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Entrepreneurship and Microfinance- A tool for empowerment of poor- Case of Akhuwat-Pakistan



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Abstract

Purpose: Our main purpose is to carry out a research on combining microfinance with entrepreneurship for poverty alleviation, empowerment of poor and sustainable development.

Target group: Students, researchers in Microfinance field, MFI's, NGO's and Governmental structures.

Research Question: How do micro entrepreneurship, social entrepreneurship and microfinance serve as a combined tool to reduce poverty, empower people, and contribute to sustainable development in Pakistan?

Approach: We used qualitative approach for research. The data have been collected through interviews which held as structured and unstructured, and as secondary sources web page of the organization, statistics of Pakistan and Book of organization have also been consulted.

Delimitations: Due to distance problem between Pakistan and Sweden and, it was difficult to organize interviews at large scale from borrowers and this can reflect limited information about micro entrepreneurship. It is worthy to say here that Islamic microfinance is quite new practice and very limited data was available. With this, we mainly emphasized on microfinance and entrepreneurship as a combined tool, therefore, there is not enough discussion on Islamic microfinance. But we try to elaborate a complete picture of Islamic microfinance. **Originality/value:** This paper emphasizes on both Microfinance and Entrepreneurship, as case study we choose Akhuwat organization which started to give loans to poor people without interest. Also we focused on Social Entrepreneurship side of organization which challenges to other MFI's with innovative type of loaning. Research will give a vision to Akhuwat and other micro financing organization that how they can develop activities more successfully.

Future implications: During our research we investigate that there is need to carry out more research on lending methods other than solidarity group. The other area is micro entrepreneurship that needs to be more investigated by researcher because in developing countries micro business with only traditional ways will not be so successful. There will be need of more innovation in production system or in business processes. Islamic microfinance is quite new way for lending loan. It is needed that researcher of western world also do research on this method. So that clear result should come and method becomes more mature.

Social Entrepreneurship also need to be discovered from many points, especially relation with profit and non for profit, public, private and nongovernmental models.

Keywords: Entrepreneurship, Microfinance, Social Entrepreneurship

Paper type: Master Thesis

Abbreviations

ADB (Asian Development Bank)
AKRSP (Agha Khan Rural Support Program)
CED (Credit and Enterprise Development)
CPI (Consumer Price Index)
FY (Fiscal Year)
GDP (Gross Domestic Product)
HDI (Human Development Index)
HID (Human and Institutional Development)
IMF (Islamic Micro Finance)
IMFIs (Islamic Micro Finance Institutions)
LSE (Large Scale Enterprise)
MDG (Millennium Development Goals)
MFBs (Micro Finance Banks)
MFIs (Micro Finance Institutions)
MTDF (Medium Term Development Framework)
NRSP (National Rural Support Program)
NWFP (North West Frontier Province)
PKR (Pakistani Rupee)
PLS (Profit and Loss Sharing)
PMN (Pakistan Microfinance Network)
PPAF (Pakistan Poverty Alleviation Fund)
PRSP (Punjab Rural Support Program)
SBP (State Bank of Pakistan)
SME (Small and Medium Enterprise)
WHO (World Health Organization)

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1 Introduction

In this section, we discussed motive and background of study and readers find basic introduction of research topic. This part leads to research question and then introduce the target group.

1.1 Motive and Background

Pakistan is one of the most populated countries of the world with 164.7 million inhabitants with population growth rate 1.8 percent. Two third of the population is living in rural areas. According to SBP (SBP, 2007), working age population (15-59 years) is increasing which was 51% in 1998 and in 2006 it is 57%.

In 2006, about 23.94% population is living under the line of poverty which was 34.46% in 2002. According Global Monitoring Report 2006, there is significant increase in economic growth. There is improvement in Social Sector Development and now Pakistan has shifted from Low Human Development group to the category of Medium Human Development. Despite all these improvements, poverty is a major issue which every government is combating against.

Pakistan is a country with high population growth with increasing ratio of labor force. According to Economic Survey 2006-07, Pakistan has 50.5 million active labor forces while 3.1 million out of this is unemployed. If we look unemployment gender wise, despite of women ratio of population which is 49.6%, ratio in labor force is only 25 percent (10.08 million out 50 million) of total labor force. Government has taken many steps to increase women participation in labor force, still women ratio is very less to over all labor force and it is not matching to world standards and trends about women participation in business and job opportunities. (SBP, 2007)

All facts show potential to work in microfinance to encourage people and specially women to develop their own entrepreneur so that men in general and women specially can contribute a productive part of society to make it a sustainable. To combat unemployment, only big companies or public sector are not enough for job creation but it would be better if people start their own business for making society productive.

Microfinance is not a new idea; it has been successfully implemented by Grameen bank. Back to 1976, Muhammad Yunus took initiative of lending loans by developing solidarity group of women in Jobra village. Many MFIs adopted idea adding with new strategies and now serving poor in effective way. This successful approach is now famous as Grameen Model (Khan, Rehman, 2007). Microfinance is now being considered as one of the most essential and an effective driving force for poverty reduction and alleviation. Akhuwat's case attracted us because of its unusual strategy for microfinance, different from Grameen bank. Akhuwat lends loan without interest to poor people of society but taking one time membership fee and this money is used for operating expenses. Money in credit comes from donations that have no demand of return.

While social entrepreneurship plays great role as looking to the world real and see clearly what is happening and feel responsibility for financially weak people and help them as much as they can. It is also a big challenge to the entrepreneurs and big organizations that they should take steps to eliminate unbalance between different levels in society. In other way, this way encouraged us to choose this problem and also we, both, are from Asian countries (Pakistan and Uzbekistan), it means we are in the same boat and we have the same problems in our countries regarding the poor layer of society and living standards of people. We think that empowerment of poor people by microfinance and with combination of micro entrepreneurship is a great idea. You can never help people just giving money but you can help people giving them job and help to create their small businesses in order to optimize their share of production to the society. All these issues lead to research on this topic that how microfinance is contributing for entrepreneurship in low income communities of developing countries, how sustainable society is evolving as the result of doing own

business in low income communities and how Akhuwat's way of microfinance is supporting all of this process. To analyze all these issues, we formulate following question for research on our topic:

1.2 Research Question:

How do micro entrepreneurship, social entrepreneurship and microfinance serve as a combined tool to reduce poverty, empower people, and contribute to sustainable development in Pakistan?

1.3 Target Group of research

Entrepreneurship and Social Entrepreneurship is emerging thread in business and lot of research is doing on this. Much research work has been done on microfinance and entrepreneurship while discussing Grameen model. But our research will lead a new horizon for both fields in term of combining microfinance and entrepreneurship and especially we are investigating interest free microfinance with entrepreneurship. Research will give a vision, to Akhuwat that how they can improve microfinance lending process, and other Microfinance institutions (MFIs) that how they can develop process in more effective way. Research will also provide a new horizon to MFIs towards a new approach of microfinance. Further, students, researchers in Microfinance field, NGO's and Governmental organizations can extend research in this area to address the issue of poverty alleviation and empowerment of poor.

1.4 Aim

Most of research has been done either microfinance or entrepreneurship separately. But in our opinion there is close relationship between these two fields. As social entrepreneurship is doing a lot for credit pool of MFIs with social services, micro entrepreneurship can be found in micro enterprise. Our aim is to conduct research on the issue that how entrepreneurship and microfinance can work as a combined tool for poverty alleviation and empowerment of poor.

2 Methodological Approach

This section gives view to readers about scientific ideals and research strategy, adopted in this research. Different methods for data collection have been discussed and readers find the motive of selecting interview as tool for data collection. In last, issues regarding structured and unstructured interview and secondary data discussed.

According to Fisher (2004), research in management and business is different from other research fields because in management and business research, there is vital role of relationship between theories, practice, knowledge and actions. So keeping in mind this background, in the following sections there is our proposed methodological approach which we will adopt in our thesis work.

2.1 Scientific Ideals

For our research, which philosophy is suitable to conduct research, and which tradition we should follow to find correct findings from our research work?

In today world, science has major contribution in development and advancement of society. To do, valuable knowledge and continuous research make it possible. Now important question arise how this research work is being conducted in different fields. Different research ideals require different methodology, data technique and research methodology. Most famous approaches are interpretivism, positivism and realism (Saunders, Lewis, Tronhill,2007) but important and most using approaches are positivism and interpretivism. It is important to note that every approach or ideal use different research techniques so ultimately research will conduct and proceed in different ways.

According to Neuman (1994), interpretation is based on observation, and for observation, detailed interaction with people is needed. For this, long interviews are conducted and then interpret data from these interviews. While in positivistic approach, consider any object, doing experiments and then precisely comparison facts, numbers while extracting results. In contrast, interpretive approach use huge amount of qualitative data and from this huge amount, researchers interpret and deduct result. So in interpretive approach, researchers emphasize on subject while doing research, but not on any external object and do not compare it to any other object.

As our research question, we are conducting research on relationship between microfinance and entrepreneurship for poverty alleviation and empowerment of poor. We will study microfinance but with this we uncover this issue so that we can see microfinance while effecting entrepreneurship, either positive, negative or none. In our opinion, our research approach is not completely positivistic because of there is no any comparison of special object, doing experiment or survey and then deducts result but it is combination of objective and subjective mechanism. We will see subjectively see how social entrepreneurship and microfinance contributing in poverty alleviation. But sure with this we will study and explore underlying mechanism of microfinance. So our approach is not following only one approach but to both. Other reason to support our arguments that we conducted long interviews with many borrowers, experts then extracts information.

2.2 Research strategy

Researchers use strategy and follow outline to do their research work. Either they collect information, empirical data and test it and generate any law or theory or they generate hypothesis from already present theories and knowledge. After this they collect empirical data and scrutinize hypothesis with collected empirical information. Both methods differ from each other in modality by which these strategies are conducted and the literature available on the topic of research. These

two famous strategies for conducting research are deductive and inductive. To choose one of any strategy it depends on the choice of topic for research.

In deductive approach, researchers consider and study, first of all, theory, then generate hypothesis and this hypothesis is tested by the help of empirical data that resulted in conclusion drawn. Conclusion depends on data and information which is available during research (Bryman, 2004). So conclusion will be more reliable if more data is available. In this approach, researcher build hypothesis on the basis of his/her knowledge and theories available and then scrutinize hypothesis with empirical data. According to Bryman (2004), normally, deductive approach is attached with quantitative research.

On the other hand, the inductive approach is being done by studying and taking into consideration the empirical observation first and then researcher goes on to build hypothesis which leads to the development and consideration of new theories or making addition in existing theories(Bryman, 2004) . In inductive approach, human observations have been role to pursue research.

It is important to include here that when there is lot of availability of literature on research topic, probably deductive approach is used. So it's a little easy way to develop a firm background on research topic rather than inductive approach. While, if there is less amount of literature available and there is debate on any topic, for this, most suitable way is inductive. Therefore researchers have concern to collect empirical data as much as possible so that they can get required knowledge from it and then generate a new theory or contribute in the old one. It is a notable point that in deductive approach, consideration of theory comes before hypothesis and empirical findings while in inductive approach, empirical findings and research come before theory and hypothesis.

In our thesis research, we used deductive method because of literature availability and its flexible design. But some part of research work has no plenty of literature support. These parts included interest microfinance and micro entrepreneurship. But still there is sufficient work and literature is available and by the help of this empirical data, we can continue our research work.

