



UNIVERSITETET I AGDER

*Islamic Economic System – A way forward
to address Poverty and Achieve
Sustainability*

Case Study on Islamic Microfinance

MUHAMMAD AHTESHAM KHAN

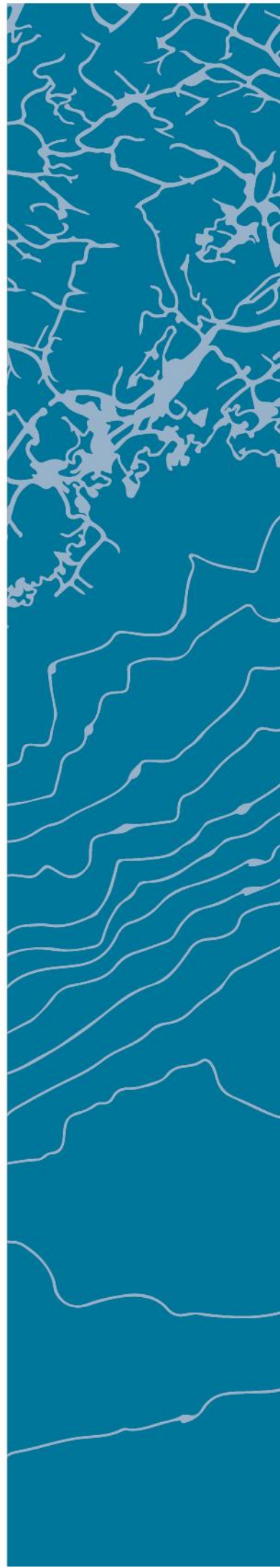
SUPERVISOR

PROF. DR. CHRISTIAN WEBERSIK

University of Agder, 2022

Faculty of Social Science

Department of Global Development & Planning



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**Islamic Economic System – A way forward to
address Poverty and achieve Sustainability**
A Case Study on Islamic Microfinance

By
Muhammad Ahtesham Khan

Supervisor
Professor Dr. Christian Webersik

This master's thesis is carried out as a part of the education at the University of Agder and is therefore approved as a part of education. However, this does not imply that the university answers for the methods that are used or the conclusions that are drawn.

University of Agder, 2022
Faculty of Social Science
Department of Global Development and Planning

ABSTRACT

With every tenth person on the planet living under extreme poverty and the Covid-19 pandemic has further exacerbated the situation due to the deteriorating economic conditions resulting in increased layoffs and joblessness. On the other hand the concentration of global wealth being continuously converged into the hands of few of the elitist segment due to the inherent impediments that the capitalistic economic model offers. Can this system sustain or it's high time to find better alternates? This study is an attempt to find better economic approaches stemming from the higher ethical grounds and are more sustainable to tackle the menace of poverty and income inequalities targeting bottom of the pyramid. For this purpose the study closely examines the microfinance model, its various interventions over the last few decades and the impact it brings to the society in achieving shared prosperity for all. More particularly the role of Interest Free Islamic (often referred as ethical) microfinance, and see whether the model of micro-lending works or not as a vehicle to generate economic activity in the form of small / micro/ nano enterprises which not only is ethically enriched but is equally sustainable.

Keywords: Pandemic, Deteriorating, Interest Free Microfinance, Sustainable, Economic-Activity, Small Enterprise

DECLARATION

I **Muhammad Ahtesham Khan** declare that this report on the topic: *Islamic Economic System – A way forward to address Poverty and achieve Sustainability (A Case Study on Islamic Microfinance)* is my original piece of work and has never been submitted for any academic award to any institution of learning other than the University of Agder.

Kristiansand, Norway
Place

Muhammad Ahtesham Khan
Signature

June 03, 2022
Date

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On this note I would also like to pass on my gratitude to my family specially my mother (and late father), my siblings, elders and loved ones, my few but awesome friends and the organizations/projects I worked with for always been supportive towards my academic and research ambitions.

On a final note I thank the Almighty for all His blessings!

For others too numerous to mention, I say a big thank you to you all.

DEDICATION

I dedicate this work to my Late Father Muhammad Aslam Khan and my Mother for inspiring me all their lives and for inculcating habits leading towards a good character.

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ABBREVIATIONS

AIM	Akhuwat Islamic Microfinance
HDI	Human Development Index
MFI	Micro-Finance Institution
NSD	Norwegian Center for Research Data
PIDE	Pakistan Institute of Development Economics
PKR	Pakistani Rupee (Name of Pakistani Currency)
RCT	Randomized Control Trial
SDG	Sustainable Development Goals
UN	United Nations
USD	US Dollars

CHAPTER ONE: INTRODUCTION

This opening chapter of our study gives the background for our research inquiry and provides an overview of different economic systems. Further, this chapter draws our attention to the impediments posed by the capitalist or Keynesian economic model and its inability to address the pressing challenges hence giving impetus to find better economic model wired on the principles of ethics and is more sustainable.

Background and Rationale

More than 700 million people, or 10 per cent of the world population, still live in extreme poverty today, struggling to fulfil the most basic needs like health, education, and access to water and sanitation, to name a few (United Nations Goal 1, 2015).

Capitalism has been long dominating the world economy which has witnessed some devastating economic collapses right from the Great Depression of 1929 to the most notable economic crisis of 21st century – the 2008 financial crisis which jolted the global financial capitals all over. The same year following crisis Mr. Ban Ki-moon, the 8th Secretary General of the United Nations repeatedly stressed the need for global leadership to help ensure that the battle to achieve the Millennium Development Goals (MDGs), which aim to halve extreme poverty and other ills, by their target date of 2015 is not forgotten by countries as they seek to shore up their own economic and financial systems (UN, 2009). But what could more ironic than the fact that this world economy which was yet to recover from the aftermaths of 2008 crisis was once again trapped due to the more pressing threat to the global economies in the shape of Covid19 –

Pandemic. The first of its kind viral infection that most of the us alive today were neither familiar nor heard of. In only a matter of weeks the impact of this pandemic as declared by WHO (World Health Organization) on March 11, 2020 became the global phenomena. As a result this pandemic once again took the global capital markets by storm towards a more dreadful and foreseeable global recession by shrinking the size of economies and building more pressure to curtail funds kept for development needs including poverty alleviation. So once again it was evident that the capitalist financial system is perhaps more like a fair weather friend, and lacks the ability to withstand the economic shocks and turmoils resulting in greater depression, shrinking economies, job losses and more poverty etc (Usmani, 2010, 3).

With every seventh person on the planet living under extreme poverty and the number is gradually increasing due to pandemic resulting in slow down or shut down of economic activities specially the for the daily wagers, can this system sustain or its high time to find better alternates?

Isalmic Economic and Financial System

The underlying factors what constitute the strength of Islamic financial system is its high proximity to the real sector i.e. the asset backed economic structure plus the shared prosperity approach that provides resilience to the whole system and makes it more shock absorbent and sustainable compared to the capitalist system which is principally based on the interest based lending (ibid), heavy credit- debt structures, insanely huge derivative markets, concentration of wealth, profit maximization, mispricing of assets, vulnerabilities in managing risk etc. these inherent impediments not only lead towards the materialism but also against the core human values based on welfare, social protection and shared prosperity (Usmani, 2010)

In others words we can say that the foundation of Islamic Economic and Financial system is laid on the three pillars such as addressing the wealth accumulation, a practicle and sustainable economic framework and last but not least the equitable and just allocation of resrouces (Usmani, 2015).

In the broader perspective, the Islamic economic system, which subsets the Islamic financial system, duly emphasizes on helping the poor, feeding the ones suffering with hunger, discourages wastage of food, water, and other valuable resources beneficial for mankind, appreciates and rewards good deeds and harmonious relationships with others while prohibiting desires leading towards self-centered gains (Hassan et al., 2021, p. 63).

As opposed to the Keynesian solution of accumulation of wealth as a solution to all of mankind's problems (Zaman, 2012), for equitable distribution of excess wealth, the Islamic economic system provides different avenues to address this concern in the form of Zakat, charity, and Waqf (Endowment). An important concept or tool as immensely emphasized in the Holy Quran is of '*Amr bil Maroof wan Nahi Anil Munkir (enjoining good and forbidding evil)*' as a means of transforming the world by integrating these principles into our lives. 'Giving to others' and 'Protecting from evil' is at the heart of this ethical economic system. According to the proponents of Islamic theology, these tools are not just practical enough to help tackle the pressing challenges of the planet including poverty, hunger, inequalities etc. but the attributes presented by the Islamic Economic Model are equally adaptable to address various micro & macro economic, social, spiritual, psychological challenges to help transform this place into a better, harmonious and more resilient by achieving the goals as laid down under UN SDGs 2030 (Hassan et al., 2021, p. 63).

Modern History and Islamic Finance

The history of Islamic finance though originated with the advent of Islam. However, in the modern history we find its traces post the Second World War with the establishment of the first Islamic bank in the early 60s by the name of Mit Ghamr in Egypt in 1963. In other words we can say that the Islamic Finance which was practiced informally according to the local customary in different parts of the world with Muslims population in majority, was institutionalized with the creation of Mit Ghamr (Hassan et al, 2021, p. 11)

Figure 1. The History of Sustainable Development



Source Adapted from UN Department of Social and Economic Affairs, n.d.

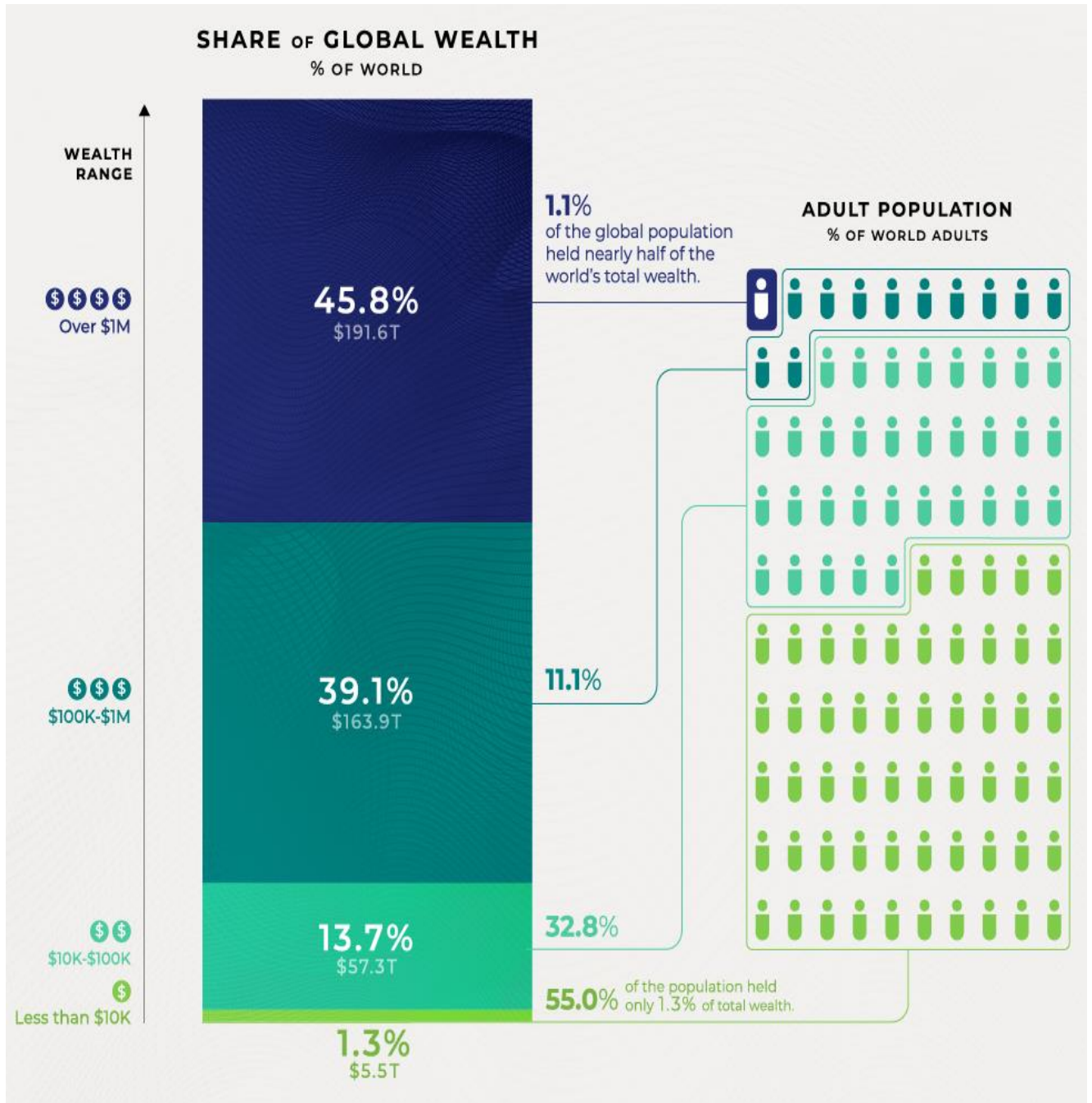
Research Problem

The majority of people living on less than \$1.90 a day live in sub-Saharan Africa. Worldwide, the poverty rate in rural areas is 17.2 per cent—more than three times higher than in urban areas (United Nations Goal 1, 2015).

Similarly, almost one fourth of Pakistan's population is living below the poverty line (PIDE, 2021). We understand that addressing poverty has been the top most agenda on the global goals poverty however, with concentration of wealth as an inherent tenet of the capitalist system, and where one percent of the richest owns a bigger stake in the pie of global wealth than the

remaining ninety nine percent, so using same economic approaches stemming from the capitalistic system can we find answers to achieve targets for Goal 1-Poverty and Goal 10-Reduced Inequalities as set out under UN Sustainable Development Goals 2030?

Figure 2. The Global Wealth Distribution



Source: Credit Suisse Global Wealth Databook 2021

Research Objective

The primary goal of this case study is to understand the model of Akhuwat Foundation which is the largest Islamic microfinance organization in the world and also to see how impactful it has been in addressing poverty and income inequalities. In addition, the study assesses the current state of poverty and increasing income inequalities globally while ascertaining the factors behind and discussing the strengths of the emerging Islamic Financial eco-system. The paper also analyzes how and in what ways the relatively nascent Islamic Economic model takes precedence over the long dominating capitalist system in terms of its theoretical and practical framework. Further, the paper also examines the case study of one of the world's leading Islamic microfinance organizations by the name of AKHUWAT Foundation, primarily operating in Pakistan with a chapter in USA.

Despite the fact that the Islamic financial system operates and functions in a way similar to the conventional financial system and is often cited as a subset of the capitalist system, we hope this study will further our pursuit of finding strategies for the bottom billionaires by answering some fundamental issues.

Research Questions

Following are some of the main research questions along with the other supplementary questions to help us ascertain the objectives of this study by employing the qualitative and participatory approaches:

- What is the philosophy behind Akhuwat's model that differentiates it from its conventional counterpart?
- What was the motivation of choosing Akhuwat? Descriptive Statistic
- What are some of the challenges being faced by AIM and its beneficiaries?

- How easy it is securing Akhuwat’s microfinance facility for participants?
- How Akhuwat foundation’s microfinance model contributing to achieve SDG Goal 1: No Poverty and Goal 10: Reduced Inequalities?

1.7 Geographics Study Area and Context

Apart from brief outlook on poverty and income inequalities using the available academic literature, our research case study we primarily included the beneficiaries of the Akhuwat foundation as well as their management personals as our primary audience. The reason why we included the senior management personals of the world’s largest interest-free MFI is because islamic microfinance is a very specialised field so to make our case more firm and evidently sound, expert opinions of these officials were sought to better understand the model of Akhuwat, which ofcourse a beneficiary was unlikely to comprehend. Out of all the senior officials we interviewed, couple of them have been associated with the foundation since its begining which turned out very helpful in understanding the model of Akhuwat, its growth over the years, the impact the foundation has made and the plans of the foundation to scale and make its operations more sustainable.

All the field work was carried out in Pakistan as we particulalry studying the world’s largest islamic microfinance institution located and operating in Pakistan with one of its chapter in USA. Prior moving on with our field work we sought necessary permissions / approvals from the concerned authorities including permission from NSD Norway, and other stake holders. Since Akhuwat operates all over Pakistan therefore, considering the covid restrictions and citing time and resrouce constraints we further narrowed down the geographic area of our filedwork involving beneficiaries and covered all those beneficiaries located in Karachi, which is Pakistan largest city and the 6th largestf in the world with population exceeding over 20 million. Having said that, we are also privy to the fact that the qualitative resarch itself is quite a taxing task and the difficult times we are living in has aggravated its magnitude.

CHAPTER TWO: LITERATURE REVIEW & THEORITICAL FRAMEWORK

INTRODUCTION

This chapter provides a comprehensive overview of the literature reviewed for this study and also to help tracing the basis of our research inquiries starting from an overview of the Objectives of Islam (also known as Maqasid al Sharia) to how these objectives correlates with the UN Sustainable Development Goals 2030. More importantly, how these objectives can help achieve different targets as laid out under SDG agenda 2030, such as addressing SDG Goal 1: Poverty and SDG Goal 10: Reduced Inequalities.

