29,000	32%
Total	**247**	**71,563**	**86,291**	**14,729**	**21%**

The results indicate that the average income of borrowers from rural areas before borrowing was Pak Rs. 61,270 and after borrowing was Pak Rs. 77,262. It represents an average increase of Pak Rs. 10,992 (18%) in household income. Borrowers during the interview highlighted that before borrowing from Akhuwat, they were borrowing from agricultural banks and they were paying a large share of their income in the form of interest. Since they do not have to pay interest on Akhuwat borrowing, therefore they have an increase in their income. Even though they did not experience a big shift in their income after switching to Akhuwat financing, they are satisfied because they refrain from sharia prohibited financing (Riba).

Results from urban areas revealed that the average income of households before borrowing was Pak Rs. 82,281 and after borrowing was Pak Rs. 100,901. It is observed that there is an average increase of Pak Rs. 18,620 (23%) in the household income of urban borrowers. It is further noticed that urban borrowers have a higher increase of 5% as compared to rural borrowers. The higher increase in income of urban borrowers has been witnessed from the following business activities:

- 30% to 34% increase: Other small business activities such as retail shops fall in this range which provides the highest increase of 32% in the yearly income.
- 25% to 29% increase: Construction and materials business activities, stationery & printing, transportation, manufacturing, and mechanical workshops lie under this category. However, construction & materials business activity provides the overall second-highest increase of 28% in the yearly income. In your paper title, if the words "that uses" can accurately replace the word "using", capitalize the "u"; if not, keep using lower-cased.Furthermore, Stationary & printing, transportation, and manufacturing activities provide the third-highest increase of 26% in the yearly income.

- 20% to 24% increase: Auto workshops, beauty salons, and housing business activities fall in this range.
- 15% to 19% increase: Electronics and grocery shops provide the lowest increase of 16% and 18% respectively

The average increase yearly income of urban borrowers is 23% (average of all the above described multiple activities).

The result is a manifestation of the effect of the place of the borrower on the level of success accrued. The increase in the income of urban dwellers is higher than rural households. According to Akhuwat management, borrowers of urban centers have certain advantages that those in rural areas do not have. These advantages include skill development, broader customer base, the ability to expand the scale of business and material impact to make a profit within the shortest possible time. It is important to note that although the rural dwellers had a modest change in income as compared to the city dwellers, they were able to pay the loans they contracted. According to Akhuwat, borrowers were able to pay the loans within the agreed period. They also have an easy installment plan to facilitate their repayment capabilities. The capacity most of the borrowers from urban areas ranges monthly sum of 1,000 to 3,000. A borrower from rural areas who take a loan for agriculture purposes returns the money after six months upon harvesting the crops. Since Akhuwat provides flexible and affordable repayment plan, its recovery rate is maintained at 99.80% to about 100% during the years 2001-2017.

D. Impact of Akhuwat Borrowing on Spending

This section analyzes the spending and food sufficiency level of borrowers before and after borrowing.

Findings revealed that Akhuwat microfinance has a significant impact not only on the income increase of the borrowers but also on their spending ability has increased. They are in the position of meeting their expenditures better than before borrowing. Their standard of living is improved. Borrowers from rural and urban areas have shown a shift from lower spending categories to higher spending categories.

The percentage of borrowers in rural areas are spending below Pak Rs. 2,000 decreased from 12.5% to 4%, showing that they moved to a higher expenditure bracket. A similar trend was observed in urban areas where the percentage of borrowers is spending below Pak Rs. 2,000 decreased from 10.25% to 3.25%.

The percentage of borrowers in rural areas are spending between Pak Rs. 2,000-4,000 decreased from 24.5% to 12.25%. In urban areas, the percentage of borrowers is spending between Pak Rs. 2,000-4,000 decreased from 18.25% to 14%.

The percentage of borrowers in rural areas are spending between Pak Rs. 4,000-6,000 increased from 28% to 36.25%. Similarly, the percentage of borrowers in urban areas spending between Pak Rs. 4,000-6,000 increased from 27.65% to 31.75%.

The percentage of borrowers in rural areas are spending between Pak Rs. 6,000-8,000 increased from 18% to 24.25%. Similarly, the percentage of borrowers in urban areas spending between Pak Rs. 6,000-8,000 increased from 22.75% to 26.55%.

The percentage of borrowers in rural areas are spending at higher amounts: between Pak Rs. 8,000-10,000 and greater than Pak Rs. 10,000 increased from 15% to 18.5%, and 2% to 4.75%, respectively. In urban areas, the percentage of borrowers spending: between Pak Rs. 8,000-10,000 and greater than Pak Rs. 10,000 increased from 17% to 19.45%, and 4.1% to 5%, respectively.

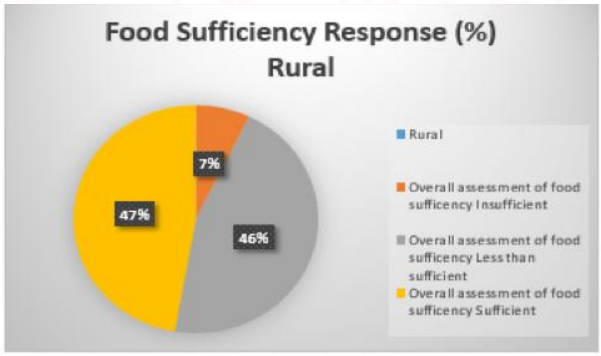
The findings revealed that a higher percentage of borrowers in both urban and rural areas spent higher amounts after borrowing. The greatest amount of increase was seen in the middle range of Pak Rs. 4,000-6,000 in both areas.