2.3 Methods for data collection

Till this point, we have discussed about scientific ideals- positivistic, interpretivist and realism. After this, we discussed different approach for research and particularly we see inductive and deductive and consider some points about differences between two approaches and saw which approach is suitable in what situation. Now after deciding which ideals we will choose, the research approach, move to discussion on methods for data collection. As Brewerton, Millward(2001) described that selection of research work suggest one or more methods for data collection. But it is important to selecting any method, see advantages and disadvantages of each data collection methods and think which method is useful for your study so that maximum and correct information can be collected. Because of, research works mainly base on empirical data, so selection of data collection methods become important in this regard. These methods generally divide in two categories, qualitative and quantitative.

Quantitative methods used to collect data in numbers, graph or figure. Quantitative methods used mainly in quantitative research design and in this type of research study is objective and emphasize on variable or object by which information collect. According to Neuman (1994,pp.97), variable is a central idea in this research design. Therefore for measuring values by comparing this object or variable, researcher needs quantitative methods. For example, education is a variable but it has different values by different people like school education, college or university education. So in quantitative research, and in methods, it is important to selection of variables and their attributes because study depends upon these variables and attributes. As Neuman (1994), variables are of three types, independent, dependent and intervening variables. Variable which identifies condition that act on something else is independent while dependent variables are those that come on result of

another variable and intervening variable come between relationship of independent and dependent variables

While Qualitative methods use to collect data in words, pictures etc. Qualitative methods use in inductive research process. These methods use when there is need of in depth study about behavior and characteristic of research topic. Therefore in qualitative methods, like interview, huge amount of data is being collected and from this amount, required data is collected. According to Silverman (2000), quantitative research and methods used in this research simply reports about object and reality but on other hand, qualitative methods and research cover the behavior and values of research. The other major impact of qualitative methods is flexibility which help researcher to collect data in depth and in detail.

There are advantages and disadvantages of both methods but we cannot conclude which one is more suitable. Actually, the selection of methods mainly depends upon the nature of research topic and availability of data. If on one side, qualitative methods facilitate researcher in term of flexibility in data collection but on the other hand this flexibility produce a huge amount of data. And for researcher, it may become difficult to extract correct and precise data. But in quantitative methods, researchers gather precise data. One important argument that qualitative researchers give in favor of qualitative technique is that, dependency on only quantitative methods may become cause of missing of social and behavioral construction of variable or object (Silverman, 2000). Therefore, there is no one solution. As Brewerton, Millward (2001, pp.11) stated that “In practice, qualitative methods can be used to generate quantitative data (e.g. interviews can be content analyzed for different themes and these themes can then be frequency analyzed) and vice versa (e.g. a survey incorporating a series of open comment boxes)”.

According to Fisher (2004), methods are used for data collection are interviews, questionnaires, panels, observations, documents or databases etc. These methods then major categorize in to two streams which are qualitative and quantitative. Surveys, questionnaires, databases are used as quantitative method while interviews, observation etc used as qualitative methods. Generally we specify which methods are suitable for which research strategy but according to Fisher (2004), during research, researcher can use either qualitative or quantitative methods or combination of both.

2.3.1 Interview

A famous tool for data collection is interview which is used by researcher on any stage of research work. There is flexibility while conducting interview and information gathering through interview, because researcher can conduct interview at any time and researcher gets information in huge amount. As mentioned by Brewerton, Millward (2001), interview can be combined easily with other data collection methods also. For example, questionnaire can be conducted by help of interview. With these advantages, the major disadvantage with interview is difficulty to collect precise information from huge information gathered by interview. With useful information, lot of useless information is also gathered during interview. So filtering information is probably difficult from huge amount of information, gathered by interview. According to Fisher (2004, pp132-133), interview can be conducted in open, structured way, or combination of both techniques, base on flexibility of researcher and respondents and research work. In open interview, interviewer and interviewee talk openly with each other like discussion. Researcher have prescribed plan and questions to be asked but he/she give open room to respondents to give answer as much as flexible. Advantage of this way is that interviewee feel freeness to answer questions and interviewer can get information which he/she can not get normally. But major disadvantage is that a lot of raw information is gathered with useful information and researcher may get problem to sort out the useful one. The other way to conduct interview is pre-coded. In this, researcher asks pre planned questions, no less no more. In this type, there is no flexibility to ask questions or put any additional

questions. It may look like an interview cum questionnaire. Advantage is that researcher get precise information but chances of missing of some issues which can be raised during interview but not raise. While, third way of conducting interview which is semi-structured, lies in between of these two approaches. Researcher have planned questions on research issue but with this he ask supplementary questions during questions to explain issues and then sub issues (Fisher, 2004)

We adopted qualitative approach for data collection and use interview for this. We conducted open ended interviews with managing Director of Akhuwat and some experts. While structured interviews were used in case of borrowers. Aim of these interviews is to collect information about working methodology of microfinance, problems, future aspects, effect on poverty alleviation, social entrepreneurship, micro entrepreneurship, working structure of microfinance-interest free and other aspects. While in secondary data, we emphasized on State Bank of Pakistan reports, other MFIs's reports, reports from Pakistan Microfinance Network, Finance department, Government of Pakistan and other organizations and we selected information in a more diversified way.

2.4 Structured Interview Design-conducted from borrowers

Motive behind to conduct structured interview from borrowers was that poor borrowers are illiterate and were not able to fill the questionnaire. Therefore we conducted structured interview in Urdu language so that they can respond easily and we can get full information.

Interview was designed with open and close ended questions. Strategy to develop such kind of questions is due to providing facility to respondent to give answers with full detail. And where we need fixed value of our questions, we need close ended questions. Questionnaire is designed with six major portions including personal data, information about business and financial status, micro entrepreneurship, micro finance and poverty information. Start interview with personal data including name, address, gender etc and then switch to business information which followed to details about financial information of business. The next part of questionnaire is leading to getting data from respondents about micro entrepreneurship. Desire of this part of interview to come in to know about any kind of innovation, risk taking factors and profitability which respondent use in his/her business different than others. In this part, most questions are open ended, because we want to give full room to respondents to express their ideas, implanted in their business. This part follows to questions about micro finance. Objective of this part is to access to thoughts of user about micro finance, availability of finances, difficulties and advantages of micro finance to their business. Last part of interview emphasizes on poverty alleviation, respondents' old financial situation, current position, and how all this story of micro finance and entrepreneurship is taking part in alleviation of poverty.

2.5 Open ended Interview

We used unstructured interview for collecting information from Akhuwat's Managing Director and experts in Islamic microfinance. Major reason is to repository of maximum information from interviewees and asking additional questions to respondents during interview.

Our interviews compromised questions about working methodology of micro finance, what make different microfinance from general banking, is micro finance worked only in developing countries, disadvantages of microfinance, Akhuwat history, motive and financial position. With this, we include questions about microfinance-interest free, it working methodology, what make different from general microfinance and practicability of microfinance-interest free. We also raised questions about membership fee, interest rate, and its future prospect. We emphasized on issues in depth like; is there any difference between interest rate and membership fee; there is no difference between Islamic Banking practices and microfinance-interest free practices; this system may find difficulties in future if more people join this system.

2.6 Secondary Data Sources

Secondary data sources have been important to find information that is already proved and researched. These sources are used to formulate effective research questions, develop theoretical framework, and source for empirical data. We consulted Mälardalen University Library, different journal databases and research articles, websites, reports about poverty, MFIs, and micro entrepreneurship. Empirical data is contributing a portion of our thesis work. We are using State Bank of Pakistan annual reports, National Human Development Reports, A working paper 'Challenges and Prospects' of Microfinance in Pakistan' by Khushhali Bank Pakistan and different reports from Pakistan Microfinance Network, and other many research papers.

3 Literature review and Theoretical framework

In this part, we described different theories and readers will look on previous research on the research topic. We discussed microfinance, its different models and how microfinance contributes in poverty alleviation, and theories about entrepreneurship and social entrepreneurship. In the end, on the basis of literature review, we build conceptual framework that will use while analyzing empirical data.

3.1 What is Microfinance?

Poor people are not able to access loans from commercial banks normally because of lack in guarantee and collateral. But there are many other reasons also involved for which commercial banks were not willing to finance poor. These reasons are included that poor have less education, no proper experience and training, high expenses on transactions of small loans and lower rate of profit. Therefore limited option to access loan leads to push poor people in more poverty. This situation resulted in emerging the idea of micro lending and microfinance. Microfinance, therefore, a way to finance people, those have no collateral or any property for guarantee. Microfinance is a way of financing to poor for their business, to alleviate their poverty, empowering them, giving social benefits on sustainable way. According to Agion & Morduch (2005, pp.3), due to microfinance, there are many possibilities have emerged including extending markets, reducing poverty and fostering social change. But there is wide spread confusion that microfinance is just lending loan to poor but as we mentioned that microfinance is no more only loans but covering the issues of poverty alleviation, putting social impact on poor and educating poor to savings. Therefore, MFIs, today, not only NGOs but serving as a complete banking system. This discussion lead to us that microfinance is a form of financial services for poor to help them for their business activities by giving micro credit.

According to Ledgerwood (2000, pp.1) “Microfinance has evolved as an economic development approach intended to benefit low-income women and men. The term refers to the provision of financial services to low –income clients, including the self employed.” While according to ADB (2008) “Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and, their microenterprises.” These statements are elaborating that microfinance is a financial services but designed specifically for poor to improve their lives in sustainable way.

3.1.1 Microfinance Activities

Economic activities base upon sellers and buyer and their capacity. Sellers, before market their product, look at buyer intention and capacity. On the other hand, banking activities depend on both sellers and buyers. Lenders (financial institutions) finance both sellers and buyers for their activities. Commercial Banks invested in projects at large scale while with this, banks invested in consumer finance also. While MFIs usually don't invest in consumer finance, but give finance only for micro enterprise. MFIs encourage people to lift up their standards by doing businesses and earning from them and this is a consistent and sustainable way. In fig (2), microfinance is dedicated only to poor and explicitly for business activities. But with this, there are some indirect impacts of microfinance on the micro borrower which are alleviation of poverty, improvement in healthcare, increase in literacy and other social impacts.

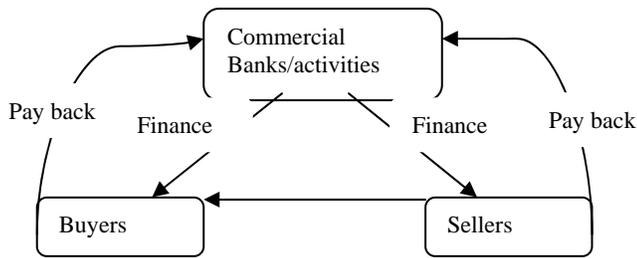


Fig 1: Economic activity by commercial banking

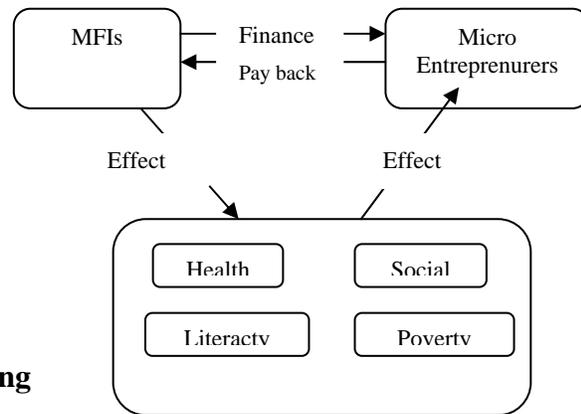


Fig 2: Economic activity by MFIs

According (Ledgerwood, 2000, pp.1), there are many activities and characteristics are included in microfinance. Some are:

- Small and short term loans
- Social collateral rather than financial collateral
- Access to larger amount of loan if repayment performance is positive
- Search and access the real poor and their business demand
- Continuous monitoring of business
- Loan on higher interest rates due expensive financial transactions and risk factor
- Easy way to access finance, therefore not too much paper work, and easy and short procedures
- Offering saving services to borrowers even for smallest amount
- Offer training services to borrower's business development
- Literacy training to borrowers so that they can come up with competence to daily business problems and its solutions
- Health care, social services and other skill training services to provide borrower a sustainable base for their business development

3.2 Microfinance-a Development Tool

In developing countries, people from low income communities have innovative idea for their business, even as shop keeper or house hold products manufacturer, but they have no financial resources to implement their ideas. This low economic activity in low income communities due to lack of financial resources lead them to more poverty and poor life standards. Generally financial services cover savings and credit activities and there is same concept about MFIs. But according to Ledgerwood (2000), MFIs work for general financial services with this they provide insurance and payment services to their clients. But important aspect of MFIs is not only financial intermediation but also providing social intermediation and social services to their clients. Social intermediation and social services contain many activities including trainings, management development, and financial literacy activities. Furthermore, many MFIs, arrange get together where experienced people guide others, where they give useful suggestions, tips and other tactics for their business. Therefore microfinance is providing financial services with social services. Normally, social services are not applicable in general banking system. So, microfinance is not simply banking

system but development tool, combining both financial and social intermediation (Ledgerwood, 2000). In following, there is discussion about different services provided by MFIs.