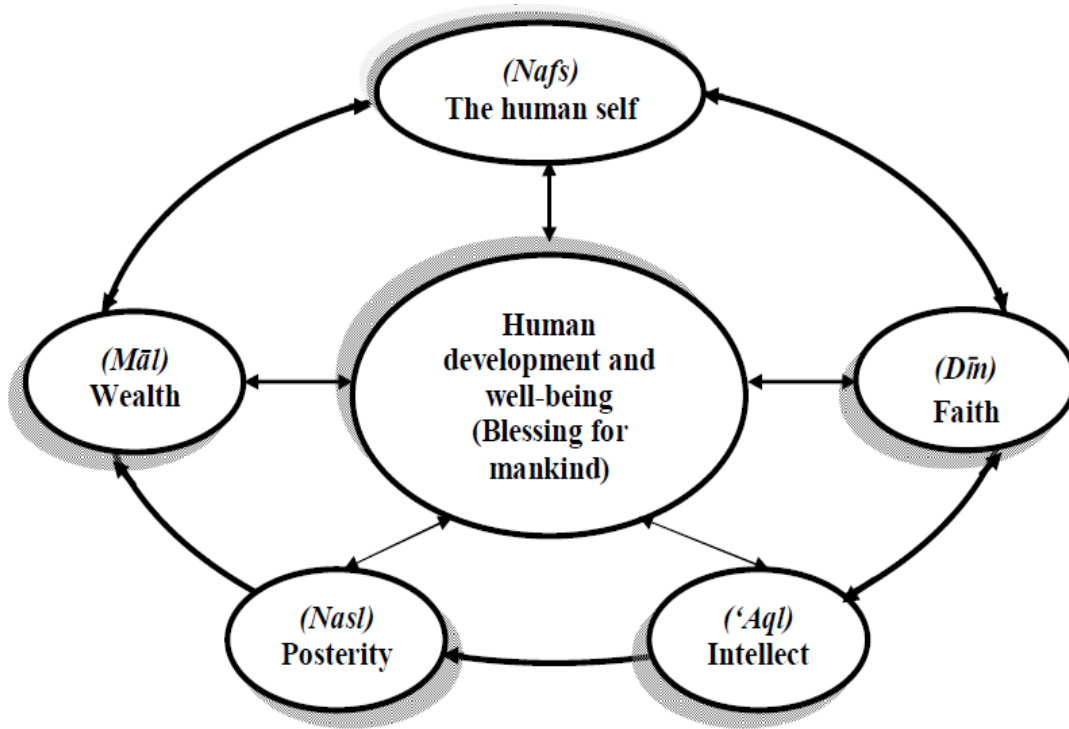
This chapter critically examines the prevalent model and theories surrounding capitalism and its inherent impediment i.e. accumulation of wealth in the hands of few resulting in increasing disparities and socio-economic injustice. Further, as proposed by lead economist and practitioners, this section also covers a detailed account on the alternate and better economic approaches founded on the strong pillars of ethics and shared prosperity for all. To exemplify these values, we present the model of AIM (Akhuwat Islamic Microfinance) - which is the largest Islamic Microfinance organization in the world – and how its helping millions of AIM beneficiaries to come out of poverty trap towards a dignified living.

Ethics and Objectives of Islam (Maqasid Al Shariah)

A business or an activity is considered ethical when it promotes the wellbeing of the society (Mansour, et.al. 2015) hence the Islamic financial system which closely resonates with universal human values and is based on strong foundation of protection is often referred to as the Ethical Finance as explained in the Objectives of Islamic Law (also known as Maqasid al-Sahriah) which provides the basis for Islamic Economic and Financial system (Chapra, 2008). These objective further entails into the protection or wellbeing of all mankind that lies in safeguarding their faith (din), their human self (nafs), their intellect (aql), their posterity (nasl) and their wealth (mal) (ISRA, 2016, 168).

Figure 3.

Al-Maqasid Al-Shari'ah: Human Development and Well Being - To be realized by ensuring the enrichment of the following five ingredients for every individual.



(Source: Chapra, 2008, p. 8)

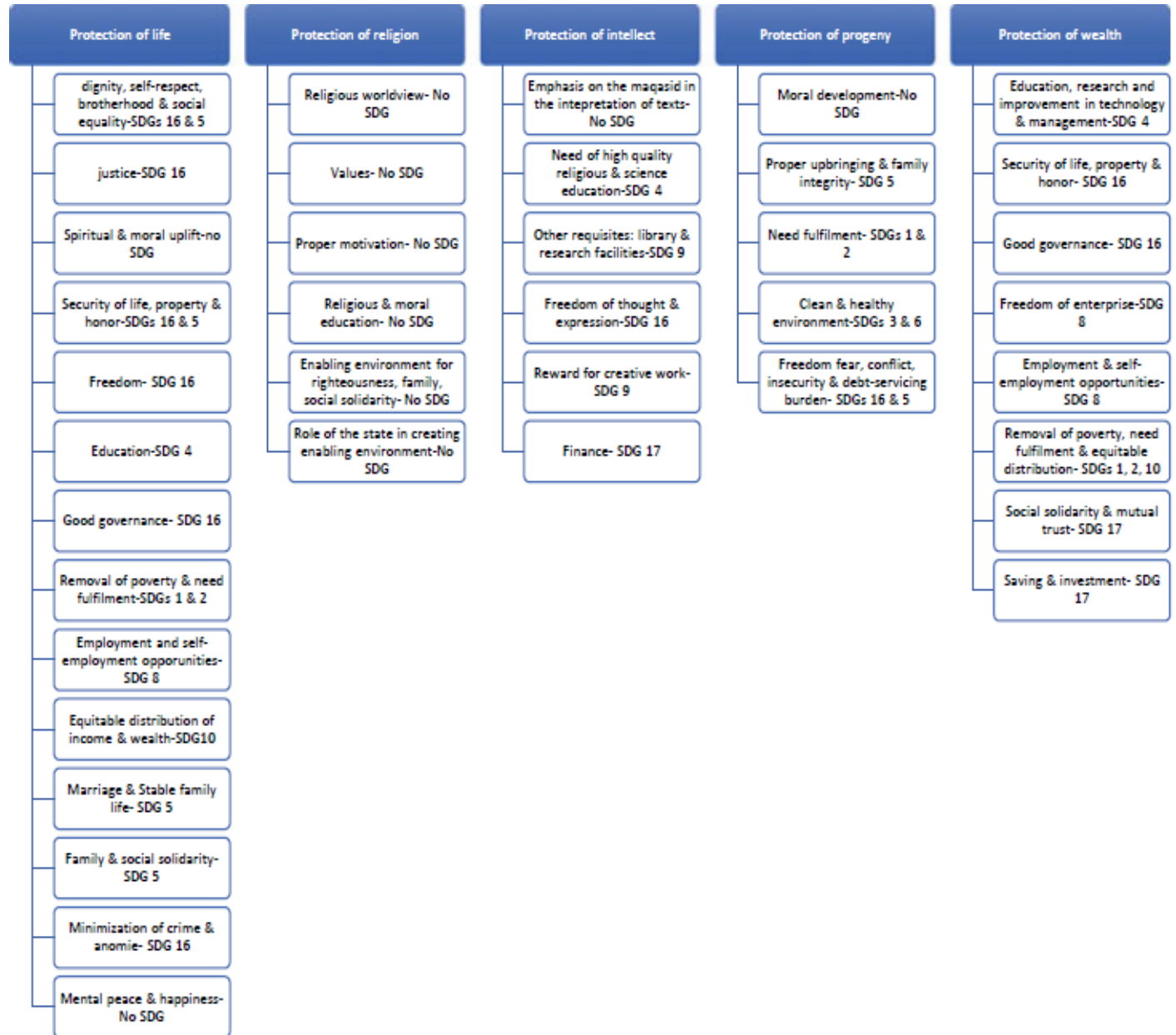
SDG's & Objectives of Islam (Maqasid)

Maqasid al-Shariah refers to the higher ideals and objectives of Islamic Law which forms an important yet neglected area of Islamic Law, particularly relevant to address current and real challenges facing Muslims living both in Muslim societies and as minorities. For Islamic rulings to fulfill their purposes of justice, equality, human rights, development, and civility in today's context, implementation of Maqasid al-Shariah is vital. In short, it's the manifestation of shared prosperity for all while ensuring the protection and preservation of life on the planet (Mansour, et.al. 2015). The illustrations presented in the appendices section comprehensively highlights the attributes of each of these objectives. Moreover, to better understand this coherence, in the following exhibit we have tried to map the Development Goals with the Objectives of Islam to

shows the strong convergence between Maqasid Al-Shariah and UN SDGs 2030 (Hassan et al., 2021, p. 17)

Figure 4.

Mapping SDGs with Five Primary Maqasid al Sharia (Objectives of Islam) - Showing Strong Convergence



(Source: Adapted from Hassan et al., 2021, p. 18)

ETHICS & THE MODEL OF CAPITALISM

One of the primary factors that underpins our research inquiry is the fact that capitalism has been long dominating the world economy and has witnessed some devastating economic collapses. From the Great Depression of 1929 to the most notable economic crisis of 21st century – the 2008 financial crisis which jolted the global financial capitals all over (Usmani, 2010) contrary to the emerging Islamic economic (financial) system which weathered the 2008 financial crisis by posting minimal impact (ibid). The following verse from the Holy Quran resonates the same philosophy of doing good to others in the matters of financial dealings and lending:

If the debtor is in straitened circumstances, then (let there be) postponement to (the time of) ease; and that ye remit the debt as alms giving would be better for you if ye did but you know. And guard yourself against a day in which ye will be brought back to Allah. Then every soul would be paid in full that which it hath earned, and they will not be wronged (ISRA, 2016, 865).

The inherent characteristic of sheer profitability is what constitutes the ill practices. Upon cross examination of the factors behind one of the greatest financial crisis of our times, we come to a conclusion that besides structural deficiencies its none-other than the blend of unethical practices such as unchartered greed, manipulation of numbers, lack of transparency and controls, breach of trust, misuse of powers by those at the helm of affairs etc. lead towards this massive financial chaos (Iqbal & Mirakhor, 2017, p. 130).

The Enlightenment Movement of the 17th and 18 centuries fueled the rhetoric that rising income and wealth as a key indicator of development whereas the central tenets presented by Objectives of Islam tables a more holistic approach by incorporating both material and spiritual aspects (Chapra, 2008, p. 2).

It's not just the modern day critics who laments their views on the anti-social and anti-human practices of the capitalist model but Tawney (1926) has traced the history of how pursuit of wealth went from being a vice to a virtue in Europe. The ill effects of this 'irrational pursuit of wealth for its own sake' can be documented in many different domains, of which we list a few.

First: extreme concentration of wealth in hand of a few individuals. The top fifteen people own more wealth than the bottom billion. There is an explicit command in the Quran not to allow such concentration of wealth (Q59:8). Second: money flows from poor to rich. Economists do not study the tragedy of how the poorest countries in the world have made payments of more than 500 billion dollars in interest to the richest countries in the world, by starving their own populations. This is again in direct violation of Quranic teachings, which state that the poor have a right in the wealth of the rich. Third: because banks undertake financial transactions prohibited by Islamic teachings, they are prone to crises. More than ninety such crises have occurred over the past fifty years (Krugman, 2000; Crowe et al, 2010).

To further understand these inherent attributes (ethically speaking ‘flaws’) of the capitalist model, reproducing below a couple of examples which depicts the plight and suffering of the stake holders at the receiving end. A real world case of Nigeria which is relatively an impoverished African economy led their ex-President Olusegun Obasanjo grieved back in August 2000 after a G8 summit:

All that we had borrowed up to 1985 or 1986 was around \$5 billion and we have paid about \$16 billion yet we are still being told that we owe about \$28 billion. That \$28 billion came about because of the injustice in the foreign creditors’ interest rates. If you ask me what is the worst thing in the world, I will say it is compound interest (Dine & Fagan, 2006, p. 166).

The next is the most recent *case* sheds light on the embedded characteristics of the capilistic model giving rise to inequalities:

The year (2020 alone) has been a lucrative one for the world’s richest people. Despite the pandemic and widespread layoffs that have disproportionately affected the world’s working class and poor, the members of the Bloomberg index have collectively gained 23%, or \$1.3 trillion, since the year began (Pendleton & Bloomberg, 2020).

These examples not just highlight the Income and wealth inequalities but also shed light on the economic injustice in the form of debt traps the capitalist model offers. Also the aforesaid impediments vehemently subjugates the universal human values hence gives credence to our research objective i.e. to look for better (ethical) economic approaches that are human centered and stems shared prosperity contrary to the accumulation of wealth and profitability for few. It is pertinent to mention that Islamic finance encourages risk sharing approaches under ethical boundaries but it is not in favor of risk transfer and risk shifting approaches such as interest based debt-financing (where the lender does not share any risk) which are considered exploitative compared to risk sharing finance (Iqbal & Mirakhor, 2017, p.110). The reason why risk sharing is encouraged over the other risk mitigation approaches is because it promotes collectivism where all stakeholders undertake to share the outcome whether favorable or unfavorable, as a result of this contractual arrangements and somehow are equally concerned because of the stakes involved (Iqbal & Mirakhor, 2017, p.109).

Collier in his book on Future of Capitalism also stresses the need of such an economic system which is based on the tenets of social and economic justice for all (Collier, 2018). Askari and his fellows echoes the same rhetoric of welfare based on socio-economic justice through their work on Introduction to Islamic Economics: Theory and Application (Askari, Iqbal & Mirakor, 2015, p. 77). Mirakhor and Iqbal take this narrative further in their scholarly work on the Ethical Dimension of Islamic Economics and Finance by presenting a detailed economic framework encompassing the risk sharing models, morality, materiality, socio-economic justice and governance domains (Iqbal & Mirakhor, 2017, p. 103).

The Concept of Interest (Riba or Usury) and its Prohibition in Major Religions

What is Interest (Riba and Usury)?

In simpler terms, the word *Interest* (also known as Riba or Usury) refers to the additional amount on top of the principal amount to be returned to the lender by the borrower on any sort of loans specially the financial loan.

For instance person A giving USD 1000 to person B for one year on a condition that person B would return this amount with 8 percent of interest payment at the end of the agreed tenure. Since this 8 percent amount equivalent to USD 80 is above and beyond the actual lending amount and person B has to return a total of USD 1,080 to person A after a year, therefore, this additional amount involved in this lending transaction is termed as Interest.

Prohibition of Interest (Riba and Usury) in Major Religions

It is important to note that the *Interest* is prohibited in all major religions including the Abrahamic religions (Islam, Judaism and Christianity). However, at times we do find contrasting elements about the use and application of interest. For example, in the case of Judaism their holy scriptures such as Torah and Talmud discourage the involvement of interest while awarding loans to the needy ones irrespective of their faith, whereas their applicable Jewish law (Halakah) permits the involvement of interest at the time of lending loans to the non-Jewish borrowers (Khan et al., 2018, p. 4438).

That being said, by and large the use of interest remains prohibited across all major religions. In this section of our paper we will briefly touch upon the religious references and commentary on the prohibition of Interest (riba or usury) from all three Abrahamic religions.

Prohibition of Interest (Riba or Usury) in Islam

Out of the number of references from the the holy scripts and teachings, quoting a few on prohibition of Interest in Islam:

Those who devour usury will not stand except as stand one whom the Evil one by his touch hath driven to madness. That is because they say: "Trade is like usury," but Allah hath permitted trade and forbidden usury. Those who after receiving direction from their Lord, desist, shall be pardoned for the past; their case is for Allah (to judge); but those who repeat (The offence) are companions of the Fire: They will abide therein (for ever)." (Quran2:275)

The Holy Quran not just restricts its believers to avoid Interest or Riba in their financial dealings but proclaims that whoever is willingly involved in any such dealings where interest is part of the deal, is actually waging a war against the Almighty and the teachings of His messenger Prophet Muhammad S.A.W. (Khan et al, 2018, p. 4440)

O ye who believe! Fear Allah, and give up what remains of your demand for usury, if ye are indeed believers. If ye do it not, Take notice of war from Allah and His Messenger. But if ye turn back, ye shall have your capital sums: Deal not unjustly, and ye shall not be dealt with unjustly.”(Quran2:278-279)

Prohibition of Interest (Riba or Usury) in Christianity

Forgive us our debts, even as we forgive our debtors. --Jesus (Matthew 6:12)

And if you lend to those from whom you hope to receive back, what credit is that to you? For even sinners lend to sinners to receive as much back. But love your enemies, do good, and lend, hoping for nothing in return; and your reward will be great, and you will be sons of the Most High. -- Jesus Christ (Luke 6:34-35)

Jesus said, "If you have money, do not lend it at interest. Rather, give to someone from whom you will not get it back." (Gospel of Thomas 95)

Owe no person anything, except to love one another. --Apostle Paul (Romans 13:8)

He who takes interest for a loan of money acts unjustly for he sells what does not exist. It is wrong in itself to take a price (usury) for the use of money lent, and as in the case of other offences against justice, one is bound to make restitution of his unjustly acquired money. --Saint Thomas Aquinas

Prohibition of Interest (Riba or Usury) in Judaism

If one has charged interest or taken increase-- shall he then live? He shall not live! If he has done any of these abominations, he shall surely die; his blood shall be upon him (Prophet Ezekiel, 18:13)

He does not put out his money at interest, nor does he take a bribe against the innocent. He who does these things will never be shaken. --David (Psalm 15:5)

He who increases his wealth by interest and usury gathers it for him who is gracious to the poor. -
-Solomon (Proverbs 28:8)

You shall not charge interest to your brother--interest on money or food or anything that is lent out at interest. --Moses (Deuteronomy 23:19)

One who lends money on usury cannot be regarded as reformed until he tear up his account-books and effect a complete reformation.