E. Food Sufficiency Level

Most of the borrowers from the rural areas, as well as urban areas, responded that they have complete meals. 93.2% and 94.3% of borrowers from rural and urban areas confirmed that they have complete meals most of the time.

Overall food sufficiency in urban and rural areas is about 47 percent. Only 7.2% and 6.25% of borrowers from rural and urban areas replied that they do not have enough food. Generally, the households are in the food self-sufficiency level.

Food Sufficiency Response in Rural Areas



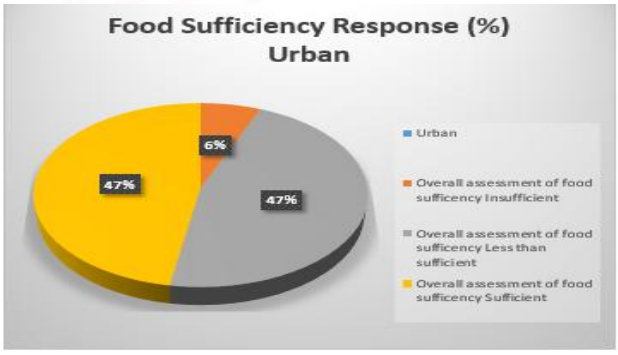


Figure 1. Food Sufficiency Response in Urban Areas

X. CONCLUSION

This study has been conducted in order to analyze the relationship between demographic factors such as location, gender, and age of borrowers and results from the interest-free loan scheme provided by Akhuwat organization. This study also analyzed the impact of education level and geographic location of borrowers on the utilization of loans. The study has been based on the data collected from Akhuwat borrowers from rural as well as urban areas.

The results indicate that average income increased by 18% and 23% of rural and urban borrowers respectively. Our result also shows that only 0.79% of women borrowed money from Akhuwat to run some business activities in rural areas. The results of the study on this factor were entirely different in urban areas. 42.15% of women and 57.85% of men from urban areas borrowed money to run the business. Some of these women were single income earners while others were second income earners for the family. Having second income earner in the family because of women participating in the economic activities of the family raises household income as well as helps the society for the poverty alleviation. Women living in urban areas prevail certain advantages such as more economic opportunities, Social acceptance of working women, higher competitive environment to name a few.

This study also analyzed business activities available in rural areas compared to the opportunities available in urban areas. The study shows that there are not many options available to people living in rural areas. Our results indicate that all of the borrowers selected from the rural areas were engaged in farming and related activities. Comparing these results with borrowers from urban areas, it became apparent that they have far greater opportunities available. Our results show that they are mainly engaged in retail, manufacturing, services, small businesses, construction, transportation, and various other activities.

Moreover, the main part of our study is to compare the impact of the education level of borrowers on their ability to utilize the loan efficiently. The study indicates that 20% were illiterate borrowers from rural areas whereas there were 27% illiterate borrowers from urban areas. Also, the ratio of educated borrowers was higher in urban areas compared to rural areas. Generally, the education factor plays an important role in better utilization of the loan. However, due to the smaller scale of activity and value of the loan, the education level is not significant in making any big difference. The major consideration of loan approval is need-based. An important aspect of the achievement of positive results from this program is the skill development of the borrowers. Individuals with an entrepreneurial mindset and new business ideas have done well through this program.

The final part of our study is to assess the food sufficiency of borrowers. Most of the borrowers from rural areas, as well as urban areas, responded that they have complete meals. 93.2% and 94.3% of borrowers from rural and urban areas respectively confirmed that they have complete meals most of the time.

Overall food sufficiency in urban and rural areas is about 47 percent. Only 7.2% and 6.25% of borrowers from rural and urban areas respectively replied that they do not have enough food. Generally, the households are in the food self-sufficiency level.

XI. RECOMMENDATIONS

The results of our study show that Akhuwat interest-free loan program has a positive impact on the financial conditions of the borrowers. The following recommendations will furtherhelp to improve the outcome of its program.

- Provide vocational training to people in rural areas so that they can have other options than relying only on agriculture business.
- Provide loan with the complete business package so that borrowers do not face difficulties in operating business activities in the beginning and carry out business successfully.
- Increase loan size so that borrowers can benefit more and they come out of permanent dependency on loans and become self-sufficient.
- Similar to providing agriculture input to farmers, Akhuwat should consider providing tools and small machinery to farmers, so that they can deploy advanced farming techniques.
- Provide more opportunities for women from rural areas. Women from urban areas already benefitting from the Akhuwat program
- Increase the coverage of rural areas by creating additional branches and deploying additional resources.
- Borrowers appreciated the program and acknowledged the benefits received through the current limit of the loan amount. However, they can do much better if the loan limit is extended to 40,000-50,000 Pak Rupees.

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