3.2.1 Financial Intermediation

Financial intermediation is by far the most primary objective of MFIs because without loan/money social intermediations can not work. As prior discussions that poor face barriers to access finance from general financial service institutions. MFIs, in this regard, become a bridge to access finance and in result to poverty alleviation, health care and education literacy (Ledgerwood, 2000). MFIs are providing many financial services including credit, savings, insurance credit cards, payment services etc. But almost all MFIs are lending credit by default. It is not necessary that every MFI should facilitate their customers by all these services but MFIs can facilitate anyone of these services or all. According to Ledgerwood (2000,pp.66), “The choice of which financial services to provide and the method of providing these services depend on the objectives of MFI, the demands of its target market and its institutional structure.”

3.2.2 Social intermediations

Social intermediation that cover the issues of group formation, leadership training and cooperative learning, is secondary role of microfinance for borrowers of MFIs. Development in Social capital is a basic ingredient of sustainable development in poor’s life and especially in society. Ledgerwood (2000, pp.64) defines social intermediation that “the process of building the human and social capital required by sustainable financial intermediation for poor.” Now question rise, how social capital be acquire and strengthen? Social capital is actually links between clients of a group and multiple groups, and between MFIs and borrowers. These links establish on the basis of strong foundation of trust and cooperation (Agion&Morduch ,2005). The ratio of social capital will increase with increase in business activities among members, and financial transaction between lender and borrowers.

Social capital normally develops through group activities but there are other ways to develop it by individually. In group social intermediation, activities performed inside the group with some help from outside to develop institutional capacity and human resource. In group, most of members belong from remote areas, having less literate and experience about business and financial transaction. So from group formation to selecting leader, developing networks and working mutually, MFIs support borrower to deal with these issues. Therefore, these members need training in record keeping, book keeping, accounting, training about business activities and tactics, and negotiation skills Ledgerwood (2000).

3.2.3 Enterprise Development Services

MFIs, not all, support to borrowers, either in group or individual in different enterprise development services like marketing, business and accounting training etc. This service can be divided in to two parts, enterprise formation and enterprise transformation. In enterprise formation, MFIs provide technical support to group or individual in start up of business, development and maturing ideas and maturing the skills. While, in transformation of enterprise, MFIs arrange trainings for their borrowers, workshops and get together for developing latest skills in their business area (Ledgerwood, 2000).

Minimalist Approach
One “missing piece” credit

Intergrated Approach
Financial and non financial services

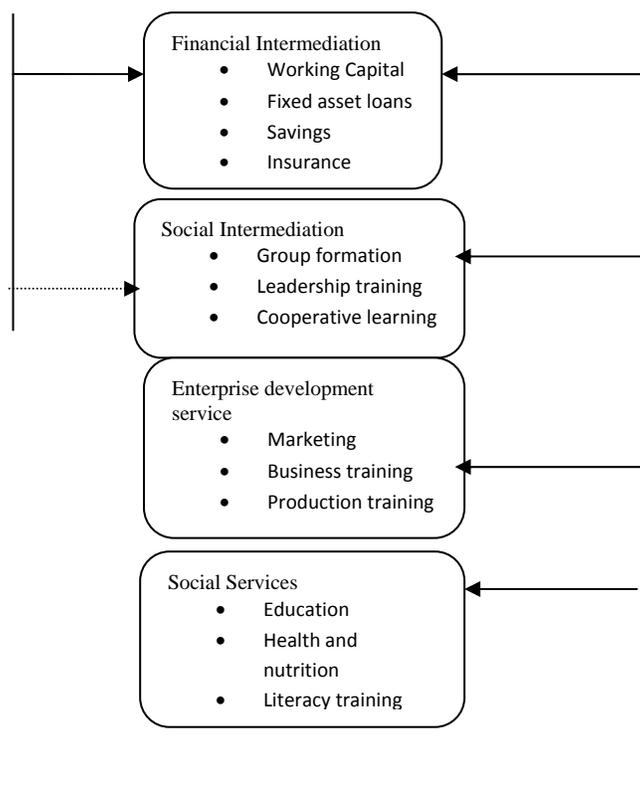


Fig3: Minimalist and Integrated Approaches to Microfinance (Source: Ledgerwood ,2000,pp.65)

3.2.4 Social Services

According to microfinance practitioners, poverty can be addressed by financing poor for productive activities which in result come up to their access to life necessities. But financial lending is only a one tool to poverty alleviation. Poor needs more than microfinance to address the problems of poverty and accessibility to other life needs like food, health, family planning, education, social support network and so on. Therefore, Ledgerwood (2000) addresses that MFIs serve to their clients with additional social services with financial intermediation. The best way to contact with their clients is in the form of group, that is the easy way to literate them, giving health care and other facilities. So in this way, MFIs role is productive in the life of poor by offering financial services with supportive services. These supportive services, actually, play important role in sustainable human development and livelihood of the poor (Khan , Rahman, 1998).

According to Ledgerwood (2000), social service should not mix up with financial or social intermediation because financial intermediation is primary service providing by MFIs. That means, there should be no additional cut off from loans in account social service but it should be provide by secondary means or by subsidies.

3.3 Microfinance Models

In spite of having innovative ideas for business, if there is no access to financial resources, these ideas go in vain. Microfinance changes whole scenario and reaches out poor to materialize their ideas and get financial benefits. According to Sengupta, Aubuchon (2008), there are now nearly 70

million poor people who are getting benefits from 2500 MFIs in over 100 countries by microfinance.

Conditions of poor are different in different countries in world. These conditions are related to social, ideological and political issues (Weiss, Montgomery, 2004). Therefore, there are some distinctive differences between approaches and motive of microfinance. We will see briefly two approaches, one is very famous Grameen Model, originated from Bangladesh and other is Banco Sol, in Bolivia.

3.3.1 Grameen Model

In Grameen model, primary unit to whom lending fund is a group of 5 members that organize and apply for loan. In first round, loan is granted for two members to invest in their business. If these two members become successful to repay amount, then four to six weeks later, next two members are granted for loan. Last one member will be eligible for loan if previous two repay loan successfully. Repayment of loan open door for next loan and then go on if all members repay loan successfully. If anyone of group member will default in her loan, whole group will disqualified for further loan. So this rather to financial collateral, social collateral is involved.

Each group has its own president and secretary to coordinate all activities among their own group and to communicate and coordinate with other groups. Eight groups are then organized at center level, by which a bank officer deal with these all eight groups. This center of eight groups has its own center chief and center group leader (Khan, Rehman,2007). According Sengupta, Aubuchon (2008), first time, bank granted loan \$100 and bank require to repayment of 10 percent amount, at rate of per annum, weekly. This repayment ensures to user for loan security, and also encourages them for savings. Along with five percent of loan deposited in group account for emergency and social need. For example, in case of need of health care of any one member, in case of emergency, this five percent deposit will be use.

In Grameen model, unique and innovative approach of group lending is used. As Sengupta, Aubuchon (2008) described that group lending have many benefits. First, group usually organize in members who are neighbor to each other, those can understand each other well and recognize their needs. Second, if anyone of group member will not present in group meeting, leader or other member can pay its installment. We can say that there is a kind of mutual understanding between all members. Third, in south Asia generally, and in Bangladesh specially, there are social pressures among members of society with social bindings with them. If one member of group will not pay even one installment, social pressure will be levied from all eight groups on this member. Ultimately she will try to pay installments. This leads to the reduction of risk.

3.3.2 Progressive lending-Banco Sol Model

Grameen model of microfinance emphasize on lending to villagers and keep loan lending on in smaller amount. The other core concept of model is formation of groups and these groups are eligible to take loan, no option of loan for individuals. Idea of progressive lending (Agion&Morduch, 2005, pp.119) introduced to lend loan to individuals with group lending. Amount of loan will increase after completion of every repayment schedule. But other characteristics of Grameen model (Group lending) are included in this method, like targeting to poor, women, group formation, and public payment. No doubt, progressive lending is an extension of group lending (Grameen Model) but now many MFIs are adopting this approach. In this model of “Progressive lending”, microlenders are flexible about collateral and lend loan to group with individuals also. This method is very helpful in areas with low population densities or highly diverse population where group forming is not so easy due to different ratio of safe and risky borrowers. This model is adopted by Banco Sol in Bolivia. In Bolivia, there was different situation

when populist regime left government and there were high ratio of unemployment in urban areas. To come to fulfill the need of time, Banco Sol started operations in microfinance with progressive lending. Therefore we can say that microfinance approaches are evolved due to different political, ideological and social conditions. According to Weiss Montgomery (2004, pp.3) “Microfinance in Latin America developed under quite different conditions. In Bolivia, a collapsing populist regime led to widespread unemployment. Banco Sol, a pioneering microfinance institution in the region, developed to address the problem of urban unemployment and provide credit to the cash-strapped informal sector. The notion of commercial profitability was embraced relatively early in this approach.”

3.4 Microfinance-Interest free (Islamic Microfinance)

Most of MFIs are providing micro lending on more than 20 percent interest even reaching 30 percent which is higher than commercial banking. Reason for these higher rates is of high institutional cost, giving loan on door steps, small loan amount and higher number of customer therefore increased expense to maintain all operations and risk factors. This high interest ratio put pressure on loan borrower which can affect the overall success of business.

New and emerging approach is introducing interest free microfinance (Islamic Microfinance). As in Islam, charging interest (*Riba*) on liquid cash is prohibited because by Islamic teachings, money is not an asset for earning profit (Dhumale, Sapcanin, p.1). Islam emphasizes on social, ethical, moral factors for distribution of wealth and guide towards social and economic justice. Islam rather than interest, encourage profit because earning profit evolve productive activity and involve in profit and risk sharing between lender and borrower (Dhumale, Sapcanin,p.1-2). Basic motive behind this approach is more than profitability, repository of wealth but collective wisdom of development of business, sharing profit and loss and collective struggle for business development. So the final gain from this is social benefit rather than profit gain and maximization which is helpful to microfinance and micro entrepreneurship. Microfinance –interest free can be handled in many ways but we will discuss three famous methods which are *Mudaraba*, *Musharaka* and *Murabahah* (Segrado, 2005).