(Talmud, Tractate Sanhedrin II.--JUDICIAL PROCEDURE: "Those who are Eligible and those who are Ineligible as Judges or Witnesses" III.3. M. T. V. 2.)

He who lives by usury in this world shall not live in the world to come. (Midrash, Exodus Rabba 31).

Motivation

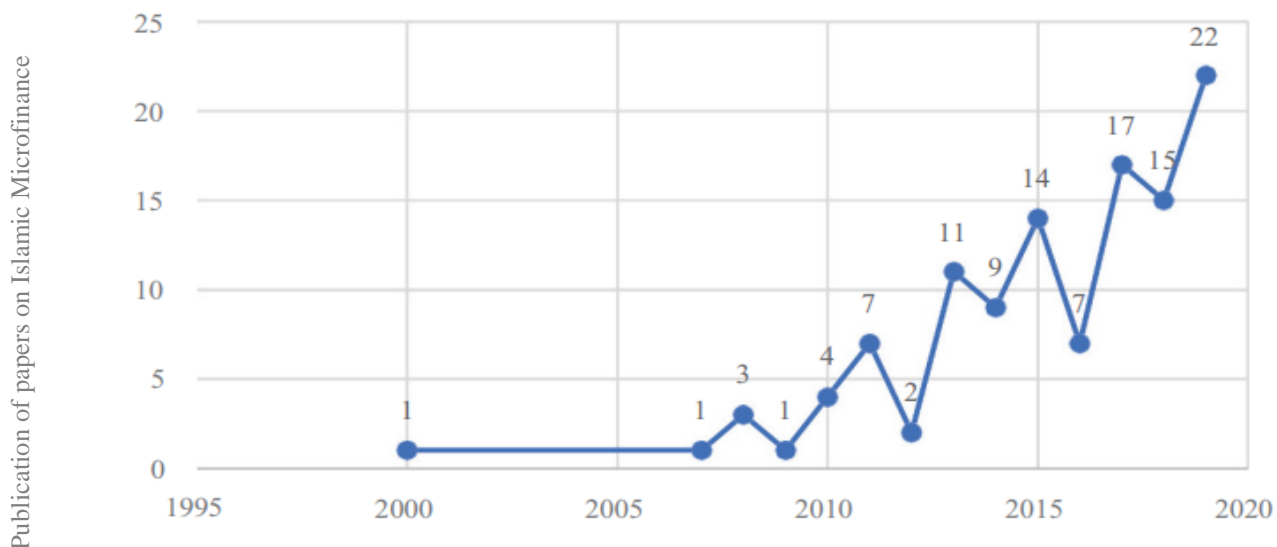
Given the societal harms conferred upon by the application of Interest and how ethical finance helps address these evils, were the primary factors to explore this research vertical. In this research we have attempted to analyze how and in what ways the interventions offered by the relatively nascent Islamic Economic system takes precedence over the capitalist approaches as a more sustainable model (ISRA, 2016, 169) to help curb the menace of poverty and income inequalities while nurturing socio-economic wellbeing. More particularly the role of ethical (Islamic) microfinance, and see whether the model of micro-lending works or not as a vehicle to generate economic activity in the form of small / micro/ nano enterprises which not only is ethically enriched but is equally sustainable (Sherrat, 2016). Since Islamic (interest-free) microfinance is a less explored vertical to address pressing development challenges hence this research intends to make a valuable contribution towards the available literature in this domain. As Hassan et al. (2021) explains that the literature available on Islamic microfinance is still in its infancy stage and so does the quality of data (Tamanni et al, 2017), and through his bibliometric

review on Islamic microfinance he along with his peers has tried to encapsulate the major works done in this domain as illustrated below in the form of Table 1 and Figure 1.

Table 1. An overview of Islamic Microfinance publications

Descriptive overview of selected Islamic microfinance publications.		
Description	Criteria	Results
Main information about data	Timespan	2000–2020
	Sources (Journals)	70
	Documents	122
	Average years from publication	4.35
	Average citations per documents	4.23
	Average citations per year per doc	0.67
	References	4409
Document types	Article	118
	Review	4
Document contents	Keywords Plus (ID)	85
Authors	Author's Keywords (DE)	362
	Authors	257
Author's collaboration	Author Appearances	323
	Authors of single-authored documents	20
	Authors of multi-authored documents	237
	Single-authored documents	22
	Documents per Author	0.47
	Authors per Document	2.11
	Co-Authors per Documents	2.65
	Collaboration Index	2.37

Figure 05 Annual distribution of Islamic microfinance papers.



Simultaneously, the research also aims to contribute towards policy making on ways to leverage ethical (interest-free) lending to address poverty alleviation and uplift the economically challenged segment of the society as well as on ways to harness the entrepreneurial eco-system.

This study is undertaken as part of the research work for my post graduate studies with relatively smaller sample size due to time and resource constraints, however, given the limitations we have tried to establish an argument stemming from ethical grounds and is particularly focused on how the innovative tool of interest free micro-credit can be instrumental in addressing poverty and fostering socio-economic development.

While setting future research directions and amid growing concerns surrounding micro-credit debt-traps, leading economists have stressed on the need of more innovative approaches that are not just more inclusive but tantamount greater benefit for its users than the harm it posits for its beneficiaries (Banerjee et al., 2015, p. 20).

THEORITICAL FRAMEWORK

To construct our research framework or in other words the guide or the research blueprint (Grant & Osanloo, 2014), starting off developing an astute understanding of the core fundamentals and objectives of islamic financial system (also known as ethical finance) as covered in detail through a series of publications by International Shariah Research Academy for Islamic Finance (ISRA) as well as the commendable work produced by the other leading domain experts such as Dr. Asad Zaman, Hossein Askari, Zamir Iqbal, Abbas Mirakhor, Mohammed Obaidullah and others on Islamic economics, microfinance, concept of taxation in Islamic finance, ethical balance and shared prosperity to help address poverty and inequalities to harness inclusive development for the communities.

In pursuit of tracing answers to our research question and to further broaden our narrative, we encapsulated prominent micro-credit models and experimental researches done on poverty alleviation and income inequalities including the work done by the likes of noble laureates Mr. Banerjee, Esther Duflo, Micheal Kremer and others in the field of development economics. The narrative was further validated by collating with some of the critically acclaimed works done by

the distinguished development economist Paul Collier particularly for his work on the pitfalls of Capitalism as presented in the Future of Capitalism, while drawing a close insight into the lives of the most marginalized, poorest and most vulnerable segment of the people on the planet by diving deep through Collier's masterpiece, The Bottom Billion. Similarly an in-depth account by Lesley Sherratt in her work on ethical side of microfinance 'Can Microfinance Work' to help us find the common grounds between the general ethical practices and the ethical approaches as presented in the literature emanating from Shariah compliant (Islamic) economic system.

Finally we built our research case on the world's largest Akhuwat Foundation's Islamic Microfinance model and its impact on the social wellbeing of the society due to the interest free lending as well as in achieving self-sustainability through establishment and sustenance of small and micro enterprises.

Compared to other notable micro-credit programs - such as Grameen Bank Bangladesh founded by the Nobel Laureate Dr. Muhammad Yunus, Rural Support Programs Network (RSPN) Pakistan, BRAC Bangladesh Ultra Poor Graduating and Enterprising model, KIVA.org technology driven peer-to-peer (p2p) microfinance lending platform which works on charitable donations or micro-lending by the individual philanthropist (Ly & Mason, 2012, p.1036) and other such interventions - the reason for choosing Akhuwat's Islamic Micro-finance model is because of its closest proximity with the Islamic economic model and values as elaborated in this paper.

Poverty & Giving in Islam

According to the World Bank, an estimated 711 million people lived in extreme poverty—defined as surviving on less than \$1.90 per day—in 2021, which equates to about 10% of the global population.

The holy book 'Quran Sharif' followed by Muslims all across the globe greatly emphasizes on giving donations and charities from one's wealth to those who are needy

and whatever you spend, HE will replace it; and He is the best of the providers (Ch 34:39)

In the later part we will discuss the concept of Zakat which is an obligatory charity/donation prescribed by Islamic doctrines on all eligible Muslims.

Inequalities

Important Concepts of Islamic Economic System

On top of the core pillars of protection as presented in the Objectives of Islamic (Maqasid Al-Shariah) the economic model presented by Islam has laid down some fundamental principles to curtail the roots of the problem that leads towards the socio-economic injustice, unfair distribution of wealth, corruption and malpractices in the society. These include prohibition of Interest on loans (Riba), uncertainty (gharar), and gambling (maysir) which are deemed as the main sources of harm. Those prohibitions are intended to avoid inequitable distribution and unfair exchange of wealth in the economic system (ISRA, 2016)

Qard e Hassan (Loan without interest)

Since interest is strictly prohibited in Islam therefore, people with financial means are encouraged to give loans to others without implication of any exploitative terms and conditions. All such loans which are awarded without the condition of interest or any extra favor are referred as Qard-e-Hassan.

The underlying philosophy behind Qard-e-Hassan is very important to understand. It is because Islam encourages economic activity over accumulation of wealth therefore, promotes loan without interest to make it easy for the borrowers sustenance and economic uplifting.

Model of Charity in Islam (Zakat)

The concept of Zakat in Islam is closer to the model of 'Taxing the Wealth' in the modern world. Islam instructs its followers to offer Zakat (mandatory financial charity) on your wealth once every lunar year to make ones wealth clean from all ills and to remove the love and greed of wealth.

The spirit behind the aforesaid concepts is to create a society based on the principles of shared prosperity and welfare for all.

Evolution of Microfinance As a Development Tool

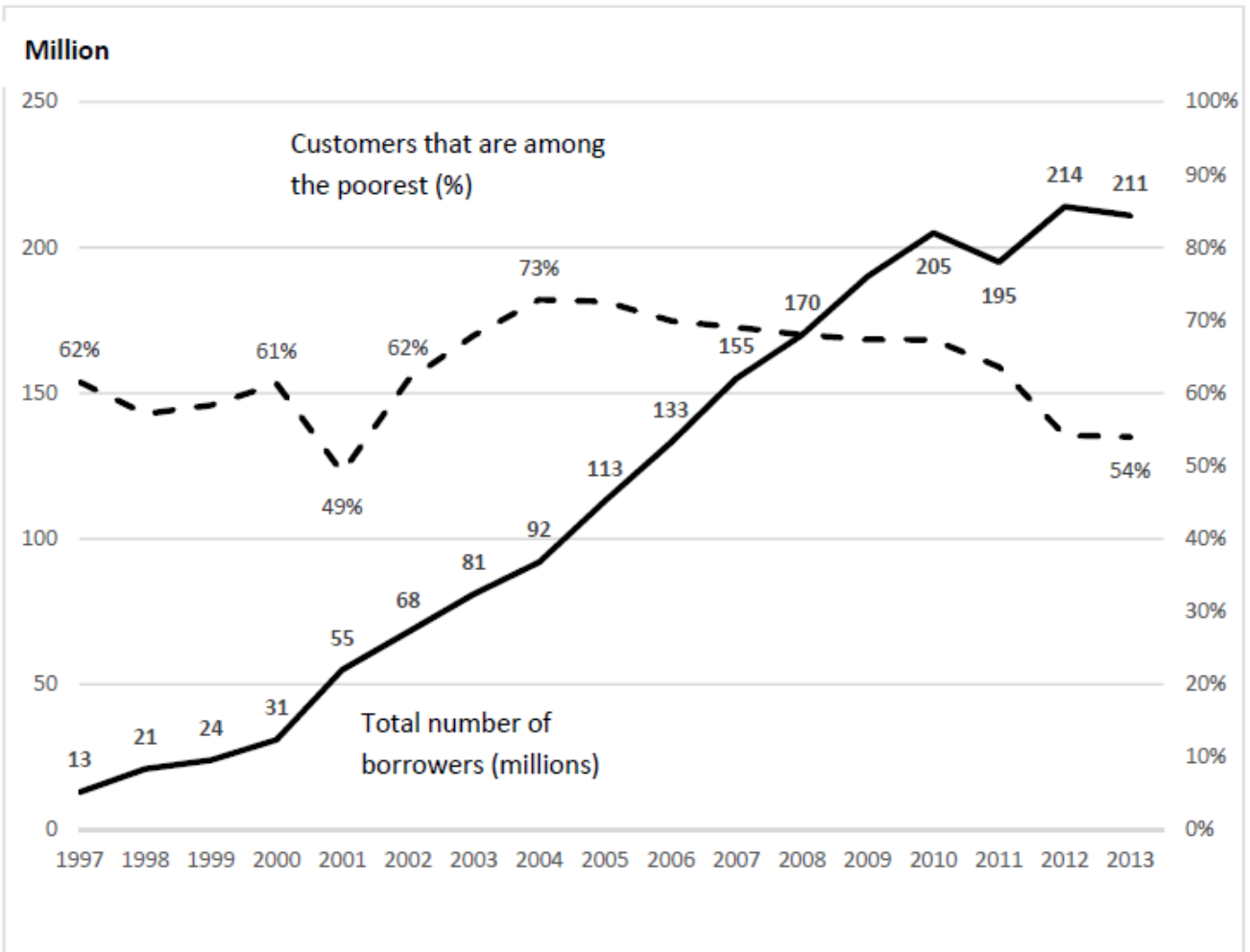
Before the advent of one of the world's premier microfinance Grameen bank, the conventional financial system has been shy of awarding credit facilities to the economically vulnerable segment of the societies due to the low profitability structure, zero credit ranking and their inability to pledge some collateral to secure financing (Grameen Bank, 2019). According to the views of modern day founder of microfinance Professor Muhammad Yunus, a noble laureate who also happened to be the founder of "Grameen Microfinance Bank" Bangladesh expressed:

If financial resources can be made available to the poor people on terms and conditions that are appropriate and reasonable, these millions of small people with their millions of small pursuits can add up to create the biggest development wonder (Grameen Bank, 2019)

After gaining wide-spread prominence back in the late twentieth (20th) century; with a multifold increase in the size of the microfinance industry with borrowers base from nearly 8 million in 1997 to surpassing 137 million in 2010 (Banerjee, et. al, 2015); a number of researches have been carried out on microfinance in last couple of decades to examine its inherent claim of fostering entrepreneurial growth and addressing poverty specially in the context of struggling and developing economies (Bruton, Ahlstrom, & Si, 2015; Parker, 2009; Weber & Ahmad, 2014; Zhao & Lounsbury,2016).

Microfinance has existed, although informally and mostly in the shadows and unseen by casual observers, since the rise of formal financial systems, and indeed probably predates them. It has only been within the last four decades, however, that serious global efforts have been made to formalize financial service provision to the poor. This process began in earnest around the early to mid-1980s and has since gathered an impressive momentum.

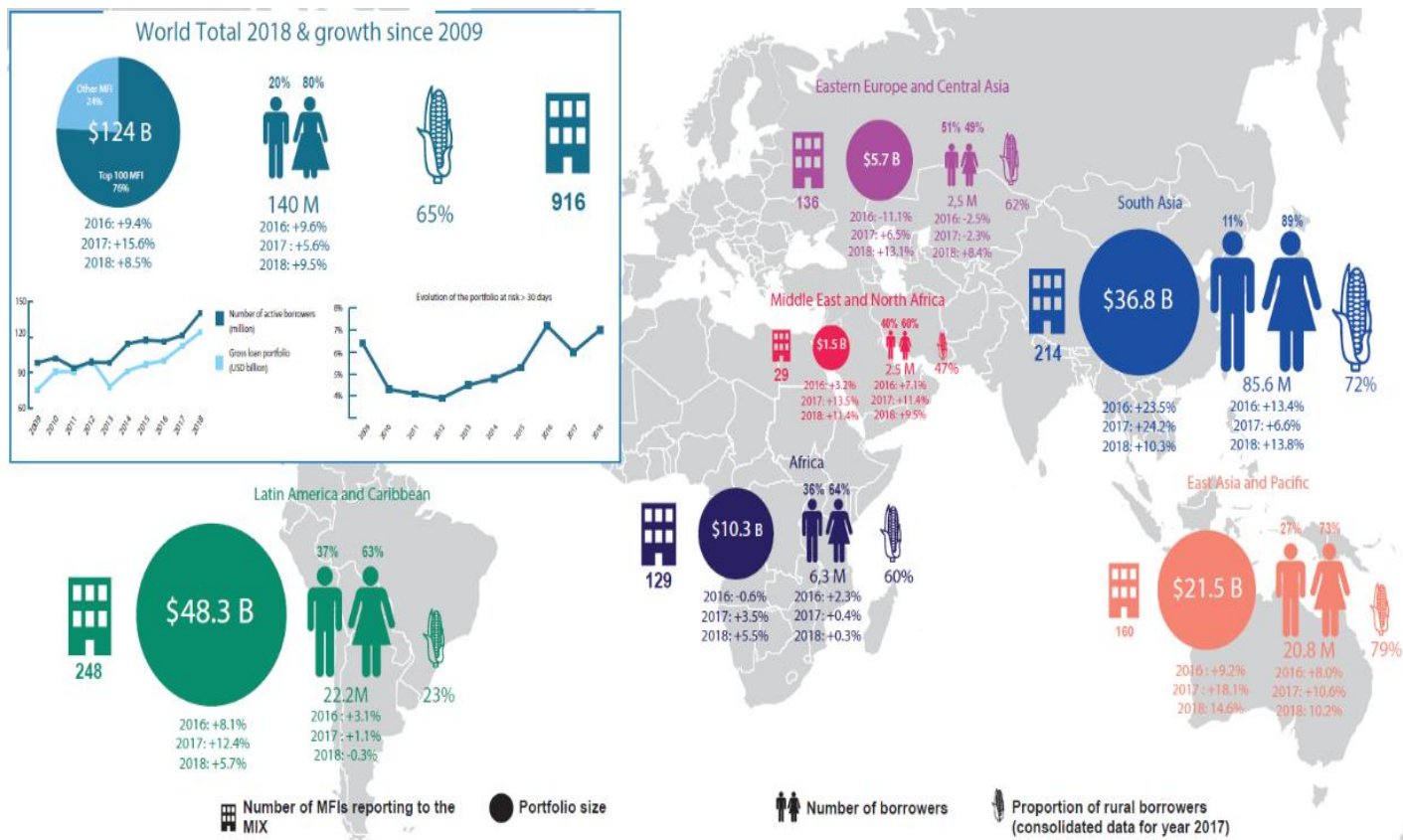
Figure 6. Microfinance Borrowers, 1997-2013 (Millions)



Adapted from Figure 1, Microcredit Summit Campaign. *State of the Summit Report 2015*
<https://stateofthecampaign.org/data-reported/>

Today there are thousands of Microfinance Institutions (MFIs) providing financial services to an estimated 100 - 200 million of the world’s poor (Christen et al., 1995). What began as a grass-roots —movement motivated largely by a development paradigm is evolving into a global industry informed increasingly by a commercial/finance paradigm.

Figure 7. Global Microfinance Figures and Trends since 2009



Since 2010, the Microfinance Barometer analyses key figures on financial inclusion worldwide, using MIX Market figures on the global microfinance market.

(Source: <https://www.convergences.org/en/119115/>)

Microfinance, though generally is a tool granting access to finance for the economically challenged group of the society has gradually evolved as a popular vehicle used by non-poor groups as well such as low to medium scale business owners, traders, small farmers etc. (Alamgir 2009). Besides some fundamental characteristics that microfinance is attributed to such as rise in income level, health and education spend (Malcom, A. & Bhandari, C.A. N. 2021, p. 3) another area for which the micro-lending can be accredited for is the women empowerment as most of such interventions in the developing world has put great emphasis on capacity building of women in running small and micro enterprises (Fernando, 2012).

With some contrast, the results of experimental research done by another noble laureate Mr. Banerjee and his fellows concluded that microfinance could be helpful in some case for some people but on standalone basis one cannot single out micro-financing as the key determinant to

help fix poverty. (Banerjee & Duflo, 2012). Hugh Sinclair not only questions the long term impact of microfinance on addressing poverty but he goes one step further in his work on *Confessions of Microfinance Heretic* and presents his critique on the existing model of microfinance where the Microfinance Institutions (MFI) getting better off while the borrowers are trapped in debt spirals due to high interest rates leading towards further economic distress resulting in revolts, forced prostitution, child labor, borrowers committing suicides due to their inability to repay (Sinclair, 2012). Sinclair strongly emphasizes the much needed structural reforms by integrating more inclusive ethical practices adopted by a handful of the MFI focused on the prosperity of borrowers and not just the profitability of the lending institution (ibid).

In their critically acclaimed work on the *Miracle of microfinance*, Banerjee and his peers draw our attention towards the structural deficiencies of the model and criticizes its lack of promoting sustainable entrepreneurship hence due to this inability, the model of microfinance comes under direct criticism (Banerjee, Duflo, Glennerster, & Kinnan, 2015).

How philosophical tools can be put to work in examining pertinent issues in development discourse? Sherratt (2016) not only puts an unflinching picture of the existing practices on micro-credit for development, but she balances both the evidential and ethical considerations with precision emphasizing the much needed reforms for the microfinance industry.

Akhuwat Islamic Microfinace (AIM) & INNOVATION

The philosophy of Akhuwat foundation which mirrors the Islamic economic framework is based on the pillars of compassion and equity (Bashir et al., 2019, p. 102). The kind of innovation Akhuwat brings through Islamic micro financing by offering interest free financing facility to establish or scale small and micro enterprises, not only gives her the distinct edge over its counterparts but challenges the status quo of other MFI charging nominal to higher interest rates. In one such randomized control trial (RCT) study (2015) by Banerjee and peers draws our attention towards various MFIs charging nominal to higher interest rates between 12 to 27 percent and going as high as 110 percent per annum making it extremely difficult for the borrowers to come out of such debt-traps without default. Excerpt of the findings has been

presented in the table below and detailed findings of the study can be seen in the Appendices section.

Table 2. Study: Six Randomized Evaluations of Microcredit

	<i>Bosnia and Herzegovina</i> 1	<i>Ethiopia</i> 2	<i>India</i> 3	<i>Mexico</i> 4	<i>Mongolia</i> 5	<i>Morocco</i> 6
<i>Loan Interest rate</i>	22 %	12 %	24 %	110 %	26.8 %	14.5 %
<i>Market interest rate</i>	27.3 %	24.7 %	15.9 %	145 %	42.5 %	46.3 %

(Source: Banerjee et al. 2015, p. 6)

Conversely, due to absence of any extra payments over and above the principal amount immensely benefits the AIM borrowers due to easy of repayments without exorbitant interest payments as in the case of other MFIs. Another distinct feature AMI enjoys is the repayment (recovery) rate from borrowers which is above 99 percent making it the highest in the world among all such micro-finance interventions (Akhuwat, 2021).

Since its inception in 2001, so far Akhuwat has disbursed approximately PKR 155 billion of interest free micro-loans among more than 5 million borrowers all over Pakistan who are running their micro enterprises (Akhuwat, 2021).

As Akhuwat’s core program, Akhuwat Islamic Microfinance (AIM) provides interest-free loans to the underprivileged in the form of a group to enable them in creating sustainable pathways out of poverty. With 800+ branches in over 400 cities across Pakistan, making AIM the largest interest-free microfinance program in the world (Akhuwat.org, 2021).

With over 220 million habitants, nearly one fourth of Pakistan’s population is living below the poverty line (PIDE, 2021) and with widening gaps between the demand and supply of jobs available, large scale interventions such as AIM is catalytic in creating safety nets for the

neglected segment of the society and how its cementing the likelihoods of success and prosperity, we also cited the examples from the developed countries having highly governed skills education infrastructure.

With the help of the collected evidence through semi-structured interviews and discussed at length in the analysis section, the key focus of our study was to examine the efficacy of Akhuwat Foundation's interest free micro-financing program and how it has influenced different variables of the Human Development Index (HDI) such as Income, economic engagement, education, women empowerment etc.

This arguably is a food for thought for financial experts, development practitioners, researchers and policy makers to further dig in and critically examine the underlying attributes offered by the Islamic microfinance and its impact on borrowing decisions of those who cannot afford to secure collateral based financing from banks and other financial institutions can now avail the facility with ease and without interest.

In our next chapter of we will cover in detail about the model, structure and expansion of AIM over the last 20 years in becoming the largest Islamic Interest-free microfinance organization in the world.

CHAPTER THREE: AN OVERVIEW OF AKHUWAT ISLAMIC MICROFINANCE (AIM)

The Humble Beginning of a Bigger Journey

Akhuwat microfinance bank founded in the year 2001 by an ex-Civil Servant Dr. Amjad Saqib (recipient of 2021 Ramon Magsaysay Award, referred as the Asian Nobel Prize) with an idea of establishing an entity or institute where people can be awarded small loans on very easy terms to help them pursue their small or micro enterprises. Stemming from this thought that instead of giving them charity or donations and keeping them dependent all their lives, providing them interest free loans is much better in order to make them a responsible and productive member of the society. Further, this not only make them self-sufficient but enabling the borrowers to earn a dignified and respectable living for oneself and for their families (Field Work 2021 and Akhuwat.org.pk).

In his own words what Akhuwat is, Dr. Amjad Saqib narrates:

Akhuwat is a philosophy, an idea, a thought where we envision a world with every person has the means available for a dignified living, every kid is enrolled in school, those unwell have access to medical treatments, everyone has the basic shelter for living and where the society is rooted with socio-economic justice.

Starting with its first loan of ten thousand (10,000) Pakistani rupees (equivalent to USD 162 back in 2001), to a widow with 4 kids for starting her own sewing /stitching works, Akhuwat has now transformed into the world's largest Islamic financial institution providing interest free loans to its borrowers through its branch network spread all across Pakistan (Bashir et al., 2019, p. 102).

Other Programs offered by Akhuwat

To further its mission and philosophy of brotherhood, compassion and humility towards a poverty free and equitable world, Akhuwat striving its objectives through various initiatives:s

Akhuwat Education Services where Akhuwat has adopted various schools, colleges, research centers across the country including of their landmark achievement of establishing Pakistan's first Fees-Free University in the city of Kasur, Punjab (Field Work 2021 and Akhuwat.org.pk). It is pertinent to mention that besides adopting academic units like schools and colleges, Akhuwat extends financial support to the needy students by providing them interest free loans on very easy terms to ensure that no deserving student is unable to continue education just because of the financial constraints (ibid).

Akhuwat Transgender (KhwajaSira)Support Program where transgender are offered decent working opportunities after building their capacities on different skills such as stitching, garment selling, kiosks, embroidery, grocery store, beauty salon etc. Transgender are also offered interest-free micro loans to establish their small business set-ups (ibid).

More than 2000 transgenders are registered with Akhuwat under AKSP. The program works with the vision of creating a system of support for members of the Khwajasira community. This is done through economic and social interventions whereby thousands of Khwajasiras have been registered across the country and are supported through direct financial assistance, health services, psychological support and acquisition of identity documents (ibid).

Transgender being a sensitive subject in our society, initiatives like these not only helping us with the mainstreaming of transgender in the regular professions but enabling them to earn a respectable living (ibid).

Akhuwat Clothes Bank an initiative where old clothes donated by the community gets redistributed among the needy ones in a decent packaging and after necessary sorting. Although this collection and distribution of clothes remains active throughout the year but it gets aggravated particularly during winter season and also during the time of any natural disaster due to increased demand by the communities affected (ibid).

Through Akhuwat Clothes Bank Gift Shop, any person in need can walk into the store, choose the suitable clothing item and can walk away without any payment.

Another important aspect of Akhuwat Clothes Bank is the engagement of transgender in the processing of clothes collected from the donors. Clothes collected from the donors are sorted, repaired, stitched and packed by the transgender employed at the organization so they can earn a decent livelihood and live a life of respect and dignity (ibid).

Akhuwat Health Services (AHS) an initiative to establish basic health care facilities in rural and urban areas to make it accessible and affordable for the masses specially the deprived communities. This includes subsidized medicines, lab tests, free examination and consultation to those families that are unable to afford basic health care (ibid).

With the support from passionate medical practitioners Akhuwat has opened various clinics and test facilities including Diabetes Center, Gynecology Clinic, Psychiatric Clinic and a General Clinic. Purposely built playrooms for in public hospitals offering a refuge for children and their families who often spend days and months in hospital wards (ibid).

Akhuwat Low Cost Housing Project an initiative that aims to provide shelter to those with low income by providing them interest-free loans upto PKR 500,000/-. This initiative is an excellent example of public-private partnership where the government provides the financing to AIM for onwards distribution to the eligible ones through its efficient network present across the country (ibid). This house financing is generally provided for following purposes:

- Entire New Construction or Lanter for new house.
- Addition of rooms, kitchen & bathroom etc.
- Renovation & upgrade

Due to the increased financing limit, on one end where it enables the low income segment of the society to own their residential units, on the other hand this challenges the status quo by giving the conventional MFIs a run for their money.

Akhuwat Food Bank an initiative to provide healthy food among deserving families in a dignified manner.

A country where millions of people are suffering from chronic hunger and do not possess enough to eat and live a healthy and active life, such initiatives making a stride to further zero hunger goal as laid down by the UN SDGs 2030.

Akhuwat Village Adoption Program where small villages are adopted by Akhuwat to help transform them into model villages by providing necessities and proper sanitation infrastructure. Providing decent living and shelter to the deprived ones is very close to the AIMs philosophy and village adoption is a testament.

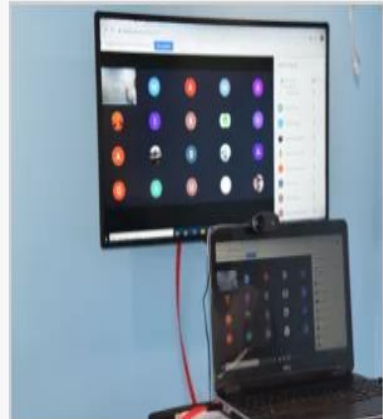
Below are some of the pictures of different facilities of Akhuwat Foundation and also of the various activities it performs nationwide to further its mission (source: Fieldwork 2021, Akhuwat Facebook page, NJV website).



NJV School in Karachi – Adopted and Run by Akhuwat (site of our fieldwork)



AIM Loan Processing Center at NJV School Karachi



Purposely Built Pods in Containers for e-Learning at NJV School
(Interviews were conducted in pods)



A View Library at NJV School





Glimpse of Curricular and Extra-Curricular Activities at NJV School



Akhuwat College for Women in the city of Chakwal, Pakistan



Akhuwat University in the city of Kasur, Pakistan



Transgender employees working at Akhuwat's Cloth Bank

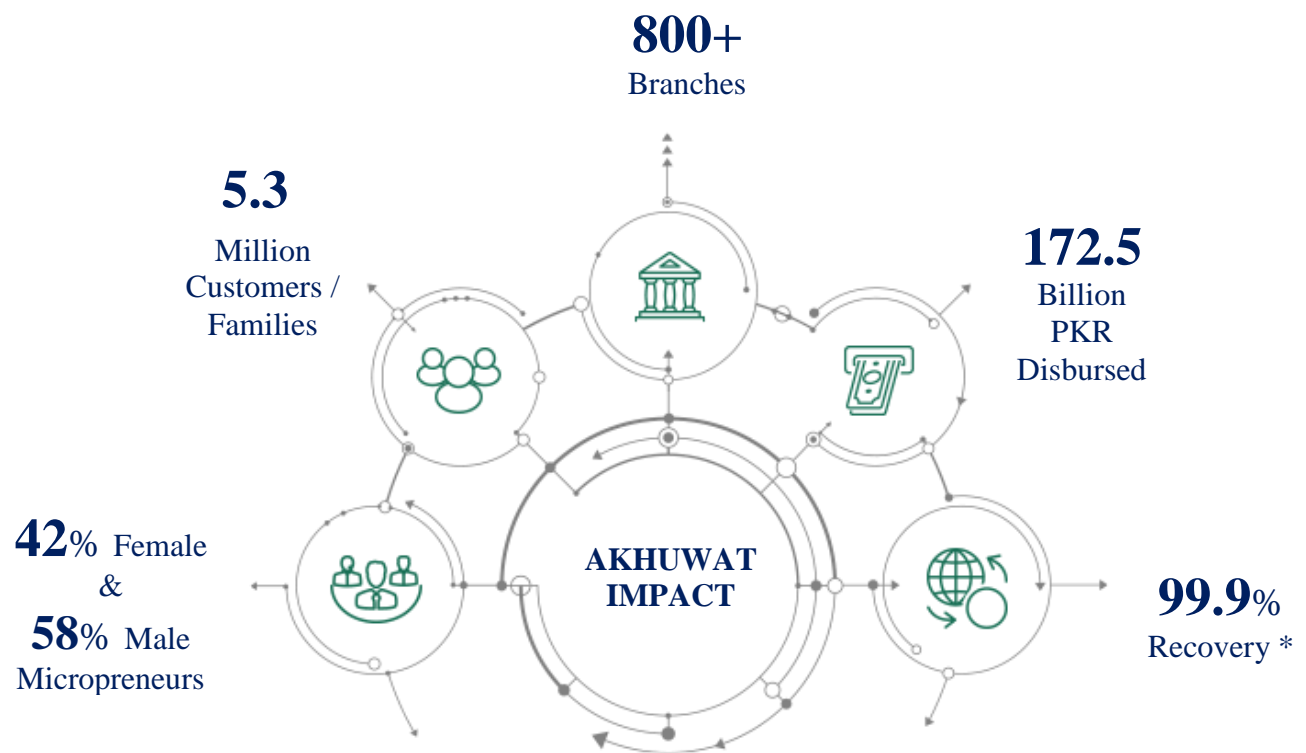


Food Bank by Akhuwat Foundation (Akhuwat Facebook page)

Akhuwat's Impact

Starting from a non-formal structure, over the years AIM has progressed by leaps and bounds to become the world's largest Islamic Microfinance organization with its loan disbursements exceeding billion dollar and beneficiary base over 5 million families.