Mudaraba (Participation financing): Mudaraba mean transaction between financial institution and borrower and for this option, both capital provider and entrepreneur have no pre decided amount as an interest but will work on basis of profit sharing and both will share this. According to Zaher,Kaber (Segrado,2005, p.11), ”Mudaraba is a trust based financing agreement whereby an investor (Islamic bank) entrusts capital to an agent (Mudarib) for a project. Profits are based on a pre-arranged and agreed on a ratio. This agreement is akin to the Western style limited partnership, with one party contributing capital while the other runs the business and profit is distributed based on a negotiated percentage of ownership. In case of a loss, the bank earns no return or negative return on its investment and the agent receives no compensation for his (her) effort”.

Musharaka: This is same like as joint venture between two or more persons or institutions. According to *Segrado (2005)*, “Two parties provide capital for a project which both may manage. Profits are shared in pre-agreed ratios but losses are borne in proportion to equity participation”. So it will not be based on profit sharing business but it depends on decision making and management capacity and role in business.

Murabahah: In this model, MFIs first buy items and then resell it to borrowers with adding some reasonable profit/markup (Habib, 2005). After this, agreement will be establish to return amount to lender. Installment will then make over, and duration of pay will be decided. Owner ship of good will remain in name of MFI until all credit will be cleared. It is important to quote here that markup or profit add on actual amount by MFIs is consider administrative cost, and it is demand of Islamic practices that profit margin should be as much as minimized. Dhumale, Sapcanin (p.10) resemble Murabahah as “The Murabahah contract is similar to trade finance in the context of working capital

loans and to leasing in the context of fixed capital loans.” Murabahah consider the suitable method in MFIs due to its clear and easy to understand methodology.

Qard-e-Hassan: The Prophet Muhammad (PBUH) says “the inmates of Paradise are of three types: one who wields authority and is just and fair; one who is truthful and has been endowed with power to do good deeds and the person who is merciful and kindhearted towards his relatives and to every pious Muslim, and who does not stretch out of his hand in spite of having a large family to support. [Sahih Muslim]” (Hossain, 2004). Teaching of Islam encourage to rich poor to help poor so that poor can also benefit with social services and uplift their standards of life.

Qard Hassan’s principal is that lender give loan to borrowers with out any profit/extra amount or interest and debtor is supposed to return back as soon or pre decided date but lender will not press to return back as soon (Mirakhor,Iqbal, 2007). Qard Hassan’s working is same as conventional MFIs but there is some differences like no interest will be charged and there will be no strict fine or charges on default or delay of amount.

While expressing the rules regarding Qard Hassan, Hossain (2004) outlined as following:

- There should be proper contract between lender and borrowers in which all terms and conditions will be written
- Date of payment must be specified
- Loan contract should written
- Getting two witnesses
- Charging membership or administrative fee.

3.5 Empowerment

Poverty effects not only on individual’s life but also on society as a whole. Poverty is one of the main reasons in cause of less empowerment of poor especially in developing countries. Empowerment is broad concept to define because many elements involve in it. These elements influence by including political, social and power system in the country. Empowerment covers many issues and when there is discussion on empowerment it includes many elements. According to PREM,WB(2002) these elements are, self-strength, control, self-power, self reliance, own choice, life of dignity, fighting for rights, independence, decision making, being free, capability , access to basic human needs etc. Misra (p.3) describes empowerment as a power to the people and self governance. He quoted “Empowerment builds self-reliance and strength in women, preparing them towards gathering the ability to determine the choice of life. This adds to the command over resources outwit insubordination and signify their social role”. Due to different social, political, economical conditions, we can not define a one definition for empowerment. Here are two definitions that address most of factor linked with empowerment. According to Batliwala (Makombe,2006,p.52), empowerment mean “take control over material assets, intellectual resources, and ideology. The material assets over which control can exercised may be physical , human , or financial, as land water, forests, people’s bodies and labour , money and access to money. Intellectual resources include knowledge information, and ideas. Control over ideology signifies the ability to generate, propagate, sustain, and institutionalize specific sets beliefs, values, attitudes, and behavior-virtually determining how people perceive and function within a given socio-economic and political environment”. While according to PREM,WB(2002,p.11), “Empowerment is the expansion of assets and capabilities of poor people to participate in , negotiate with , influence, control, and hold accountable institutions that affect their lives.”

According to PREM,WB(2002), strategies for empowerment is taken at individual, government, civil society and private sector level. Usually these efforts lead to empower people in context of sharing of power, freedom of information, access to resources and health and education services.

These strategies normally share four types of elements: First, Access to information, its mean every citizens including poor have direct access to information because information is power. Second, Inclusion/participation, that's mean there should be opportunities for poor that they can participate in decision making and they should be included in all financial and political policies. Third is accountability, that's mean officials, public servants, private actors should be accountable not only to some specific institutions but to their citizens for performance. Fourth and last one Local organizational capacity, its mean that people can work together, organize themselves, mobilize and utilize resources and solve problem at community level.

3.6 Entrepreneurship

Entrepreneurship is one of the most widely used term in business, management, economics and other related fields. One of important thing is that entrepreneurship has different meaning for different people, some use it in the meaning of innovation, some use for creativity, risk taking, leadership, and profit maximization or in social context, and some consider it as start up of business, new production methods and many other different meanings. Davidsson, (2004) describes it that entrepreneurship is rich phenomenon which makes it a resourceful field. While defining entrepreneurship, we consider some school of thoughts that have major role to define this field. Entrepreneurship, under the flag of Schumpeter school of thought (Swedburg, 2000), is about innovation in organizational process, thinking up new combination, entrepreneurial behavior and motivation of entrepreneurs. While according to Gartner (Thornton,1999), entrepreneurship is about creation of new organization or new startup, creating values and entrepreneur mean owner-manager. In Krizner's view (Swedburg, 2000), entrepreneurship is searching opportunities and exploiting them so it reflects towards the alertness capability of entrepreneur towards profit opportunities.

Timmons (Bengtsson, Peterson, 2008) describe different component of entrepreneurship and named it entrepreneurial process. Model emphasizes three entrepreneurial components, Opportunity, Resource and the Team.

According to Timmons (Bengtsson, Peterson, 2008) in following fig (4), there is description about each factor which describes best about entrepreneurship and role of entrepreneur is growth of firm:

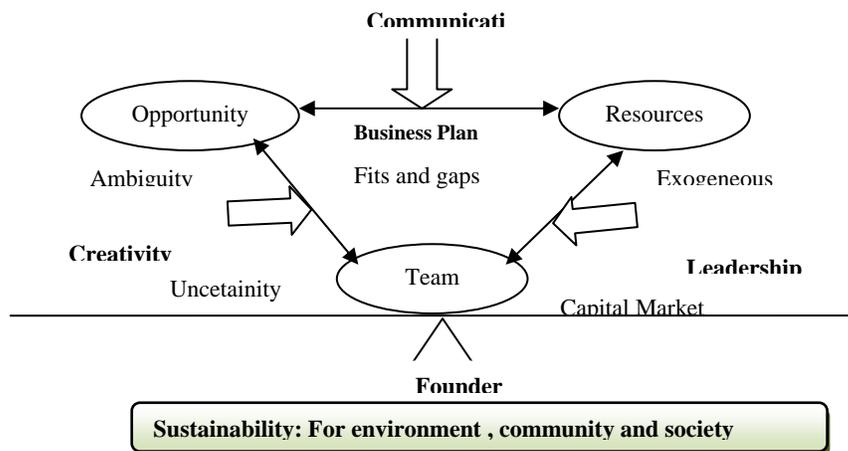


Fig. 4 Timmons entrepreneurial process model (Source: Bengtsson, Peterson, 2008,p.6)

Opportunity: where there will be more imperfect market there will be more opportunities to exploit. According to Timmons (2008, p.7), “The greater the rate of change, the discontinuities, and the chaos, the greater is the opportunity...”. Entrepreneur will have more room to exploit opportunities. So important job is to search opportunities and yield them. This is a core characteristic of entrepreneur that he/she should be opportunistic.

Resources: Resources are not always first priority of entrepreneur, innovative business idea is at top of his/her priority list. No doubt, new business always needs lot resources but if there will be no business idea then this money is useless. According Schumpeter (Reisman, 2004), entrepreneur have strength to stand up and resist if he/she feel any problem even in the form of resources. If entrepreneur have problem to access financial resources from bank, he/she may have capabilities to see alternative ways to access resources.

Team: Team in firm always stand firm with organizational objective. It is also core characteristic of entrepreneur and important factor of entrepreneurship, that entrepreneur make up team and utilize team strengths to achieve firm's objective. This is team work, which works in uncertainty.

Entrepreneurship-Two distinct schools of thoughts

Two schools of thought about entrepreneurship are famous while defining entrepreneurship; these are Schumpeter's theory of entrepreneurship and Austrian theory of entrepreneurial discovery.

Schumpeter theory of Entrepreneur

Schumpeter's theory of Entrepreneur is evolved while contributing knowledge in theory of economic development by Joseph Schumpeter. According to Schumpeter (Swedburg, 2000), innovation is that to combine materials and forces, which are under reach, with different method or with new combination to produce a new innovative products. By this definition, it is important to consider that Schumpeter emphasize innovation rather invention. According to Mondal (p.6), "Schumpeter's model works through the transformation of production function. A production function is the technological relationship between inputs and out puts." Further to elaborate innovation and resulted products, in following there are five forms: (1) the introduction of new good for users or new quality of good (2)the introduction of new method of production-handling production system in new way (3) the opening of new market-where company do not entered before, even existing or new market (4) the conquest of a new source of supply of raw material (5) the carrying out of the new organization of any industry, like the creation of monopoly organization. These all steps indicated a kind of innovation by combining sources, materials and function and producing a new product or service.

Other major contribution of Schumpeter theory also discusses motivation of the entrepreneur. First, it discusses about the desire and will of entrepreneur to establish an organization where entrepreneur can work independently and enjoy power. Second, that he/she has will to become successful in his/her business. And third is joy and satisfaction on reaching his/her goals (Swedburg, 2000).

According to Gartner, McDaniel (Mondal, p.5), that when we think about entrepreneurship, there are many factors attached with it like economic, personal and sociological variables and their combination. Personal characteristics also attached as entrepreneurial behavior, these characteristic are included need of achievement, risk taking propensity, locus of control, beliefs about wealth and material gain and business growth.

Theory of Entrepreneurial Discovery-Austrian perspective

Austrian Theory of Entrepreneurship (Swedburg, 2000) , entrepreneur anticipating market and need of customers exactly and correctly, produce more cheaply than competitor and earn profit. Entrepreneur makes it useful for customers and hence as it will be more useful, entrepreneur can earn more. This idea is directly indicating to earning profit while anticipating market and customer needs in advance. By this theory, it is showed that successful entrepreneur will be that who can earn more profit.

Entrepreneurial discovery emerged in Austrian economics by evolving two elements. One, market is act as entrepreneurially driven process and other is knowledge which can be increase by market interaction (Kirzner, 1997). Austrian entrepreneurial discovery theory has three main concepts which are entrepreneurial role, the role of discovery and rivalries competition. From discussion, we can perceive that Austrian approach emphasize entrepreneurship with economic activity and market process.

Both theories have different and similar aspects on entrepreneurship. Different authors have different approaches on entrepreneurship; this may be due to their research, the environment in which they are working, the previous research and literature available. Innovation, risk taking and creativity are almost essential part of both theories. Schumpeter's theory mainly emphasize on innovation, emphasizing to redefine and regroup resources to produce new product or service. And innovation always has risk with itself. By producing new product, accessing new market, adopting new production system, all lead to risk. In case of Austrian theory of Entrepreneurship, anticipating market and customer need is somewhat need an innovative idea and it also lead to risk. So compete this, creative mind, technique is needed. According to Boettke, Coyne (p.5), "As compared to Schumpeter's characterization of the market process as creative destruction, Kirzner emphasized that markets tend continually ...towards equilibrium, as consequence of continually-stimulated entrepreneurial discoveries". So Schumpeter emphasize on creative destruction while Austrian approach argue towards market knowledge which priory unknown.

3.7 Micro-Entrepreneurship

Microfinance is emerging tool for economic development, poverty alleviation, empowering of low income communities and contributing a new role in micro-entrepreneurship (Mondal, p.1-3). It has gained a prominent role in developed and also developing countries. Most of research on micro financing is developed on issue of poverty alleviation and empowering of poor but there is very less shed light by researcher on Micro enterprise and Micro-entrepreneurship. Our studies will based on this our initiative that how micro financing is contributing in entrepreneurship? Is there entrepreneurship and entrepreneurial abilities and activities exist in owner and in business? If study will reflect answer 'yes', then how micro financing is contributing to entrepreneurship? And if answer will be 'no', then justify it.

According to Mondal (p.3), there are two types of microfinance borrowers; one is Micro borrower and other Microentrepreneur. Micro borrower has mind like capitalist who is aim to earn profit while doing business. So micro borrower get finances from MFIs (Micro Finance Institutions), after paying back, again they will get finances but only motive is to generate profit but not any entrepreneurial achievement. On the other hand, microentrepreneur financed their business and brings innovation, creativity and doing a different from others.

In our work, we will see this aspect of microentrepreneur. For this, initial and essential is to develop definition of micro entrepreneurship. For definition, we will work different theories of entrepreneurship, examine different entrepreneurial abilities, different characteristics as microentrepreneur.

3.8 Social Entrepreneurship

Social Entrepreneurship concept is known in practice as which includes a wide range of activities like individuals in enterprises devoted to making a difference; social purpose business ventures devoted to adding for-profit motivations to the nonprofit sector; and nonprofit organizations that are reinventing and making innovations as a change makers by drawing on lessons learned from the business world (Peredo, McLean ,2006).

3.8.1 Definition of social entrepreneurship. Critical review between for-profit and non-for-profit social entrepreneurship

Nowadays we can hear a lot of things about Social entrepreneurship concept and we define it in this part of our thesis. We should first look at the concept of both sides “social” and “entrepreneurship”. As stated in Oxford Advanced Learners Dictionary (Fifth edition, 1995) “Social” means concerning the organization of and relations between people and communities. “Entrepreneur”- a person who starts or organizes a commercial enterprise, esp. involving financial risk, it means this is risk taking action. In Webster’s dictionary the concept “Social”- of or relating to human society, the interaction of the individual and the group, or the welfare of human beings as members of society, “Entrepreneurship”- French, from Old French, from *entreprendre* to undertake. “Anyone who samples this array of material may be left wondering exactly what social entrepreneurship is. Is it just the application of sound business practices to the operation of non-profit organizations as some seem to suggest” (Reis, 1999), or is it a more radically different approach to the business of doing good? It is said that “social entrepreneurship is emerging as an innovative approach for dealing with complex social needs” (Johnson, 2000: 1), especially in the way of decreasing public funding. What is it that makes this approach so promising? Before as part of answer to this question we should first understand what the phenomenon is. Explainers, both scholarly and popular, and advocates of every kind, understand it in different ways. The concept needs to be clarified just to make those comments and that advocacy eligible (Peredo, McLean, 2006).

“One can ask fruitfully both what makes social entrepreneurship social, and what makes it entrepreneurship. On both points, there is a variety of perspectives” (Peredo, McLean, 2006,pp.57). Dees (1998,p.3) speaks for many when he declares, “Social entrepreneurs are one species in the genus entrepreneur”. At first we would like to describe the theories in entrepreneurship which comes in our research as a broad activity. An entrepreneur is simply one who starts up and/or runs a small business. Some dictionary definitions reflect this use. The Canadian Oxford Dictionary, for instance, defines “entrepreneur” as “A person who starts or organizes a commercial enterprise, especially one involving financial risk” (Barber, 1998, p. 467). We can say this definition as a very simple one. Of course it is impossible to talk about entrepreneurship without Schumpeter who contributed huge theory to this concept. He produced the first competent history of entrepreneurship in economic theory and his approach to this topic has deeply influenced the history of economic thought, and is still the dominant one. He described entrepreneurship mostly emphasizing on innovation and entrepreneur is a person who innovates and make a change.(Swedberg,2000.,p.17) Casson defines the entrepreneur as “someone who specializes in taking judgmental decisions about the coordination of scarce resources”(Swedberg,2000). European Commission says: “*Entrepreneurship is first and foremost a mindset. It covers an individual’s motivation and capacity, independently or within an organization, to identify an opportunity and pursue it in order to produce new value and economic success. It takes creativity or innovation to enter and compete in an existing market, to change or even to create a new market. To turn a business idea into success requires the ability to blend creativity or innovation with sound management and to adapt a business to optimize its development during all phases of its life cycle. This goes beyond daily management: it concerns a business’ ambitions and strategy.*” (European Commission 2003, p. 5)

Dees defines the entrepreneurial aspect of social entrepreneurship as including (1) creating social value mission with the recognition pursuit of new opportunities, (2) engaged in innovation and modification continuously, (3) goal forward action decided without taking into account of existing resource limitations (Dees, J. G. (1998)stated in Peredo, McLean ,2006,pp.58) . And if we

summarize all of the theories entrepreneurship is risk taking, opportunity seeking, change making and requires innovative activities.

And now let's look close to the theories of social entrepreneurship which makes it social.

When we describe entrepreneurship it was broad definition if we talk about social entrepreneurship it is actually narrow definition rather than entrepreneurship. Social entrepreneurs and their actions are driven by social goals, it means in some way to increase in society "social value", poverty alleviation and wealth distribution.

Some scientists say that entrepreneurship must be non for profit activity since it is working for people and aimed social activity not profit generation while others say that we can use social entrepreneurship definition as enterprise who mixed both for profit and non for profit organizations. Dees(1998,p.3) states "For social entrepreneurs, the social mission is explicit and central . . . Mission is the central as at the first place rather than wealth creation. He thoughts that Wealth is just a means an end path for mission [emphasis added]". he means that there is no place for financial aims in undertaken aim. Anderson and Dees (2002), for instance, ask the question whether earned income generation, resulting from some form of exchange of a product or service, is essential to social entrepreneurship. Their answer is emphatic: "No! It is not. Social entrepreneurship is about finding new and better ways to create and sustain social value" (Peredo, McLean ,2006,pp.59). On this understanding, if people do help to poor people for example, just give food, shelter and others they should not expect any returns from them or just help to endeavors with profits which they earned.

Other commentators described this term in permissive way. The Northland Institute (2001), for instance—a body founded in 1996 "to improve the effectiveness of community development organizations"—represents a constituency which links social entrepreneurship with "social enterprise," a term it defines as "the use of earned income strategies by nonprofit organizations." The Institute is one of many participants in the field who cite the "double bottom line . . . the art of simultaneously pursuing financial and social returns on investment." (Peredo, McLean ,2006,pp.59) On this view, social entrepreneurship necessarily involves "enterprise," in the sense of some form of income-generating venture; bent, however, not on profit but on social benefits. NFPs taking this route are often described as "hybrids" (e.g. Davis, 1997) in recognition of the way that they combine non-profit with for-profit organizational features. A notable example of this form of enterprise would be the Grameen Bank in Bangladesh (Grameen Communications, 1998). Fowler (2000, p.645) has used another definition to this type of social entrepreneurship as usefully labeled "integrated social entrepreneurship" which help to people to create their businesses and use profits again to generate social value. Pomerantz (2003) describes social entrepreneurship as, "Social entrepreneurship can be defined as the development of innovative, mission-supporting, earned income, job creating or licensing, ventures undertaken by individual social entrepreneurs, nonprofit organizations, or nonprofits in association with for profits."(Peredo, McLean,2006, p.60). So far, there is a shared assumption which divided into two groups that social entrepreneurship is a NFP concept, and a range of opinion as to whether or to what extent they might or must be involved in some form of revenue-generating exchange. However, all publications both scholarly and non scholarly in 15 years period when they talk about "Social Entrepreneurship" concept almost fully 83% referred to examples of not for profit organizations(Peredo, McLean ,2006).

While describing Social entrepreneurship, Peter Brinherckoff stated Social Entrepreneurs are very important to every non-profit organization to lead them to take risk to set more objectives in a more focused manner. Also he related social entrepreneurship with only non-profit organizations, and argued that it is impossible not to use for profit business techniques and tactics in even not for profit mission. He assures that many people's words about not for profit organizations are already

outdated that their aim is for public service and not for money, and he strongly supports that it is time to change, if social entrepreneurs are taking the risk it means they use business techniques and surely the main aim is to achieve business objectives. He believes business techniques make not for profit organizations mission go further and faster successfully (Brinherckoff, 2000). Finally, he describes social entrepreneurship as Stewards (Brinherckoff, 2000), who try new things, serve people in new ways and try to have their organizations be fonts of excellence. He states 6 characteristics of Social entrepreneurs:

- looking for new ways to serve society and add value to existing services
- willing to take reasonable risk on behalf of stakeholders
- understand the difference between needs and wants
- understand all resource allocations are stewardship investments
- consider the social and financial return of each of these investments
- always keep mission first, but know without money, there is no mission output

There are a lot of aims under social entrepreneurship. Some companies try to attract the media to be successful in a competitive business environment by showing their social responsibility. For example, Avon Cosmetics allies itself with the cause of raising breast cancer awareness. ConAgra Foods, one of the U.S.'s largest distributors of processed and packaged foods, joins the fight against child hunger by sponsoring afterschool cafe's. Cause-branding is recommended on the grounds that while it provides needed support for worthwhile social projects, it also benefits the profitability of the business, partly by encouraging loyalty among customers and employees. Companies which "demonstrate a sense of social responsibility," it is said, "stand out in a world of increasingly undifferentiated services" (Cone et al., 2003,p. 95). After this there is the question "Can we say this Social entrepreneurship?" Answering to this question The Harvard Business School stated that social entrepreneurship should be taken to include undertakings where social goals are added to the firm's objectives, even where they may not rank first in the firm's priorities and may be taken on at least partly for instrumental reasons. After all this discussion we can make a range of social entrepreneurial issues in which social value is the only mission of their aims.

Still the line between for-profit and not-for-profit enterprises is hard to sustain as a significant boundary on social entrepreneurship. As one reviewer of the literature puts it, "socially entrepreneurial activities blur the traditional boundaries between the public, private and non-profit sector, and emphasize hybrid models of for-profit and non-profit activities" (Johnson, 2000: 1).

If we generalize the definition of Social Entrepreneurship concept: an activity that taken by entrepreneurs who finds particular social problem and specific solutions for these problems in society; determination of the social impact, the business model and the sustainability of the organization; and creating a social mission-oriented *for-profit* or a business-oriented *nonprofit* entity.

3.8.2 Models for social entrepreneurship

Nowadays it is common to see certain companies in the private, public and independent third sectors as examples of social entrepreneurs. Mostly we can see that while private sector social entrepreneurs engaged in social activities and "more entrepreneurial approaches in the not-for-profit sector" (Canadian Centre for Social Entrepreneurship, 2001), and we notice the same framed initiatives of social entrepreneurship in public sector as well. In this part we consider organizational models of entrepreneurship, we apply to private, public and non for profit sectors and also we mention on hybrid or bridge forms which is usual nowadays (Roper , Cheney ,2005).