Figure 8. Akhuwat's Impact



* Highest in the world by any MFI

Source: Akhuwat Progress Report 2022

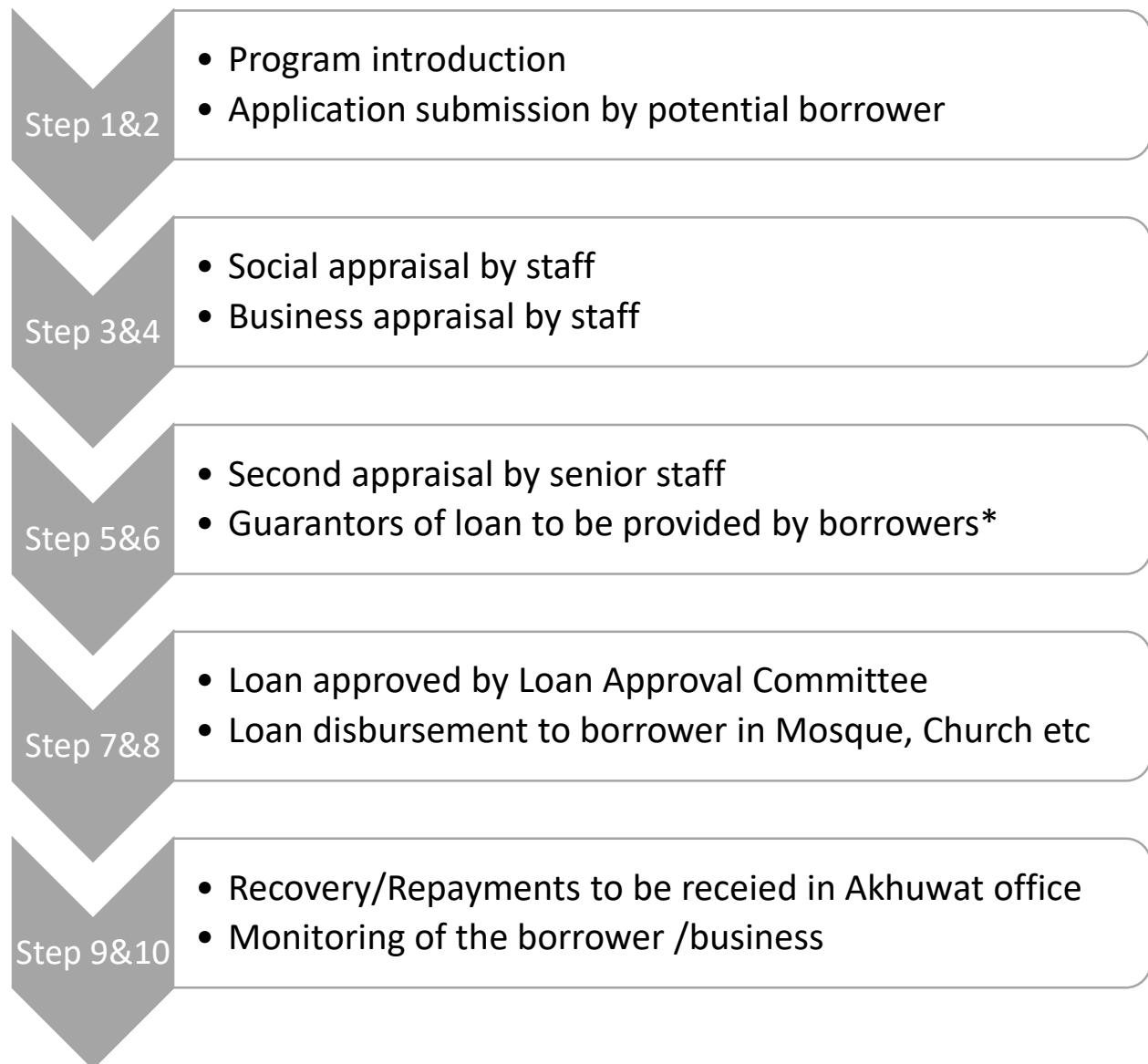
Figure 9. AKHUWAT & SDGs



Akhuwat continues to support the targets envisioned by the SDGs. Through interventions including interest-free microfinance, low-cost quality education, inclusion of the marginalized, rural development and providing access to WASH facilities.

Source: Akhuwat.org.pk

Figure 10 Akhuwat Loan Process



* Generally for individual lending cases

Source: Field Work 2021 and www.Akhuwat.org.pk

A Pleasant Surprise

During our field work at AIM center where we met and interviewed the research participants, it was surprising to learn that AIM offers no conventional office models like chairs and desks in any of its branch offices dealing with the existing and potential borrowers. All the management /

staff / loan officers as well as the borrowers sit on the carpeted floor to discuss matters relating to loan information or to finalize the loan documentation process.

Upon inquiry it was told that as a conscious effort to inculcate the culture of humility inspired by the Islamic value system, to make the entire process highly comfortable for borrowers and to ensure that the self-esteem of the borrowers are not hurt, this practice of non-conventional branch offices was initiated years ago and due to the overwhelming appreciation by the donors, borrowers, supporters and stake holders this model has become part and parcel of the AIM program (Fieldwork 2021).

Who can Borrow?

Akhuwat awards micro-financing in the form of both group lending as well as individual lending to its borrowers between the ages of 18 – 62 years. However, decision of lending methodology depends upon the loan product as well as project specific requirements.

Not only the borrowers should bear a good moral standing in the community irrespective of his/her economic background but also should not be convicted of any criminal offence in lieu of which proceedings are in progress.

Use of Holy Sites for Disbursement

Another interesting aspect of Akhuwats model is their collective disbursement activity which takes place at different holy places such as mosques, churches, temples etc. Though the AIM draws its roots and values from islamic economic system but its beneficiaries are not restricted to muslims only but include people from all races, religion, sect, ethnicities, cast, color etc.

While one reason of disbursement using holy places is to harness a culture of brotherhood among the beneficiaries develop, on the other hand this helps build normative pressure on the recipients

of AIM loans and they feel more obligated to payback their interest free micro-loans on time to ensure good credit profile for the next request.

AIM – A Vehicle to Augment Large Scale Development Internations

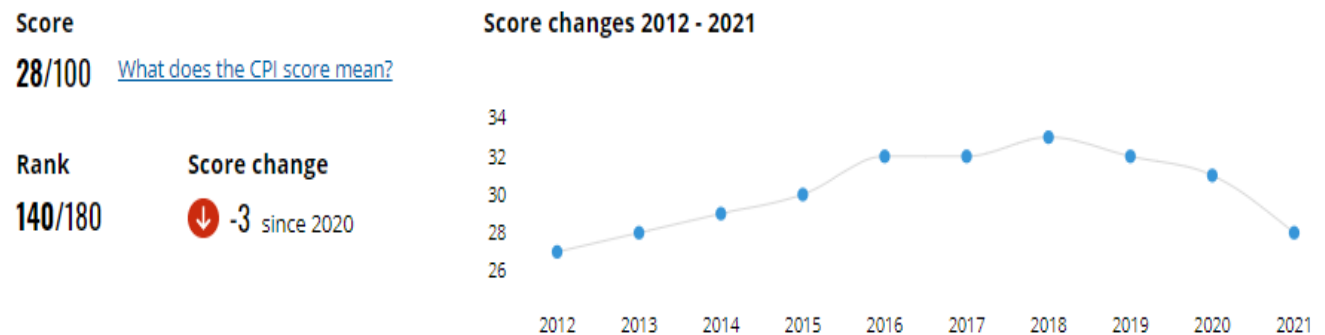
With its increasing country wide operations and the reputation it has sealed over the years, AIM has emerged as the leading option for the Government of Pakistan to partner and execute its financial support programs targeting bottom of the pyramids.

Specially in the last decade, such partnerships have grown at a steady pace where mostly the public sector capitalizes on AIM’s network to administer various initiatives including disbursement of government’s interest free loans for business and housing purposes to using AIM for executing transfer payments etc.

The Miracle? Highest Repayment Rate of 99.9%

A society which ranks lower on various socio-economic indices and where the corruption in the public sector ranks higher according to the corruption perception index 2021 (Transparency.org, 2021), achieving the highest repayment rate with its beneficiaries exceeding 5 million and not just for a year or two but continuously in a row for almost two decades is nothing short of a miracle.

Figure 11. Pakistan Score – Corruption Perception Index (CPI) 2021



On one end where this repayment rate testifies that the CPI figures may not reflect the masses, on the other hand it speaks volume about AIM's model of brotherhood and compassion.

Table 3. AIM - Year Wise Progress Report (and Repayment Rate)

Year	Indicators					
	No. of loans	Amount Disbursed	% of recovery	Cities	No. of branches	No. of Employees
2001-2002	192	1,895,000	100%	1	1	3
2002-2003	282	2,791,300	99.90%	1	2	3
2003-2004	832	8,504,000	99.90%	1	4	12
2004-2005	3,124	31,811,000	99.90%	1	7	32
2005-2006	6,264	66,020,700	99.90%	6	11	50
2006-2007	8,674	89,935,600	99.80%	10	18	75
2007-2008	11,388	122,445,242	99.80%	10	20	76
2008-2009	13,821	164,226,000	99.80%	11	22	101
2009-2010	21,073	251,808,800	99.80%	24	36	186
2010-2011	34,194	418,211,100	99.80%	33	60	343

2011-2012	67,683	1,137,684,000	99.83%	105	81	615
2012-2013	159,138	2,580,467,000	99.82%	165	169	869
2013-2014	234,883	4,047,109,100	99.85%	219	271	1549
2014-2015	367,798	7,310,527,000	99.92%	233	357	2013
2015-2016	496,458	11,205,522,500	99.92%	291	500	3497
2016-2017	619,396	16,585,952,800	99.96%	386	683	5693
2017-2018	731,302	21,607,796,495	99.99%	435	791	4,427
2018-2019	633,987	19,649,563,816	99.99%	400	813	4,235
2019-2020	760,322	27,905,837,674	99.99%	425	836	3,855
2020-2021	658,979	28,647,079,096	99.99%	450	791	3,698

CHAPTER FOUR: METHODOLOGY

Through this important section of our research thesis, we allow our readers to evaluate the reliability and validity of the research. To address our research problem comprehensively and to make our research findings more concrete, we have relied on primary data and employed qualitative and participatory approaches to further our research inquiry.

Research Methodology

Research method is simply “a technique for collecting data, involving a specific instrument, such as a self-completion questionnaire or a structured interview schedule, or participant observation whereby the researcher listens to and watches others” (Bryman 2012, 46).

As Bedson (2009) explains, with various researches being conducted in the area of microfinance employing different approaches, standard framework and design is still considered a challenging area when it comes to assessing the impact of such microfinance interventions. The reason why different parameters being employed is because of the varied background of the researchers ranging from individuals researchers to academic contributions to donors and government.

To structure our research, we employed both the qualitative and participatory research methods. The purpose of blending both these research approaches as explained by Linda (2006, 118), particularly in the development research is not only to assess this new practice in social research but to also see how the relative strengths and weakness of both the methodologies could help us develop a better framework for the intended outcome we are looking at. In short it helps us to understand the phenomenon better. Besides the embedded shortcomings of quantitative methodology as a tool for social or development research (Rahman, 2017), the other reason why we opted for qualitative and participatory approach is the direct access to meet, interact and witness the real experiences of the intended audience hence subsides any element of technical limitation or interpretation generally posed by the quantitative methodology (ibid). Also, to factor in the empowerment and social change that any such intervention has brought at participants level.

Moreover, Linda (2006) contends that because of the overwhelming emphasis in many development agencies on economic growth and the economic dimensions of poverty, qualitative and participatory methods has the power to achieve the desirable frills in the development discourse.

Research Design

Research design allows for the technical design of the research in a suitable manner. Norman (2010) in a similar vein, affirm that research design is a technical document that is developed by one or more researchers and is used by them as a guide or plan for carrying out a research project; whilst Bryman (2012, 46) defines research design as the framework for the collection and analysis of data, and the choice of research design reflects decisions about the priority being given to a range of dimensions of the research process.

Philosophical Background of The Research

For the philosophical foundation of research we generally rely on three fundamental questions, namely ontological, epistemological and methodology questions (Guba and Lincoln, 1994). The one that deals with the nature and form of reality represents ontological questions as in the case the research is designed as case study and the ontological position grounded on subjective reality. The epistemological part revolves around belief about knowledge and together with the subjective ontological position, we can safely say that this research case is an example of interpretive epistemology. The last out of the three fundamental question is about the applied methodology used to explore the beliefs of the researcher. Considering the other two fundamentals (ontological and epistemological) questions, a researcher can select qualitative, quantitative or a mix of both approaches. The data related to people's opinions, understanding, and motivation are difficult to measure by numbers and are analysed in qualitative research. The quantitative research handles numeric data by statistical analysis (Bryman, 2016, p.374, 375). Since this research study is largely related to the study of a case within real life and partly

supported by statistics, therefore, it is more suitable to conduct through qualitative research methodology.

Sampling and Sampling Technique

In addition to exploring the academic and empirical studies in the area of our research, to carry out the participatory element of our study and to further our research inquiry on ethical finance we chose Akhuwat – the world’s largest Islamic microfinance institution. To gain first-hand knowledge of the program and its attributes, we engaged the following groups as research participants after seeking necessary permission from Akhuwat Foundation.

- A. The beneficiaries or the borrowers of Akhuwat foundation’ microfinance facility (20 borrowers)
- B. Senior Management personals of Akhuwat foundation (4-5 individuals from senior management)

For group A, two basic parameters were set for choosing beneficiaries for one-on-one interviews for the participatory part of our research

- i. Beneficiary of Akhuwat Islamic microcredit program must be a repeat borrower / customer.
- ii. The sample of 20 participants should have a good mix representing both male and female borrowers.

For this study, the reason for choosing sample of repeat micro-credit borrower of Akhuwat’s Foundation instead of fresh borrowers was to learn about their overall experience of borrowing from Akhuwat as well to understand their reasons and motivation of coming back to the parent MFI.

To make these participants part of our research was achieved with the help of Akhuwat foundation who being the lending organization is the custodian of beneficiaries’ database and contact information. Apart from the holistic permissions obtained from the concerned authorities,

we also sought and recorded the consent from individuals before we engaged them for this field research.

For the participatory part of our research which is comprising of semi-structured interviews with both the participant groups. For group A which includes 20 such micro-credit repeat borrowers - with 55% comprising of female participants, - falling in the median age bracket of 35-40 including both male and female, the interview was based on a set of 20 to 25 questionnaires covering the socio-economic aspect and the change this Islamic micro-financing brings in the lives of its beneficiaries. Similarly for group B which includes senior officials of the Akhuwat Foundation, relatively a small sample comprising of 4 to 5 senior management personals were interviewed as part of our research study to understand the model of the largest Islamic microfinance organization and to help decipher its effectiveness.

Further, since the research was conducted in Pakistan where majority of the population uses the national / regional languages for day to day affairs, we kept our research questionnaire, communication and support documents bilingual using English as well as Urdu (the national language of Pakistan) as the primary language to make it a level playing field for all the participants coming from economically challenged backgrounds.

For interviewing the senior management personal of Akhuwat located across different regions, we used the digital means (zoom) to conduct the in depth interviews to better understand the model including its journey since inception, business operations, challenges, future plans etc. and also its impact towards alleviating poverty and harnessing entrepreneurial eco-system by uplifting the financially excluded and vulnerable.

Research Fieldwork and Covid-19

It is pertinent to highlight that the field research was conducted during Covid-19 pandemic therefore, as part of ethical considerations and in conformity with research guidelines, strict Standard Operating Procedures (SOPs) were followed to minimize any health related risks while meeting participants for the purpose of semi-structured interviews at one of the major Akhuwat offices located in Central region Karachi, Pakistan. In order to strictly adhere to the health and

safety guidelines, instead of visiting participants places for interviews they were requested to visit the AIM’s NJV office in Karachi where it was more manageable to comply with the Covid-19 SOPs.

NJV is an old purpose built school in Karachi which has now been taken over by the Akhuwat Foundation as part of their school adoption program. Akhuwat not only looks after the entire management and operations of the NJV School Karachi but over the years they have transformed it into a model school following best in class education standards for the less privileged segment of the society. Some pictures of this state of the art NJV school can be seen in the next chapter.

Data Collection and Research Instrument

We have learnt that research method is simply “a technique for collecting data, involving a specific instrument, such as a self-completion questionnaire or a structured interview schedule, or participant observation whereby the researcher listens to and watches others” (Bryman 2012, p. 46).

Hence, semi-structured questionnaire was employed and administered on the respondents as the research instruments for eliciting information from the AIM beneficiaries. The choice of semi-structured questionnaires was because it is cheaper and quicker to administer, and very convenient for respondents to respond to. The questionnaire comprised of 20 - 25 questions with a combination of subjective, closed ended and 5 point Likert scale response as illustrated below:

Strongly Agree	SA
Agreed	A
Neutral / Undecided	N/U
Disagree	D
Strongly Disagree	SD

Similarly, another questionnaire was employed and administered to gather data and insights from the AIM senior management based on subjective, open ended and closed ended questions to understand how the model of AIM differentiates itself from the other microcredit programs and also to ascertain the impact AIM has created over the years.

Validity and Reliability

To give credence to our research work validity and reliability of data and instrument is pivotal, irrespective of the research type (Bryman, 2016, p.383). Validity and Reliability are concepts used to evaluate the quality of research as they indicate how well a method, technique or test measures something, where validity measures the accuracy of data collected while reliability focuses on the consistency of a measure (ibid).

For this research design we selected case study method as this approach provides the researcher greater room to collect data and insights through different sources of information. (Baxter & Jack, 2010, p. 556). The exploration of scholarly articles provides views of the knowledge and perceptions of historical improvements. Therefore, the mix of the two research approaches such as deductive and inductive one have been applied for this research study to design the case study. To see how beneficial and impactful the AIM has been for the participants and to better understand their experiences, we designed our research instrument with a mix of subjective and close ended questions. This not only helped us collecting overall experiences but also provided us with the data and insights regarding the socio-economic empowerment of the participants. While conducting in-person interviews we kept the environment very relaxed so the research participants can freely share their share their experiences without any limitation or hesitation. On average, most of these interviews lasted between 40 and 50 minutes with respondents given most of the time to express their views in response to the questions.