Private social entrepreneurship

As recent publications and literatures suggested that working as private social entrepreneur gives three advantages in terms of orienting to planning, profit and innovation. Socially oriented purpose business ventures can draw upon a wealth of experience in terms of market analysis and the conduct of feasibility studies (Campbell, 1998). Perhaps the single most important activity for the new business start-up, or the business that is charting a new course into the social seas, is a systematic process for generating and screening ideas (Thalhuber, as cited in Campbell, 1998).

Generally speaking, then, self-styled socially entrepreneurial enterprises assume greater latitude in adopting and adapting the popular business trends of the day. As we will see in the discussion of leadership that follows, much of this freedom or autonomy is held by value-driven, charismatic leaders (Roper, Cheney ,2005).

Social Entrepreneurship in the not-for-profit sector

Not-for-profit sector is not new for social entrepreneurship; social entrepreneurship has been going with in not for profit sector in a very real sense. Many social-movement organizations, social advocacy groups, and community initiatives have been started and sustained all over the world through the passion, insight, and creative work of people that fit our contemporary application of the idea of the entrepreneur(Roper , Cheney ,2005).

To be sure, part of the entrepreneurial trend in many non-profits has been increased competition for funding resources from private foundations and government agencies (Leonardis and Mauri, 1992) Actually, not for profit organizations started their actions to provide educational and specific health profit making activities in urban environment and functioned as small business incubators as Wallace(1999) described. While the specific governance, fiduciary, and organizational structures of such enterprises vary greatly, most of these ventures involve at least these characteristics: an orientation toward the regeneration or expansion of economic activity, collective advancement of the public good rather than exclusionary support for private interests, community ownership or control, and participative democratic structures (Pearce, 1994).

Non-profits that assume an entrepreneurial posture are less hesitant to implement concepts and practices from marketing, strategic planning, and systems for the analysis and control of costs. In other words, a certain blurring of sector boundaries is taken for granted, often as necessary for survival(Roper , Cheney ,2005).

Social entrepreneurship in Public sector

Privatization has power to divide ownership sector to two parts as private and public before that we had only one owner public sector which was usual before 1950s. After privatization public sector remains less flexible and less freedom than that of private sector. As Ostrom (1964) stated that public organizations have a more difficult time adapting to changing circumstances and innovating owing to constitutional, executive, legislative considerations, as well as to sheer habit. In short, the private sector allows for greater freedom and experimentation.

As Shockley et al. (2002) stated, in the 1990s, the theories and models of public-sector entrepreneurship overwhelmingly stressed rational economic calculation and especially direct responsiveness to market data. But, Kirzner (1999) argued, this mechanical idea of entrepreneurship as applied to public sector overlooks the fact that true entrepreneurship is something more and beyond mere calculated responses to the environment of decision; it entails an “alertness to hitherto unnoticed opportunities” (p. 39)

In public and third sector the stages of social entrepreneurship is certainly different than other sectors. To reach financial wells as well much greater, but policy and regulations constrained by only presidents of the companies or by government. In this way, third and independent sectors will

arise and make partnership with governmental sectors to create combination of organizational interests in a project focused way(Roper , Cheney ,2005).

3.8.3 Services for the poor. A new phenomenon: Social entrepreneurship (SE). Growing number of initiatives

As we know human needs are main reason to company's decisions about which products or services to produce. In spite of unlimited volume of human needs, companies still struggling to survey to find new markets and value propositions, and for large corporations the challenge for growth has become as important aim. But even if there are a lot of companies struggling and producing products and services and making a lot of money but still in societies especially in non-industrialized countries basic needs of millions of people remain unmet, mainly because these customers are willing to satisfy their needs but unable to pay for products and services(Seelos Mair ,2005).

The World Bank (2003) says that services to satisfy basic human needs, especially those that contribute to health and education, are not serving poor people in terms of access, quality, and affordability. The main reason for this failure is that public spending, as a matter of fact, is not reaching poor people. But if still they reach, they are in poor quality and inefficiently.

A growing number of initiatives all over the globe seem to be defying the obstacles that have prevented businesses from providing services to the poor. Collectively, those initiatives constitute a phenomenon that has been dubbed "Social entrepreneurship". Employing novel types of resources and combining them in new ways, SE is a rich field for the discovery of inspired models of value creation(Seelos Mair ,2005).

As we defined the term of "social entrepreneurship", it is used to refer to the fast growing number of organizations that serving poor by meeting their basic needs that established existing markets and institutions have failed to satisfy(Seelos Mair ,2005).

Some examples of Initiatives which clearly reflects social Entrepreneurship as a huge spots in this type of business are "The Institute for One World Health" (USA), "Sakem"(Egypt), "Grameen Bank"(Bangladesh).

"The Institute for OneWorld Health" (USA) founded by Victoria Hale, a research scientist with Genentech and former reviewer of New Drug Applications for the Food and Drug Administration, was aware of the economic and logistical barriers that prevented pharmaceutical companies from developing drugs for Third World countries. To overcome these barriers, she founded One World Health as the first US non-profit pharmaceutical company. One World Health has adopted an entrepreneurial business model to deliver medicines to those most in need in developing countries. Large philanthropic organizations and governments provide much of the initial funding. Being a non-profit company is an enabling structure for social value creation, as One World Health can access capital that business entrepreneurs usually cannot.

"Sakem"(Egypt) founded by Ibrahim Abouleish in 1977 on a piece of desert land north of Cairo, which was very small company indeed at the moment a multi-business firm that not only creates economic, social, and cultural value, but also has a significant influence to Egyptian society. If we see its contribution to sustainable development of society, its businesses fund spent to build institutions such as schools, an adult education center, and a medical center. These institutions cater directly to basic human needs; furthermore, Sekem fills an institutional void in Egypt by providing structures that people trust and that help them to escape the poverty trap and gain control over their lives. On the environmental side, it has pioneered biodynamic agriculture in Egypt. It has deployed a new system of plant protection for cotton, which has led to a ban on crop dusting throughout Egypt. By 2000, pesticide use in Egyptian cotton fields had fallen by more than 90%. In 2003, Ibrahim Abouleish received the Right Livelihood Award in recognition of his achievements in

integrating commercial success with social and cultural development. Founded in 1980, the Right Livelihood Awards are presented annually in the Swedish Parliament and are often referred to as the “Alternative Nobel Prizes.” Their purpose is to strengthen positive social forces, and to honor and support those offering practical and exemplary answers to the most urgent challenges facing the world today.

Our third initiative is Muhammad Yunus, an economics professor who founded **the** Grameen Bank in 1976 to supply credit to those who would not qualify as customers of established banks. Today, Grameen operates 1191 branches, serving over 3 million poor people in 43,459 villages in Bangladesh. Grameen Bank grants unsecured loans to the poor in rural Bangladesh.

It differs from other lending institutions on three counts. First, the loans can be repaid, and on time. Second, only the poorest villagers, the landless, are eligible. Third, the bank makes efforts to lend primarily to women, who are not only economically but also socially impoverished (Seelos Mair ,2005).

While many researchers try to define social entrepreneurship theories and emphasizing how to find out solutions of sustainable development how to satisfy unmet human needs in developing countries which unable to pay, our examples in practice definitely show that inspired entrepreneurs have shown us new paths and solutions, basing their designs on local needs rather than on the centralized assumptions of large institutions about what needs to be done.

3.8.4 Sustainable Development and Social Entrepreneurship

Nowadays, while many companies are aiming to get as much profit as possible and trying to add some value to economic and social goals, but still there are a lot of social, economic, environment and health problems in the world. And with sustainable development goals we should reduce poverty and keep balance in society. And the main gun to reach sustainable development goals as discussed by many scientists is “Social Entrepreneurship” which is not many works done yet but we can already see some perspectives that already started to add their value to sustainable development. When we describe the concept of Sustainable development we apply to Brundtland’s (1987) definition who described it “Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”If we scrutinize this definition carefully, we can see a lot of value inside it such as human basic needs, future generation’s needs and definitely to make changes by changing norms and behavior to create opportunities (Seelos Mair ,2005).

To realize this definition, the United Nations defined a set of Millennium Development Goals (MDGs), based on a resolution adopted by the General Assembly in September 2000. These MDGs comprise eight specific, quantifiable and monitor able goals (with 18 targets and 48 specific indicators) for development and poverty reduction by 2015. These Goals include human rights, health, education, and environmental issues. Multinationals companies as the efficiencies of markets, combined with the resources and managerial expertise, are considered crucial success factors in achieving these goals. As Margolis and Walsh (2003) emphasized, “Manifest human misery and undeniable corporate ingenuity should remind us that our central challenge may lie in blending the two.” Former United Nations Secretary- General Kofi Annan, in his address to the World Economic Forum on January 31, 1999, called on global business leaders to embrace a set of shared values and principles in the areas of human rights, labor standards, and environmental practices. Kell and Levin (2002) describe the formation of a Global Compact network consisting of several hundred companies, dozens of NGOs, major international labor federations, and several UN agencies to collaborate in creating a more stable, equitable, and inclusive global market by making shared values and principles an integral part of business activity everywhere. Likewise, the European Commission (2002) has called for more direct corporate social responsibility (CSR) as a

business contribution to sustainable development. Despite these welcome commitments, the United Nations Development Program Human Development Report (2003) provides evidence that, for many people on this planet, life remains grim, and hope for improving their situation is frail(Seelos Mair ,2005).

Social entrepreneurship combines the resourcefulness of traditional entrepreneurship with a mission to change society(Seelos Mair ,2005). The complexity, scale, and scope of the world's environmental and social problems and challenges seem overwhelming, tempting us to resign ourselves and doubt the capabilities of our institutions to improve things. However, inspired entrepreneurs have shown us new paths and solutions by making changes and creating new models to serve poor needs and basing their designs on local needs rather than on the centralized assumptions of large institutions about what needs to be done.

First of all, there is no such thing as non-social entrepreneurship; in fact, Reynolds, Bygrave, Autio, Cox, and Hay (2002) stated that in developed and even developing countries majority job places are created by social entrepreneurs—certainly as important social function. So Social Entrepreneurship is like business entrepreneurship, they find out and acts upon what others miss such as opportunities to improve systems with new models, create solutions, and of course invention of new approaches. Venkataraman (1997), who states about Social entrepreneurship, understands that social wealth creation is a product of economic value which done by entrepreneurs. In Social Entrepreneurship he continues, social value creations stands as the first and primary aims of the objective, while economic value functions only to reach sustainability and self-sufficiency(Seelos Mair ,2005).

3.9 Conceptual Framework

After developing theoretical framework, it is important to discuss how we will integrate and coordinate theories for our research work according to our research question. Our work is covering two main topic; entrepreneurship and microfinance with discussing three factors; poverty reduction, empowerment of poor and sustainable development. We will evaluate these theories with empirical data that how entrepreneurship and microfinance can work as a combined tool for empowerment of poor, poverty reduction and sustainable development in society.

In our work, we are going to investigate entrepreneurship on micro enterprise level. Most of the studies emphasize on SMEs and LSE while discussing entrepreneurship but there is small amount of literature available on micro entrepreneurship. Micro entrepreneurship is hard to find on micro enterprise level because poor normally have no room for doing new experiences due financial threat and they are not educated and trained. As entrepreneurship is not available in every SME or LSE , in our opinion, this is same in microenterprise. In research work, we study two strand of entrepreneurship; Social Entrepreneurship and Micro Entrepreneurship. The other major issue in our research work is microfinance. Microfinance is a kind a special financial service by which poor can get finances for their business. Social entrepreneur work in neglected segment of society and today most of the social entrepreneur are working for empowerment of poor. The other major effect of social entrepreneurship is distribution of wealth to poor segment of society. As fig(5), by combining microfinance with entrepreneurship(social entrepreneurship and micro entrepreneurship) can stimulate the progress poverty reduction and empowerment of people.