As part of the ethical considerations and to comply with the NSD research guidelines, all the data collected including the participants information and audio recordings of the interviews were safely stored in a password protected folder at the UiA OneDrive. Only the researcher and the supervisor has the full access to this password secured information.

Approvals and Permissions

I obtained permission from the Norwegian Centre for Research Data (NSD) which required for personal information related research activities in Norway (e.g. NSD permission to collect and store personal data). The whole process of data collection has been conducted by adhering to the NSD ethical guidelines. Informed Consent and permissions have been obtained from the participants as well as the organization to collect data for the research project. Necessary action has been employed to protect the privacy and confidentiality of each participant.

It is pertinent to highlight that all the consents given by the participants were on voluntary basis and they were given the right to withdraw their consent at any stage of the research work (Etikkom, 2016).

Challenges and Risk

Following are some of the challenges that as a researcher we came across while carrying out the entire research work with some obvious fallouts on the project timelines and its outcomes

Research in the times of Covid-19 Pandemic:

The first and foremost challenge that superseded all other obstacles in our way of conducting research was that of the Covid-19 pandemic. The novel corona virus which was first surfaced in the late 2019 spread all across in a matter of weeks and months resulting in strict measures by the state authorities to control the spread of this highly contagious viral disease. The spread is so severe that in last 11 months since the emergence of the first Covid patient, there has been more than 60 million infected cases globally with casualties exceeding 1.4 million as we write this piece (WHO, 2020). Since in-person contacts posed a health related risk for all the parties be it the researcher as well as the participants therefore, we partly completed the fieldwork using the Information Communication Technology (ICT) tools while those participants with no access to ICT means, we conducted the field work by adhering strict Covid 19 protocols. This alone has

been the most challenging part of our study to complete the fieldwork and carry out this research work amid Covid-19 pandemic.

It is pertinent to highlight that the field research was conducted during Covid-19 pandemic therefore, as part of ethical considerations and in conformity with research guidelines, strict Standard Operating Procedures (SOPs) were followed to minimize any health related risks while meeting participants for the purpose of semi-structured interviews at one of the major Akhuwat offices located in Central region Karachi, Pakistan. In order to strictly adhere to the health and safety guidelines, instead of visiting participants places for interviews they were requested to visit the AIM's NJV office in Karachi where it was more manageable to comply with the Covid-19 SOPs.

Apart from the aforesaid challenge of conducting our research work during the Covid-19 pandemic while taking all precautionary measures, following are some other challenges we faced while completing this research project and they somehow hindered the overall progress of our research.

- Availability of Data and Information on Islamic Finance:

Although Islamic Finance has centuries old roots but in the modern history it has re-emerged or became mainstream in last two to three decades i.e. in later part of the twentieth century therefore, a limited supply of relevant literature and publications were available to draw our major research inferences covering such interventions.

Furthermore, our research work is a case study on *Islamic Microfinance*; which is a sub-domain of the Islamic economic / financial system and a more specialized one, making it more challenging for us as a researcher to find the pertinent research literature previously done in this specific area. Infact this is one of those research territories which is unexplored yet hence increases our responsibility as a researcher in carrying out this explanatory cum explorative research area.

- Language Barrier:

Since most of the research participants which include the beneficiaries of Islamic Microfinance, management personals who are part of the organizations primarily hails from the region of Pakistan, where majority of the population uses the National / regional languages for day to day affairs, therefore, we kept our research questionnaire, communication and support documents bilingual using English as well as Urdu (the national language of Pakistan) as the primary language to make it a level playing field for all the participants. Apart from drafting such questionnaires in both languages and collecting data accordingly, the most pressing part have been the conversion of the non-english research data and feedback into english to the best of ones abilities while keeping the actual message /information collected from the participants intact in presenting our final research work.

- Technological Challenges:

Since one of the two groups of our research participants comes from the vulnerable socio-economic class who were neither familiar with the usage of ICT tools nor has the access to it due to the affordability factor, therefore, to carry out this research during Covid times, we partly conducted the field work using technological tools and partly by conducting filed visits / in-person interviews. AIM team was also of the view that to carry out this research in a more effective manner, meeting target participants (AIM beneficiaries) should be the preferred approach.

Other Challenges

- The threat of repeated waves /variants of Covid-19 pandemic kept looming as alarmed by the WHO (World Health Organization).
- Delay in seeking approvals and permission from the concerned authorities and stake holders.
- Managing appointments and their cancellation at the eleventh hour by the participants of the study due to their personal and professional engagements.

- Unprecedented events like Covid-19 outbreak, natural disasters, political unrest, electricity and internet outages internet are some of the challenges we witnessed while carrying out this months longs research project.

CHAPTER FIVE: DATA & ANALYSIS

This chapter provides the details of data analysis and finding. Besides a brief outline of our research sample we will discuss various analysis, inferences and interpretations drawn as a result of semi-structured interviews for qualitative data collection. As explained by Bryman (2016; p. 565), qualitative data analysis is neither simple nor straight forward, and data we collect is in the form of unstructured textual material. This is why qualitative data analysis is considered a complex process where we try to ascertain the essence by deploying a mix of inductive and deductive approaches. Mostly the use of analytic induction method is for the purpose of tracing answers to our research queries. Other theories and literature have also been referred while interpreting our research findings.

Overview of the Sample

This qualitative research study is conducted as a case study, and for that, a non-governmental organisation in Pakistan by the name of Akhuwat Foundation (or Akhuwat) which has now become the world largest Islamic Microfinance Institution, was selected to understand its model and its efficacy for its beneficiaries in establishing small and microenterprises.

The sample comprised of the AIM beneficiaries from Karachi which is the largest metropolis city Pakistan. All these beneficiaries were repeat borrowers of Akhuwat's microfinancing program and were running their small / micro / nano enterprises. A questionnaire was designed for indepth interviews with the research participants. To better understand the model of AIM, we also conducted interviews of AIM senior management with the help of interview guide. To approach these research participants for field interviews, we relied on the support provided by the AIM management located both in Karachi and in their headquarter in the city of Lahore, Pakistan. This helped a great deal to manage and complete this entire field work during Covid-19 pandemic. It took 3-4 months time in completing our field work during Spring and Summers of 2021.

Our research participants were broadly divided into two groups:

Research Group	Sample Size
The Beneficiaries of AIM	20
The Management of AIM	4-5

As explained above, a semi-structured research guide was used to administer these in-depth interviews with both the research groups. Beneficiaries were interviewed in-person whereas we used ICT tools to administer the interviews with AIM Senior Management officials.

The necessary permission from Norwegian Centre for Research Data (NSD) was obtained as a pre-requisite to carry out this research project. Moreover, besides holistic permission from AIM, individual consent from the participants were also recorded before initiating in-person interviews. On average, these interviews lasted between 35-45 minutes which was not just sufficient to complete our questionnaire in a very convenient settings but the participants were encouraged and given ample time to share their experiences. Importantly, the personal data has been coded and stored anonymously, and for processing and analysis of our data throughout this research, ethical and research guidelines as advised by NSD were strictly adhered.

Analysis of the Sample - Descriptive Statistics

Table 1: Descriptive Statistics of Gender Analysis

	Gender	Frequency	Percent %
Valid	Male	9	45%
	Female	11	55%
	Total	20	100%

Source: Fieldwork 2021

Our research sample was comprising of 20 participants /Akhuwat’s micro-finance beneficiaries. Out of which 55 percent were female respondents while the male represented 45 percent of the total sample.

Note: Out of the total 5.1 million beneficiaries till date, around 45% of Akhuwat beneficiaries comprises of female.

Table 2: Descriptive Statistics of Age Group

	Age Range	Frequency	Percent %
Valid	21-30	1	5%
	31-40	7	35%
	41-50	8	40%
	Above 50	4	20%
	Total	20	100%

Source: Fieldwork 2021

Any adult individual with good social and moral bearings can borrow the microcredit from AMI, however, as evident from the table above, the major concentration of Akhuwat borrowers in our sample belong to the age group between 30 to 50 years.

Table 3: Descriptive Statistics of Marital Status

	Status	Frequency	Percent %
Valid	Single	1	5%
	Married	19	95%
	Total	20	100%

Source: Fieldwork 2021

Most of the beneficiaries we interviewed for this research were married and living with their immediate families.

Table 4: Descriptive Statistics of Accommodation Type

Status	Frequency	Percent %
Valid Lives in small rental facility	17	85%
Own House	3	15%
Total	20	100%

Source: Fieldwork 2021

It is noteworthy to learn that most of the respondents are living in the small rented facilities therefore, having added responsibilities in terms of monthly rentals to make ends meet. Only 15 percent of our respondents were living in their own houses or living in the joint family system where other siblings and their families were resided as well.

Table 5: Descriptive Statistics of Nature of Employability

Employability	Frequency	Percent %
Valid Small business	13	65%
Multiple small buss	3	15%
Small buss + job	4	20%
Total	20	100%

Source: Fieldwork 2021

As evident from the beneficiaries' data, all the beneficiaries are running their small/micro enterprises. Out of all the beneficiaries, two-third running one small business, while one-fifth of the beneficiaries pursuing job along with their small business activity. The remaining percent of the sample running more than one small / micro businesses.

It is pertinent to highlight that these respondents were the repeat borrowers of AIM and were extremely satisfied with the mechanism and modalities of the microfinance loan and were

Table 6: Descriptive Statistics of Educational Background

Education	Frequency	Percent %
Valid No Formal Education	3	15%
Primary (grade 5)	6	30%
Middle (grade 8)	5	25%
Matric (grade 10)	5	25%
Under matric (grade 9)	1	5%
Total	20	100%

Source: Fieldwork 2021

Except 15 percent of the researched participants who have never been to the formal schooling all their life, remaining 85 percent of the beneficiaries are literate at least to the primary level with more than 50 percent of the beneficiaries have attained education up to grade 8 and grade 10. None of the respondents attained any tertiary education or even were not able to attend high school (college) citing various reasons including the financial situation. However, almost 90 percent of the 20 respondents are keen on focusing towards the education of their children as they seem convinced that education can help them improve their lifestyle and to help tap better placement / job opportunities.

Table 7: Descriptive Statistics of Microfinance amount PKR (USD)

Loan size	Frequency	Percent %
Valid Up to PKR 30K (USD 200)	7	35%
PKR 30K to 40K (USD 267)	10	50%
PKR 40K to 50K (USD 333)	3	15%
Total	20	100%

Source: Fieldwork 2021

Note: PKR = Pakistani Rupee (Pakistani currency)

USD = US Dollar

Conversion Rate used PKR 150 = 1 USD

All these beneficiaries were repeat customers and as per the norms, first timers are mostly awarded micro financing as per the first slab ranges between PKR 20K and 30K. Later on, based on their repayment profile, repeat clients are awarded micro-credit from the other two slabs. As in our case where the respondents were repeat customers of Akhuwat, we can clearly see that two-third of the respondents were awarded loans as per the higher slabs.

It is important to note that by the time the field work for this research was conducted back in the mid of 2021, Akhuwat was mainly awarding interest free micro financing according to the three slabs as shown in the table above. However, Akhuwat was in the process of introducing other slabs with bigger interest-free micro financing limits up to PKR 100K (USD 666) and above with support from public and private partners.

Table 8: Descriptive Statistics of Purpose of Loan

Loan size	Frequency	Percent %
Valid started new business	14	70%
expanded existing business	6	30%
Total	20	100%

Source: Fieldwork 2021

More than two-third of the respondents used the AIM loan for the purpose of establishing their small / microbusiness while the remaining thirty percent used the amount of loan for expanding their existing businesses.

Table 9: Timely Repayments of AIM Loans

Timely Repayment	Frequency	Percent %
Valid Yes, always	18	90%
Yes, with one of delays	2	10%
No	-	-
Total	20	100%

Source: Fieldwork 2021

90 percent of the borrowers confirmed that they were able to make timely repayments to Akhuwat Islamic Microfinance as agreed at the time of loan disbursement and this is one of the reason why they are awarded another loan by AIM.

Only 10 percent (i.e. 2 borrowers) in our sample confirmed that there was one of instance when they were not able to make timely repayments due to no business activity under Covid-19 restrictions but there was no pressure from Akhuwat as they apprised the AIM team of the situation.

Table 10: Descriptive Statistics of change (Increase) in household Income

Increase in Income		Frequency	Percent %
Valid	Strongly Agree	16	80%
	Agree	3	15%
	Neutral	1	5%
	Disagree	-	-
	Strong Disagree	-	-
	Total	20	100%

Source: Fieldwork 2021

As one of the central question that underpins our research, 80 percent of the respondents strongly affirmed the positive impact on their household income as a result of Interest free loan from Akhuwat Microfinance.

Table 11: Descriptive Statistics of change (Increase) in household expense

Increase in Income		Frequency	Percent %
Valid	Strongly Agree	12	60%
	Agree	2	10%
	Neutral	4	20%
	Disagree	2	10%
	Strong Disagree	-	-
	Total	20	100%

Source: Fieldwork 2021

While in our previous descriptive statistic, where 80 percent of the respondents affirmed the change or increase in their income levels post obtaining this microfinancing, the percentage dropped when asked if their household expense increased.

When probed further, a significant number of the respondents were of the opinion that due to the ongoing pandemic and amid high inflation, a good proportion of their increased income level has been reciprocated primarily due to the soaring inflation and utility prices.

With 20 percent of the respondents did not share any feedback while the remaining 10 percent of the audience disagreed on the questions of increase in their household expense after obtaining this microfinance facility.

Table 12: Descriptive Statistics - Other MFI Experience

Experienced other MFI		Frequency	Percent %
Valid	Yes	4	20%
	No	15	75%
	Applied but unsuccessful	1	5%
	Total	20	100%

Source: Fieldwork 2021

Three-fourth of the research respondents had no formal experience of borrowing from financial institution before AIM.

Twenty percent of our participants confirmed that they have obtained loan from other Microfinance Institutions (MFIs) before AIM but due to their bad experience primarily because of the interest based loan and unwarranted pressure from the concerned MFI's for repayments, were the major detractors and therefore, after completing their first time with these MFIs, participants avoided approaching them again to address their borrowing needs.

Table 13: Descriptive Statistics - Increase in AIM loan amount

Experienced other MFI		Frequency	Percent %
Valid	Yes	4	20%
	Nice to have	7	35%
	Neutral	9	45%
	Total	20	100%

Source: Fieldwork 2021

One-fourth of the respondents strongly urged the AIM for the need to revisit the upper limit/slab of loan awarded to beneficiaries which was PKR 50K at the time this research was conducted . They opined that based on the beneficiaries credit profile if AIM increases the limit of upper slab to PKR 100K and above, it would immensely help the repeat borrowers to scale their small businesses resulting in a significant increase in their income levels. For example it would allow them to buy their consumables in bulk on discounts hence would increase their profits by optimizing their cost of purchase due to increased size of loan.

More than one-third of the beneficiaries thought it's a good idea if AIM increases the upper slab however, they didn't have any specific limit in mind at the time of interview. Perhaps the question was a bit unexpected for them or may be they didn't have any specific plans on ways to scale their business at that particular point.

Nearly half of the respondents remained neutral when asked about their feedback on increase of upper limit.

Table 14: Descriptive Statistics - Reason for Choosing AIM

Why AIM		Frequency	Percent %
Valid	Interest free (Islamic) loan	14	70%
	Poor exp. with other MFIs	4	20%
	Recommended by family/friend	2	10%
	Total	20	100%

Source: Fieldwork 2021

For majority of the borrowers the primary motivation was the interest free nature of the microfinance loan that drove them towards the AIM. Since Islam strictly prohibits the use of interest on loan in any forms therefore, religious element was also there while choosing the AIM and ofcourse the ease of repayments as there was no additional amount involved, only the principal amount is supposed to be returned to the AIM unlike conventional MFIs.

For one-fifth of the respondents who first approached the conventional (interest bearing) microfinance, turned towards AIM due to interest-free loan facility awarded in a dignified way.

Ten percent of the respondents chose AIM based on the recommendation of their family/friends.

Akhuwat Emergency Covid Support

Since the research was carried out in the time of pandemic, a number of research participants confirmed that to meet emergency payments due to lockdown and deteriorating economic activities, AIM extended an emergency loan facility for its borrowers who were badly affected as a result of pandemic. According to the participants this amount helped ease the difficult times and economic sufferings. An amount of PKR 10,000 was awarded to meet emergency cash payments.

Research Question: What is the philosophy behind Akhuwat's model that differentiates it from other MFIs?

Akhuwat adopts the Quranic concept of Qarz-a-Hasan (a beautiful loan) as its core strategy for microfinance (Akhuwat.org). AIM philosophy is all about brotherhood, sacrifice, community service, thinking about others, sharing others pain, sharing happiness with others, abandoning selfishness and thinking about the benefits of the entire humanity is what Akhuwat is and the concept stems from the golden values propagated by Islam (Fieldwork, 2021).

Starting with its first lending of PKR 10,000/- of interest-free micro-loan or Qarz e Hasanaa (as per the condition put forth by the widow lady that she would neither accept donation/charity nor would go for any interest based loan). The amount collected by a group of friends (founding members of Akhuwat) and given to the female widow (and mother of four children) who then purchased two sewing machines and started her small stitching business. Though utterly surprising for these friends but the widow lady came back after 6 months to repay the whole amount back to them. She told that with the amount she was not only able to run her small business and generate regular stream of money but was able to make financial arrangements for her daughter's wedding. Besides thanking the lender for helping her, she left the place with a message to not to put these PKR 10K back in your pockets but please give it to some other needy person because this loan has helped transformed her life and can certainly improve others too. After this first loan, the founders gave a serious thought of establishing a Qarz e Hasanaa Fund (Fund for Interest-Free Loan) to provide others with interest free loans.

In order to institutionalize Akhuwats as an entity, the team behind the idea started researching about the other MFIs to learn and incorporate their best practices by aligning them with the principles of Islam and in line with the values of compassion and equity.

Like other Abrahamic religions such as Christianity and Judaism, use of interest is strictly forbidden in Islam, hence the foundation of Akhuwat was laid on the four principles which are as follows:

- The adoption of the Qarz e Hasanaa model or Interest-free loans (a form of loan where no interest is involved and the borrower returns the money to the lender in a stipulated time and without any additional payment). It is because the application of Interest on loans is exploitative in nature and is one of the central characteristic of the capitalistic model which contradicts with Islamic principal and valued.
- Akhuwat does this work as a service to the Almighty and to make it more inclusive and harmonious for the society AIM use religious centers like mosques, churches, temples, other such places to distribute loans among its beneficiaries irrespective of their cast, color, creed, religion, race etc. Use of religious sites inculcates an added sense of responsibility among the borrowers to ensure effective use of the interest-free loan and its timely repayment. It also fosters the culture of participation.
- The third principle is the spirit of community service which is richly embedded in the values promulgated by Islam.
- Transforming borrowers into donors because Akhuwat believes that for any society to sustain and to live in a dignified way, those who donate should outnumber those who borrow. Akhuwat has many such examples where the AIM borrowers have become the donors also.

Research Question: What are some of the challenges you face?

We asked the same question from both the AIM management officials as well as AIM beneficiaries and compiled their responses separately. This includes the challenges faced by the AIM as well as the challenges faced by the beneficiaries in their daily lives:

Challenges faced by AIM in running the world’s largest interest-free MFI

On questions regarding challenges the Akhuwat leadership come across while ensuring its smooth flow of activities, a wide range of challenges were tabled including operational, financial and regulatory challenges being the most prominent ones.

Financial Challenges

In generating financial resources from individuals and institutions

Timely Disbursement & Recoveries

Operational Challenges

Finding quality human resource who is equally passionate

Reaching target outreach

Regulatory Challenges

Tightening Govt. Regulations

To ensure conformance with compliance and

Challenges faced by the beneficiaries in their everyday life

Economic Challenges	Low income or no income Difficulties with gaining access to financial services Poor entrepreneurial skills Poor marketing facilities
Social Challenges	Gender bias Overdependence Conditional mindsets The traditional way of thinking Low level of education Poor understanding Lack of confidence and awareness Personal ego The woman stays indoor (A compromised life) Resistant to change Drug addiction Violence against women and children
Society Level Challenges	Poor living conditions/ Lack of basic needs (water, sanitary, food, residence) Fear and insufficient education to make societal changes Poor transportation facilities Lower educational facilities Limited health facilities.
Political Challenges	The cultural barrier as a woman Difficulty to compete with men Insufficient money
Environmental Challenges	Climate changes/ weather changing Stay inside the family home as a habit Insufficient technology Physical strength is not enough

Research Question: How easy it is securing Akhuwat's microfinance facility for participants and what are the pitfalls (if any)?

Like a number of other microfinance interventions operating in different regions and awards micro-credits in the form of group-lending (Banerjee, 2015, 4), Akhuwat's microfinance model is primarily based on the group lending where interest free micro-loans are provided to the families /individuals but in the form of group of at least 3 who are not relatives but living in the same neighborhood. It is pertinent to mention that Akhuwat also provides individual lending but in that case it requires at least two guarantors from the borrower side to ensure that the loan is disbursed to the right individual and the borrower can ensure timely repayments as per the agreed plan.

The process of obtaining financing is pretty interesting as expressed by the beneficiaries. It is built on the principles of social-cohesion and bonding between the members of the community. The financing is awarded in the form of group of three or four beneficiaries. For example if person A has to obtain financing he will approach nearby Akhuwat foundation's office with his request. Akhuwat's team after assessing the preliminary details about the potential beneficiary asks him/her to bring at least two more members from the same neighborhood who knows the person A and also in need of the financing facility. Person A go and meet individuals to let them know about the facility and to bring them to the Akhuwat's office for borrowing credit. Since all of the members know each other so each one of them can vouch for the credibility of the other group members. This in a way forms a nexus or in other words 'group lending' where all three or four individuals in need of financing who are neither relatives nor family members avail this facility based on their social relationship which institutes the element of benevolence for other members of the society by caring for each other.

From documentation's point, the process of obtaining microfinance is quite simple where potential beneficiary has to provide basic supporting documents along with the application in order to get his/her request processed.

- Identity documents of the beneficiary

- Document confirming their location / address e.g. utility bills
- Photos of beneficiary and spouse (guardian incase the benefiaciry is single)

Generally the loan request is processed within a few days from the time of its submission hence making it a convenient and more importantly a dignifid experience as vouched by the beneficiaries.

Research Question: How Akhuwat foundation’s microfinance model contributing to achieve SDG Goal 1: No Poverty and Goal 10: Reduced Inequalities?

Simply put, with AIM loans exceeding 5 million beneficiaries means more than 5 million micro enterprises and above all all with a recovery / repayment rate of 99.996 percent is a testament itself that AIM is enabling those who are otherwise financially excluded. It is because conventional MFIs do not entertain loan request from borrowers without any collateral, hence keep them at bay. On top of this, the regular MFIs charges exorbitant interest rates that makes it more challenging for the borrowers and as evident from our research analysis that a no. of AIM borrowers experienced the conventional MFIs but eventually parted ways because of the fees / interest / debt traps etc.

A significant portion of AIM’s lending goes to females to help establish or run their micro enterprises hence reducing inequalities.

Besides the evidence collected through our research and analysis, AIM also conducts various researches to assess its impact on poverty, small and micro enterprises, socio-economic well being etc. Based on the last household survey conducted a couple of years ago on AIM’s beneficiaries, the results were highly significant with nearly 80 percent of the client confirmed a positive change in their living standard. Similarly one-third stated the rise in their income level while one-fourth affirmed the increase in their consumption level.

Another way to measure AIM loan effectiveness is the loan repayment rate (99.9 percent) which stands highest among all the MFIs exist today.

In the next and last chapter of our study, we have discussed the conclusion and some recommendations that we think can help AIM to scale its impact and footprint.

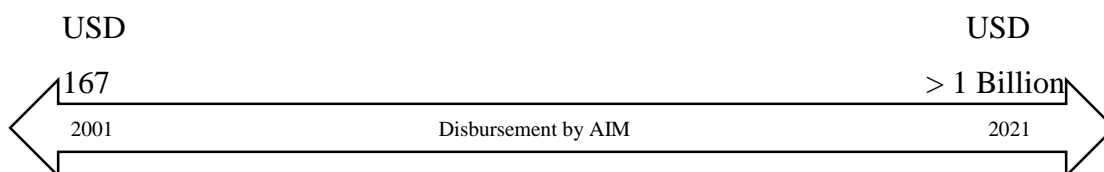
CHAPTER SIX: CONCLUSION & RECOMMENDATION

Conclusion

It is pertinent to mention that the study was conducted during the Covid-19 pandemic which not only shook the global markets but has exacerbated the adverse economic situation at a micro level and Pakistan was no exception. This research study has helped us understanding the model the Akhuwat in a very detailed manner.

No wonder, the real economic growth is highly dependent on the economic engagement of the masses. For a developing state like the 'Islamic Republic of Pakistan which habitats over 220 million people (including 50 percent female) out of which nearly one fourth of the population is living below the poverty line. Almost two-third of its population comprising of youth up to the age of 35 and amid widening gaps between the demand and supply of jobs available (PIDE, 2021), large scale interventions such as AIM is catalytic in creating safety nets for the neglected segment of the society and to cement the likelihoods of success and prosperity as evident by the unprecedented growth of the interest-free model of Akhuwat-Islamic Microfinance over the last 20 years.

Beside introducing a one of its kind of microfinance which is completely interest free and includes no additional charges from its beneficiaries, administering this large scale MFI is nothing short of a challenge. Due to no fee/ zero interest structure unlike other MFIs, apparently the model of Akhuwat seem non-sustainable and has come under criticism but its parabolic growth and trajectory over the years has failed various experts who thought this model cannot sustain in the longer term. Starting with mere 10K PKR AIM has disbursed over PKR 172 billions.



Recommendations

Based on our research findings, we feel that following are some of the important areas which can help AIM scale its impact by leaps and bounds:

- Technology for Scalability and Outreach
- Local & Global Partnerships
- Ticket Size
- Capacity Building and Entrepreneurial Ecosystem

Technology for Greater Outreach & Swift Lending

With one of the disruptive technologies such as Blockchain (which not only is highly transparent but is also irrefutable / un-hackable) for lending purposes, can significantly reduce the operational and capital expenditure in managing the MFI's operations (Hugo, 2021, p. 2). Blockchain is not only one of most researched area from business and governance perspective but according to a report by World Economic Forum, the total size of the blockchain based ecosystem would be around one-tenth of the global GDP by 2027.

While conducting fieldwork we learnt that although AIM has significantly expanded its operations in last few years and is now running 800+ branches across Pakistan but still there are challenges in addressing all the vulnerable communities in the nearby localities because AIM caters those beneficiaries who are residing within the 3-5 KM radius of their branches hence leaving significant others to avail the AIM facility.

The amount of growth AIM has experienced over the last few years, I strongly feel and would like to recommend that the model of AIM if coupled with technology such as blockchain, offers immense potential to radically transform and enable the MFI's to expand, scale and expedite their operations both at the donors and borrowers end optimizing its local and international outreach while bringing more transparency to its ecosystem.

Partnerships & Publications

Due to the innovative model and its equally efficient administration, AIM has gained a credible repute both in the local and international arena so much so that AIM's case studies are being discussed in the leading academic circles within and outside Pakistan however, while researching for this study despite the big impact AIM is creating over the years, the research contributions on AIM's model are very few hence creating a room for the future researchers to fill this gap.

Meanwhile to bridge this gap, AIM can partner with academia, media, publication houses, leading journals and evaluate the best ways to harness the research inputs and contributions from the academic circles and to get its message across.

This not only opens new funding streams but will help bag more local and international partnerships to help AIM scale its footprint.

Ticket Size (of Loan)

All these beneficiaries were repeat customers and as per the norms, first timers are mostly awarded micro financing as per the first slab ranges between PKR 20K and 30K. Based on their repayment profile, repeat clients are awarded micro-credit from the higher slabs upto PKR 50K. As in our case where the respondents were repeat customers of Akhuwat, we can clearly see that two-third of the respondents were awarded loans from the upper slabs. Still, some of the respondents were of the view that if AIM can increase its limits to PKR 100K and above for borrowers with credit history, would immensely help them scale their operations. Considering the rising inflation and increasing cost of doing business, this is one potential area where AIM needs to revisit in order to address concerns relating to size of AIM loan.

It is important to note that by the time the field work for this research was conducted back in the mid of 2021, Akhuwat was mainly awarding interest free micro financing according to the three slabs ranging from PKR 20K upto PKR 50K. However, AIM was in the process of introducing

other slabs with bigger interest-free micro financing limits up to PKR 100K (USD 666) and above with support from public and private partners.

Capacity Building through Up-skilling & Re-skilling

Understandably, access to finance and mobilizing start-up resources are still considered the biggest barriers in forming small / micro businesses especially for those from the lower tier and this may have restrictions on the future prospects and growth of these small units (Cosh & Hughes, 2000; Hisrich & Brush, 1986). While meeting individuals as part of this research it was noted that most of the respondents were quite optimistic on making efforts to convert their small business units into bigger ones but they certainly lack the little handholding on resource mobilization part. To better augment this gap where on one end MFI's playing their role to disburse the credit, the other leg of mobilizing resources can be filled by building capacities of the borrowers on entrepreneurship skills. Organizations as big as AIM can develop this model through public-private partnerships and involving players and stakeholders from the TVET (Technical Vocation Education & Training) sectors to take this further.

The world renowned dual education system of Germany and other successful models from Finland, Norway, Australia etc. can be replicated to strengthen the small /micro enterprising system.

To further this idea we did a small experiment with the help of Academic and TVET partners. Brief synopsis and result of the experiment are stated here:

A Small Experiment (Intervention)

We selected the following partners for this intervention:

- Partner A: Group of undergraduate students of a leading business school of Karachi, Pakistan keen to learn how to help establish a micro enterprise as part of experiential learning.

- Partner B: Skilled Alumni coming out of a TVET (Technical & Vocational Education) Institute having business idea but needed financial and non-financial support to execute the his plans with limited funding.

From partner A, a total of eight groups comprising of 4 members each were formed and were assigned one skilled Alumni each to work with. The primary responsibility of students from partner A were to generate means and resources including the financial resources between PKR 50K to 80K on average to help the skilled individual transform his/her business idea into reality. Business students were also advised to do the necessary hand-holding of these skilled micropreneurs to help sustain the initial phase which generally is the most challenging part of any business set up, be it small or big.

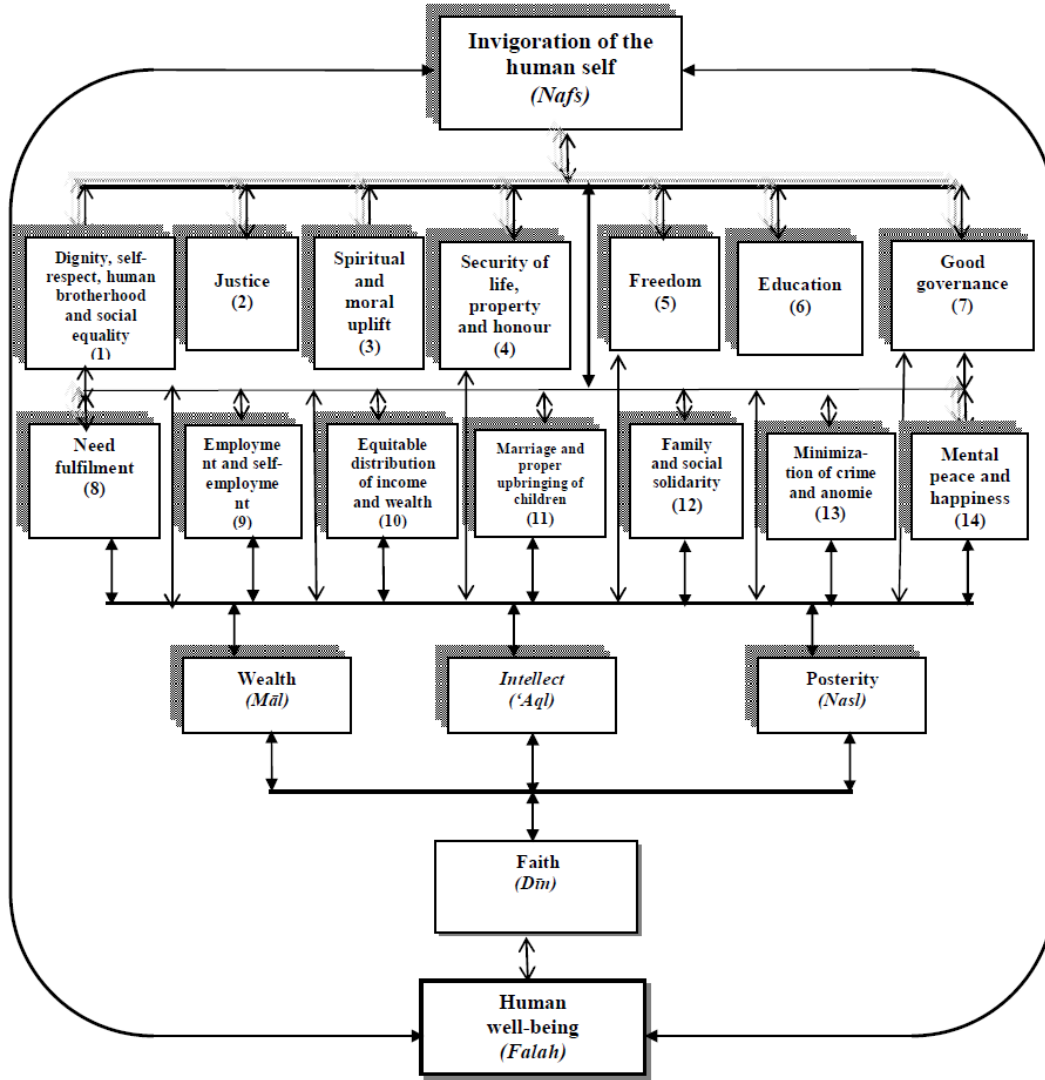
Between November 2021 till April 2022, a total of eight successful small businesses has been set up so far as a result of this intervention. Evidence of one such case can be seen in the following video reel here: <https://bit.ly/39D4hqS>

According to a report by World Economic Forum (WEF), as many as 800 - 900 million individuals might lose their jobs because of the rapid advancement in the domain of technology and automation. To address this issue, WEF launched an ambitious project by the name of Reskilling Revolution back in 2020 with the aim of re-skilling one billion individuals by 2030 in collaboration with public and private partners across the globe.