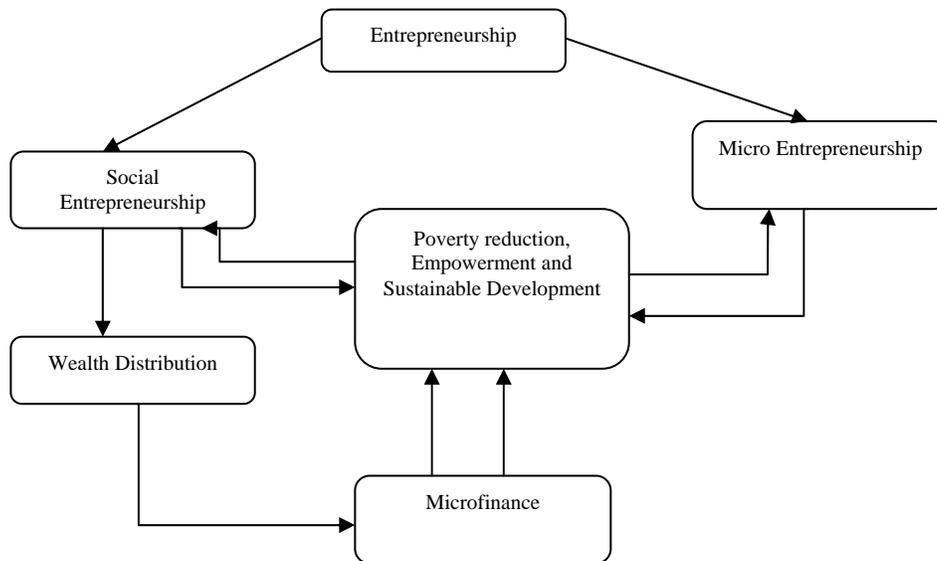


Fig. 5: A basic conceptual framework for doing our research work

Fig (6) is showing a detailed structure of our research work. Starting with microfinance, Grameen model is most widely used lending method in microfinance and most MFIs adopted it. But this is not only a one model, with this, Progressive lending- Banco Sol Model, by which individual loans can be granted, is also in practice. Islamic Microfinance adopted characteristics of both model, but eliminate interest from loan. To understand microfinance myth, methodology, characteristics and its uses, there is need of depth study of different model of microfinance. But mainly our study is emphasizing that microfinance is not only financial services but it is a complete development tool that include social services and intermediation with financial intermediation. Therefore microfinance is not only reducing poverty but also putting impact on poor's life by increasing their life standards by providing social services. While Social entrepreneurship is effecting on poor by providing them such opportunities where they can utilize their strengths and make opportunities fruitful. In our study, we examine the role of social entrepreneur in wealth distribution and sustainable development in society.

Entrepreneurship theories mainly examined in SME sector and large scale organization. In our study it is very interesting to examine Schumpeter theory of innovation and Austrian theory of Entrepreneurial discovery while taking different cases of micro enterprise. By entrepreneurial behavior, implementing innovative ideas and exploiting profit opportunities, poverty reduce with more speed and even micro entrepreneurs can get more profit by bringing innovation in their production system.

By considering microfinance a development tool, and exploiting opportunities through entrepreneurial ideas, can become a successful and speedy tool for alleviating poverty and empowering poor.

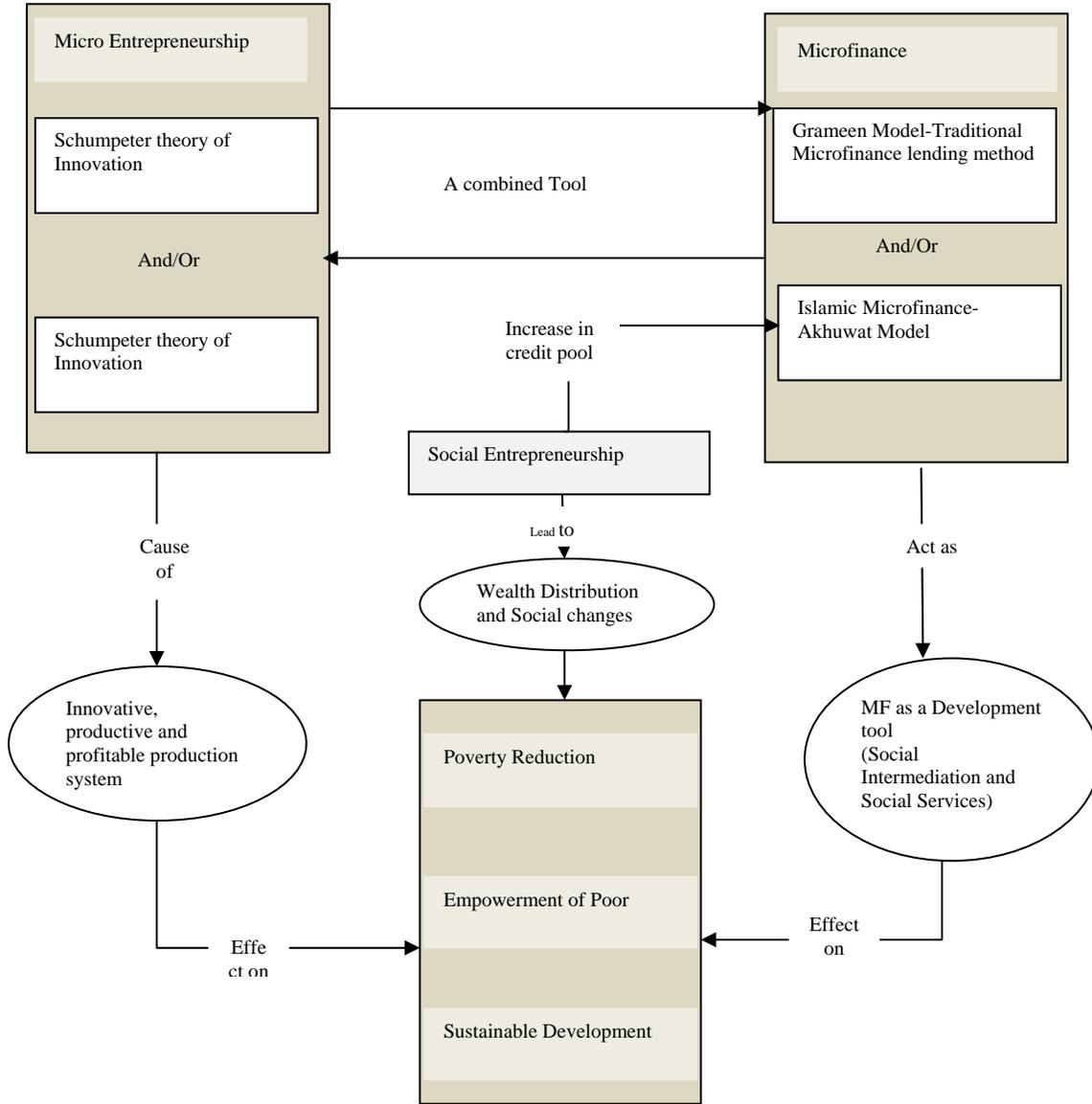


Fig. 6: A detailed conceptual framework for doing our research work

4. Pakistan, Microfinance, Entrepreneurship –Empirical findings

In this section, we present empirical data collected through conducting interviews from borrowers, Akhuwat's administration and Islamic banking experts. Empirical data is including facts and figures about poverty, unemployment, economy and microfinance. Furthermore, there is detail information presented about Akhuwat itself and successful stories of different entrepreneurs-borrowers of Akhuwat.

4.1. Pakistan- Some basic statistics

Pakistan became independent in August 14, 1947 after a long political struggle against British regime. Pakistan is located in very important strategic location in South Asia, share eastern border with India, north-eastern border with China, while south-west border with Iran and Afghanistan is at western and northern edge. Country has total area 796,095 sq km.

Administratively, country is divided in four provinces, Sindh, Punjab, Balochistan and NWFP, with tribal area (Federal Administrative Tribal Area-FATA), Azad Jammu and Kashmir and Federal Territory, Islamabad. Country have total 153.96 inhabitant contributing 2.5 percent of world population and 2nd largest country by population by population with PGR 1.8 percent (SBP Annual report). Sixty five percent of total population is living rural areas while 35% in urban areas. (Pakistan-“Some Basic Facts”-2008)

Education

Education figures are not encouraging in Pakistan. Now the country's literacy rate is 54 percent which is still behind from other neighboring countries like Indian with 61 percent and Sri Lanka 90 percent. Currently, there are 0.23 million educational institutions in the country where 33.38 million students are enrolled and 1.35 million teaching staff are serving. While among these institutions, 0.08 million institutions are working in private sector where 0.632 million teaching staff are employed. Government is spending 1.84 % of total GDP on education (SBP-a, 2007).

Health:

Health sector in Pakistan is progressing from last few years in term of per capita health spending, life expectancy, infant and maternal mortality rates, provision of immunization to children, the provision of human and physical health infrastructure. Life expectancy is low in Pakistan that is 63.2 years in male and 63.6 in female, from other regional countries like 71.7 in male in Sri Lanka 70.2 in China. This low average in life expectancy in Pakistan is due to poverty, low health spending, lack of infrastructure and lack of awareness. Pakistan is using US\$ 18 per capita for health which is very less than that of recommended amount of US\$ 34 set by WHO and health get portion of GDP only 0.51 percent (SBP-a, 2007).

Poverty

Poverty is a one of major problem that is facing by country. But due to increase economic activities and governmental policies, there is some good figures came about poverty and poverty reduction. In Pakistan, people living under poverty line are 24 % which was 34 % in 2000-01. Poverty ratio is almost double in rural areas as compared to urban. For example, in 2006, poverty ratio was 14.96 % while in rural areas, it is 28 % (SBP-a, 2007). Table(1) shows that extremely poor in country is 1 percent, ultra poor contributing this figure 6.5 percent while poor is 16.4% that sum up to 24 percent.

Table 1: Comparative Poverty Profile (% of population)-(source: PRSP,2006,p.8)

Poor/non-poor Categories	2000-01	2004-05
Extremely Poor	1.1	1.0
Ultra Poor	10.8	6.5
Poor	22.5	16.4
Vulnerable	22.5	20.5
Quasi Non-Poor	30.1	35.0
Non-Poor	13.0	20.5
Total	100.0	100.0

Poor categories where there is more need of microfinance

Employment

In Pakistan, there is 50.5 million active labor and 46.9 million are employed. In urban areas, people are more unemployed than rural areas especially women which are 15% are unemployed. While increasing in labor force, that was 24.78 million in 1981, due to economic growth, many employment opportunities has been created but still there is a big gap between unemployment and employment ratio(SBP-a, 2007).

Economy of Pakistan

Pakistan is mainly agriculture country and textile has major portion of country's export. Pakistan's economy is accelerated with fast growing speed since last four years due to heavy investments in telecom sector, large scale manufacturing industry, automobile, real estate and banking industry. For fiscal year 2007, GDP growth was 7.0 percent and it is expected for FY 08 also, although there are problems in law and order situation and political instability. Besides favorable condition for economic growth and increase in GDP with declination in external debt, still there are problems facing by economy that are lower ratio of tax to overall contribution to GDP, high inflation rate and increase in oil prices. Due to sudden increase in food inflation, poverty is converted in term of transitional poor to chronic poor. According to SBP, for consistent progress in economy, there is need to provide opportunities and facilities both agri and industry sector. For this purpose, there is need to execute such financial policies where farmer, especially, can get finances for their crops that , in result, will lead to more productive activities. Let look some interesting figure about country economy. GDP growth from FY 03 to 2007 is increasing mode and crossing 7.0 percent.