Amid these dwindling prospects of the job markets and layoffs, plus considering the poverty profile of Pakistan, I strongly believe that if small loans by AIM are coupled with capacity building in the form of up-skilling or re-skilling AIM beneficiaries, would not just foster the culture of entrepreneurship but certainly help us create the *development wonder*.

APPENDIX A

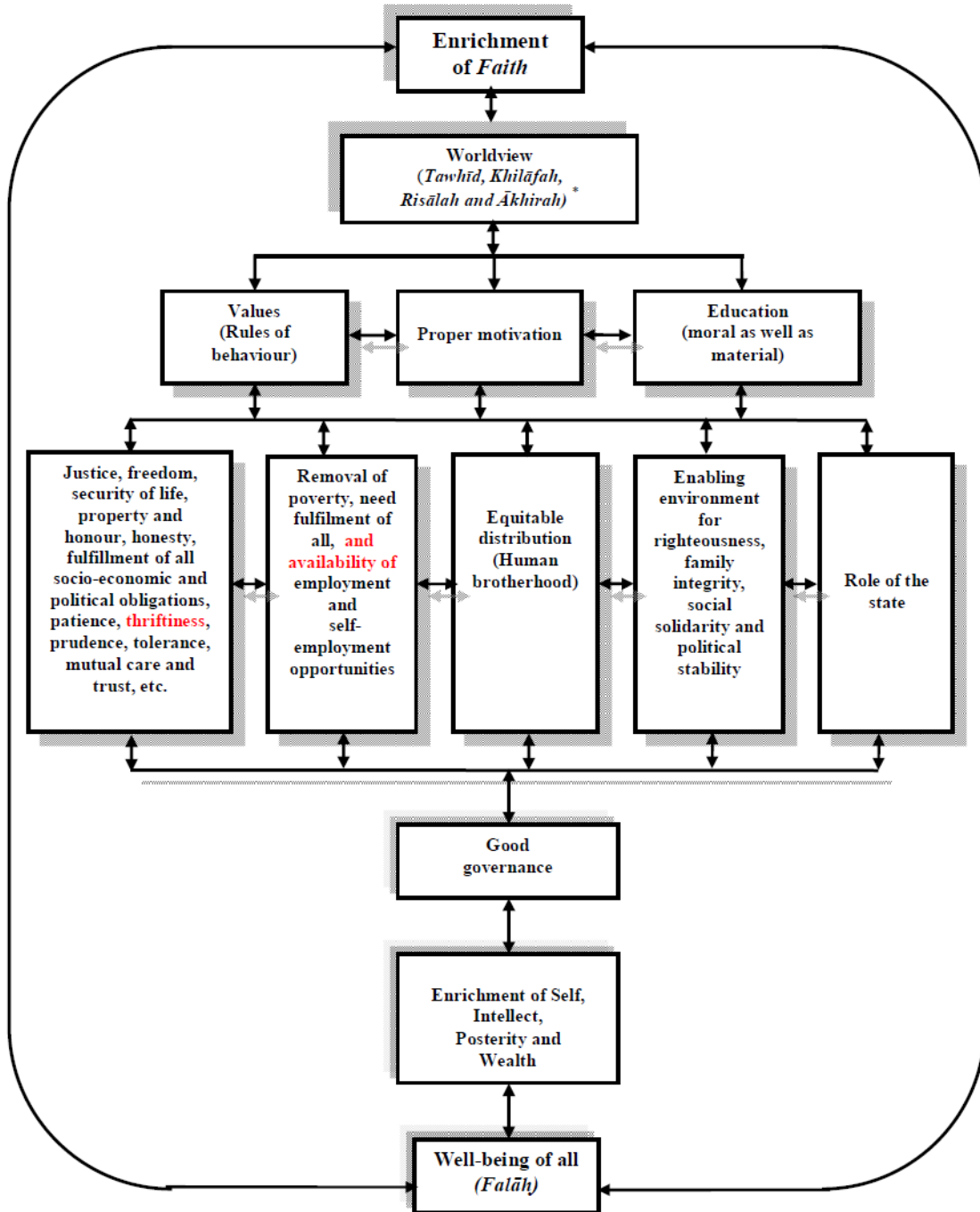
Objectives of Islam – Human Self



(Source: Chapra, 2008)

APPENDIX B

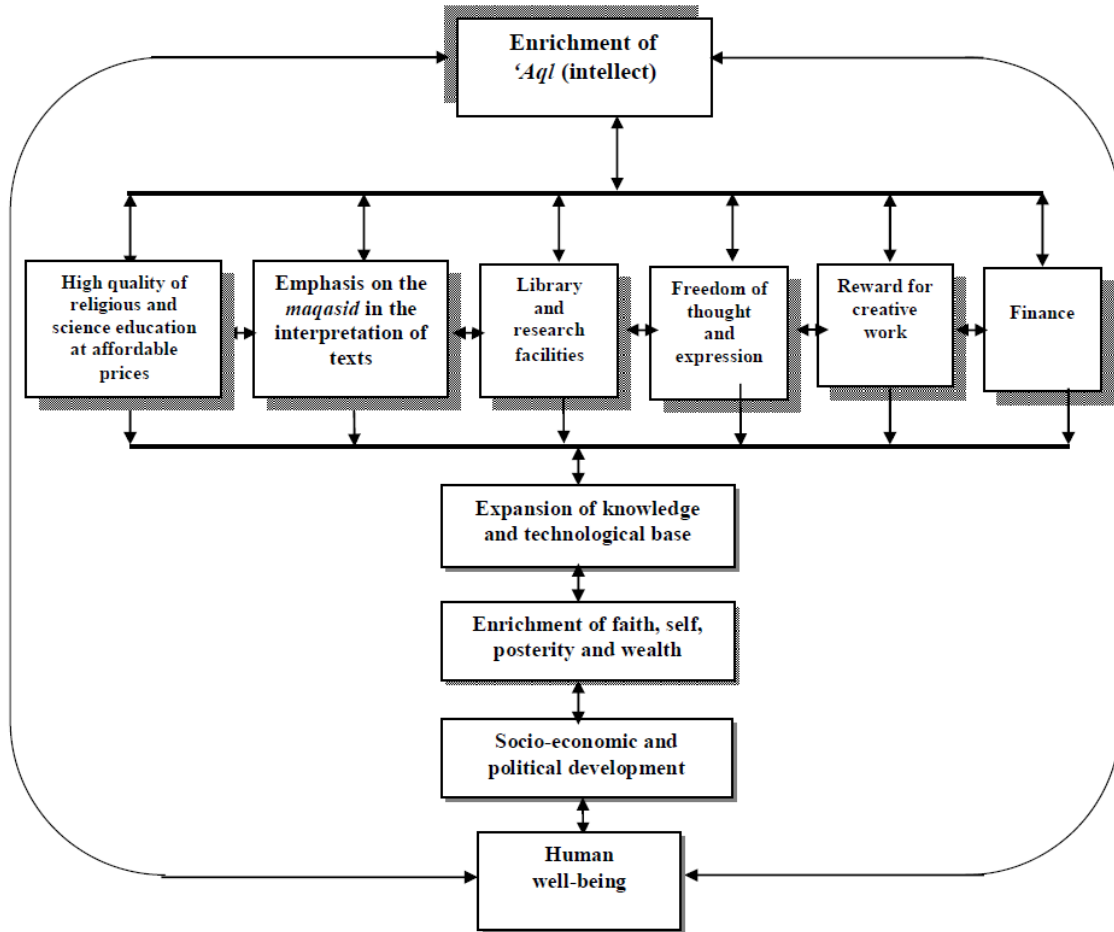
Objectives of Islam – Faith



(Source: Chapra, 2008)

APPENDIX C

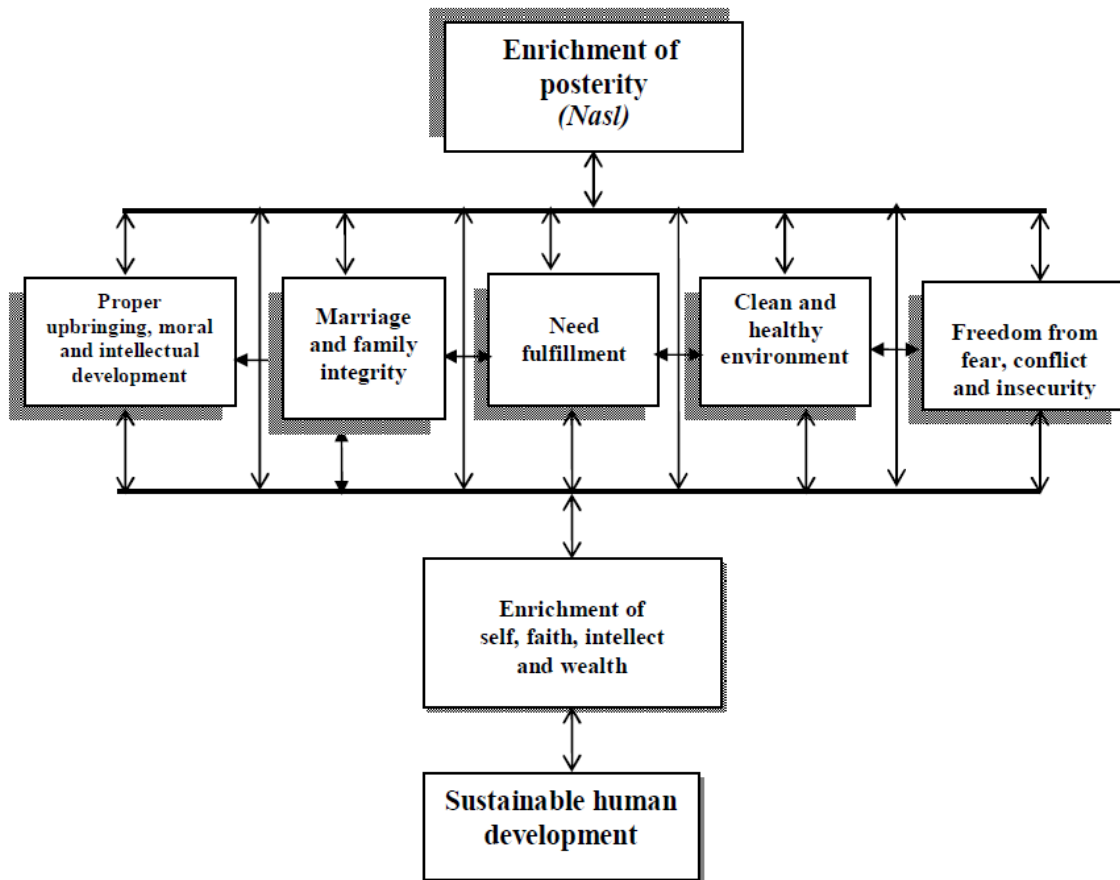
Objectives of Islam – Intellect



(Source: Chapra, 2008)

APPENDIX D

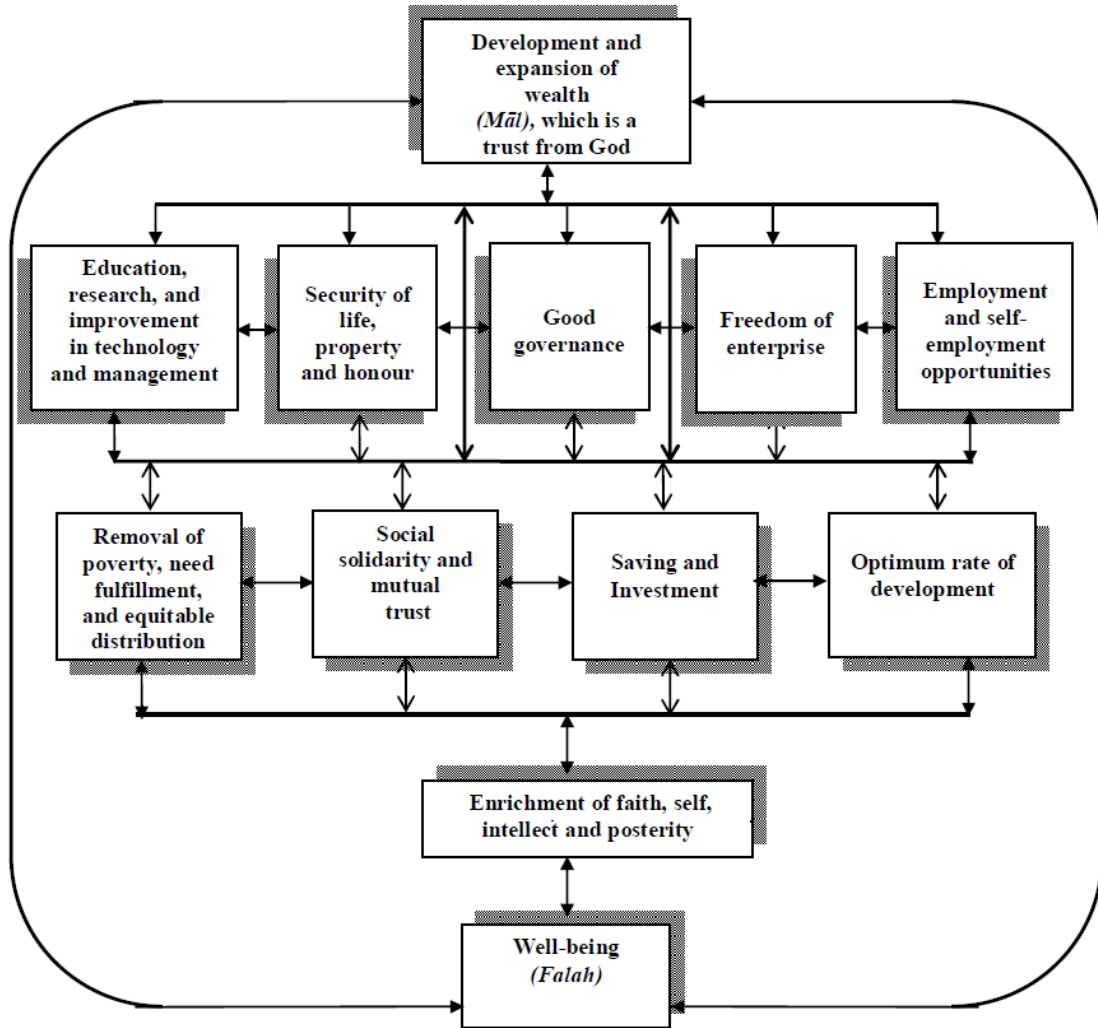
Objectives of Islam – Posterity



(Source: Chapra, 2008)

APPENDIX E

Objectives of Islam – Wealth



(Source: Chapra, 2008)

APPENDIX F

BANERJEE ET AL (2015): Six Randomized Evaluations of Microcredit

	<i>Bosnia and Herzegovina</i> 1	<i>Ethiopia</i> 2	<i>India</i> 3	<i>Mexico</i> 4	<i>Mongolia</i> 5	<i>Morocco</i> 6
Lender Org. Type	n/a	Nonprofit	For-profit	For-profit	For-profit	Nonprofit
Rural or Urban	Both	Rural	Urban	Both	Rural	Rural
Borrower's Gender	Male, Female	Male, Female	Female	Female	Female	Male, Female
Targeted to micro-entrepreneurs?	Yes	Yes	No	Yes	Yes	Yes
Loan Eligibility	Sufficient Collateral, credit worthiness	Poverty Status, business plan	Women 18-59 with valid ID and residential proof	Women 18-60 with valid ID and residential proof	Women with less than \$869 total assets, less than \$174 monthly income	Women 18-70 with valid ID and residential proof, and proof of non-agri business > 1 yr
Loan term length	Average 14	12 months	12 months	4 months	3–12 months	3–18 months
Repayment frequency	Monthly	Borrowers were expected to make regular payments	Weekly	Weekly	Monthly	Weekly, twice monthly or monthly
Interest rate	22 percent APR	12 percent APR	24 percent APR	110 percent APR	26.8 percent APR	14.5 percent APR
Market interest rate	27.3 percent APR	24.7 percent APR	15.9 percent APR	145.0 percent APR	42.5 percent APR	46.3 percent APR

Liability	Individual lending	Group (joint liability)	Group (joint liability)	Group (joint liability)	Two treatment arms: group (joint liability) and individual	Group (joint liability)
Group size	No data	No data	6–10 people	10–50 people	7–15 people	3–4 people
Collateralized	Yes (77 percent)	Yes (majority asked to provide)	No	No	Yes (100 percent) for group loans, often for individual loans	No (yes for few individual loans)
Loan loss rate	No data	0.3 percent	2.0 percent	3.2 percent	0.1 percent	0.5 percent
Initial treatment loan size (local currency)	Average 1,653, median 1,500 (2009 BAM)	Median 1,200 (2006 birr)	10,000 (2007 Rs)	Average 3,946 (2010 peso)	Average group: 320,850 (per borrower), average individual: 472,650 (2008 MNT)	Average 5,920 (2007 MAD)
Initial treatment loan size (PPP USD)	Average \$1,816, median \$1,648	Median ~\$500	\$603	Average \$451	Average \$696 (group), average \$472 (individual)	Average \$1,082

(Source: Banerjee et al., 2015)

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