4.2 Microfinance market in Pakistan

Microfinance practices are not so new in Pakistan but limited numbers of MFIs are working in Pakistan and there is comparatively limited outreach with compared poverty ratio in country. We found few institutions working in agri sector in 60s. Agricultural Development Bank of Pakistan (ADBP) which is now working as Zarai Taraqati Bank of Pakistan (ZTBL) is one them. Even ADBP was financing smaller farmer but still, collateral was taken to lend loan, therefore it was not a pure microfinance. In 80s, there was a prominent development in establishing of MFIs when Agha Khan Rural Support Program (AKRSP) started their operations in northern part of country, in three sectors those were community development through community based organizations, infrastructure development, and resource mobilization through savings and credit (PMN,2002). These all programs are in operation today also. After initiating of these programs, many rural support uninitiated by different provincial governments by name of Sarhad Rural Support Program (SRSP), National Rural Support Program (NRSP), and Punjab Rural Support Program(PRSP). Rural Support Program is mainly based on microfinance methodology (SBP-d, 2007). While in urban areas Orangi

Pilot Project was working in poor segment in cities. In 90's, NGOs like Kashf Foundation, Daman, and Taraqee had started their operations in microfinance sector, based on both rural and urban areas. With major initiatives of NGOs, outreach is increasing to areas having chronic poverty. In Musharaf's rule, government have close look on microfinance and empowerment of poor, therefore it came up with the strategy of initiating of microfinance ordinance 2001, establishing First Microfinance Bank and Khushhali Bank (Rehman,2007).

Through microfinance policy implemented by ordinance, MFIs can be established in regulated (Deposit-taking) and non-regulated (Non-Deposit-taking) institutions. Estimated clients, according to SBP-d(2007), is between 25-30 million and due to high inflation rate, increase in oil prices and worldwide trend of increasing in commodity prices, there is chances of increase in clientage. Another different positive signs in development of microfinance sector are noted those are; provision of an enabling policy environment, institutional development of existing MFIs and evolving of new MFIs with sound basis, supportive infrastructure, encouraging government policies, use of technology, human resource development and management, and most important is enhancement in outreach of MFIs.

4.3 Practices of Microfinance in Pakistan

In Pakistan, different practices are being used in microfinance. Three types are famous and mostly used:

Community Based Organization (COB)

These organizations are established for execution of infrastructure development activities and resource mobilization through savings and credit. COB's strategy is initiated by different RSPs and widely in used by Agha Khan Rural Support Program. Now most of rural support programs are integrating microfinance by cobs with other community development activities. NRSP have their operation at national level and approach to almost every part of the country (PMN,2002).

Solidarity Group Model

Most of NGO MFIs are following group solidarity model that is also known as Grameen model. MFBs and MFI like KASHF foundation are using this model. It is a fastest growing model as most of MFIs are adopting it because of its wide practices round the world (BWTP, p.3)

Individual or /and family based

Some MFIs, and MFBs, with Grameen model, are lending loan to individual and /or 'family based'. In the 'family based' process, loan is given to a family as a whole and there will be two or three guarantors. In this type of loan, social collateral is used as guarantee.

4.4 Islamic Banking Practice in Pakistan

Pakistan freedom movement was based on slogan of a "two nation theory (Separate country for Muslims)" and major slogan was a state with Islamic system and practices. Founder of Pakistan, Muhammad Ali Jinnah, emphasized the significance of Islamic finance industry while addressing at inauguration of the State Bank of Pakistan, said: "I shall watch with keenness the work of your organization in evolving banking practices compatible with Islamic Ideas of social and economic life. We must work our destiny in our own way and present to the world and economic system based on true Islamic concept of equality of manhood and social justice." It was a clear guideline set by the founder for financial services but unfortunately, in world as a whole, there were not so many practices of Islamic banking. Therefore till 1973, government did not take any major step for Islamic Banking. In 1973's constitution, a clause was introduced to adopt Islamic financial practices and eliminate interest. In 1979, initial step was taken towards Islamic finance by starting operation of NIT (National Investment Trust) and ICP (Investment Corporation of Pakistan) by interest free operations and investments. The major step was taken in 1984 that was elimination of Riba (Interest)

from banking system and in January 1, 1985 all financing to Federal and Provincial Governments, public sector corporations and public or private joint stock companies was directed to be only through interest-free modes

Islamic banking is regulated and monitored by State Bank of Pakistan that is responsible to all legalities and setting policy framework. Pakistan constitution directed to state that, in country there will be banking system according to Islamic teachings and bank provide financial services that must be interest free. But due to less practice of Islamic banking throughout the world, in Pakistan also, it seems that in 90s, government started of taking steps for Islamic banking.

For this purpose SBP adopted three-pronged strategy for promotion of Islamic Banking in Pakistan.

1. Establishment of full fledged Islamic banks in private sector
2. Islamic banking subsidiaries
3. Stand alone Islamic banking branches of existing commercial banks

As per information provided by SBP, at the end of year 2007, six full fledged licensed Islamic banks have their operation throughout the country with 185 branches while SBP gave license to 12 commercial banks for establishing stand alone Islamic branches. In Islamic banking, there is high growth rate and now sharing 3.8% of total Pakistan banking industry and 3.6% of total deposits in banking industry. Islamic banking industry have PKR 178 billion (US\$2966 million) worth assets and deposit of PKR 124 billion at the end of September 07 as compared to PKR 159 billion and PKR 108 billion respectively at the end of June 07.

Many Islamic finance services are in use in Islamic banking industry including Murabaha, Ijara, Musharaka, Mudaraba, Dimin. Musharaka, Salam, Istisna, Qarz/Qard-e-Hasna.

Murabaha Financing is contributing 44.91% of total financing on September 2007 as it was 40.9% on June 2007. Second most widely used mode of finance is Ijara which is contributing 28.8% of total financing. Diminishing Musharakah has increased by 47% from June 2007 term, and contribute 26.1% of total financing. (See appendix B&C)

4.5 SBP and Islamic Microfinance

For microfinance, MFIs and for establishing MFBs, SBP has formulated guidelines and give outlines for their operations. SBP also describes Islamic microfinance products. Guidelines are aimed to broaden the availability of microfinance to poor at large scale and at macro level. SBP has initiated of establishing of Islamic Microfinance division to regularize and encourage Islamic microfinance in country. According to SBP, Islamic microfinance services and products can be offered by different types of financial institutions which are listed as:

1. Full-fledged Islamic Microfinance Banks(IMFBs)
2. Islamic Microfinance Services by Full-fledged Islamic Banks
3. Islamic Microfinance Services by Conventional Banks
4. Islamic Microfinance Services by Conventional Microfinance Banks (MFBs)

(Information is based on Islamic Banking Bulletin by SBP-e,2007)

4.6 Entrepreneurship in Pakistan

After independence of Pakistan, and by intervention of military, a hidden cooperation established between military and bureaucracy and they intervened all policies of the country. Policies developed during this era were mainly under influence by this approach and decided to run economy not by public-private partnership but with shadow of only public sector. Due to rent seeking activities, direct corruption was observed by bureaucracy, state owned enterprise, licensed based business and make economy with less entrepreneurial approach. According to Haque(2007,p.8), "Rather than entrepreneurship, policy planned for investors and investments

became the norm. Incentives were offered to attract investment. Such incentives included licensed monopolies in protected markets, cheap land and credit and subsidized inputs.”

Entrepreneurship’s meaning was misinterpreted by bureaucracy, economic policy makers and government itself and did not give a proper place in economic policies of country. Government and economic experts mislead entrepreneurship and consider entrepreneurship as a part of big industrial activities rather to its genuine meaning and missed entrepreneurship at micro, small and medium enterprise.

Policies for Large Scale Industry

As it has been discussed that government misleads the meaning of enterprise, which is considered as large industry, according to Haque(2007), different policy measure such as tariff protection, import licensing schemes and control on imports has been taken rather productivity or encourage industrialization for growth. This policy led to elite and rent seekers in large industry rather than entrepreneur.

Neglect of Micro and SME sector

Normally, for people, industrialization means large scale industry and even at government level, most of policies are only favoring to large scale organizations. But from the beginning, small scale firms dominant Pakistan industry, and even business at micro level are contributing a successful role in Pakistan economy. According to Haque (2007,p.12), “Today almost 40 percent of business takes place in the informal sector and still as compared to the large scale industry, the small scale enterprise and industry continues to face unfavorable policies.The small scale and the informal sector may be much more dynamic and productive than what government figures have continued to show till today. It is also important to note that the small scale sector is the breeding ground for innovation but continues to attract little research.”

4.7 Borrowers of Akhuwat – Stories of Micro enterprises

We conducted interviews from nine borrowers to study entrepreneurship and entrepreneurial behavior among microfinance borrowers. These borrowers got loan from Akhuwat either for starting or for continuation of their businesses. Among these 9 borrowers, two are females while remaining are males. We are surprised that most of them are doing business with experiencing few new things in their production process.

In following we are presenting two successful stories of micro enterprise from nine interviewees. In analysis section, we will analyze of these businesses and examine that weather entrepreneurship exist on micro enterprise level or not.

Gulzar Ahmad-Madina Traders

Gulzar Ahmad is 40 years old, doing business with name of Madina Traders, producing plastic clips by modeling machines. These clips are used in different machines and equipments and different industries are the buyers of these clips. Before starting of this business, Mr. Ahmad was working as an employee in a company where he was getting PKR 3500 (US\$ 60) per month, doing work 6 days per week and 8 hours per day. He has 6 dependents, two sisters and brothers, wife, and 3 kids. With amount of PKR 3500, it was very difficult to maintain life only with basic human needs. According to him, he had been thinking that he should start his own business even a smaller one otherwise it would become totally difficult to spend life. On a suggestion from his friend, he contacted Akhuwat and applied for loan 5 years ago. In a month, PKR 10,000 loan was granted and he started his business. After a few months, he reconsiders his business strategy and decide it is better to bring new ways in his business. For this, he started using the imported raw material used in clips, and bought a new automated machine by investing PKR 18,000 personally with PKR 12,000 borrowed from Akhuwat. These steps boosted his business and eventually from profit, he bought raksha (a

three wheel carry bike) which he used to transport his products to end clients. Now his monthly sale is exceeding PKR 45,000 which is contributing PKR 12,000 to PKR 14,000.

Sofia Bibi- No name of business

Sofia Bibi having primary education with only 5 grades, started business in with a new idea of embroidering on face of shoes with silk and sell it to big firms in Lahore city like as English Shoes. Few years back, she and her husband were both unemployed. She has 5 kids and total members of family are 7 with husband. When she was unemployed, he started to think about her business. She had idea about business but due to unavailability of finances she was not able to start it. When she came to know about Akhuwat, she applied for a loan and after getting first loan she started her business. She introduced embroidered head of shoes and this idea was quit new in market and now this type shoes are imported to UAE, KSA and London. At start, she get loan PKR 5000, and started business. After repayment of her loan, he get loan thrice time more and that were PKR 10,000, 12,000 and 15,000. Recent days, sale of her product is PKR 18,000 to PKR 20,000 and she is now earning profit PKR 7,000 to 9,000. Due to her innovative idea he got prize of PKR 10,000 from Governor of Punjab province. Her future plan is to construct outlet for her products.

4.8 Poverty alleviation and empowerment strategy

Pakistan Poverty Alleviation Fund (PPAF) is apex institution in country for microfinance and to deal with poverty alleviation and empowerment of poor. PPAF adopt strategy to alleviate poverty and empower of poor by expanding its operation in four fields which are:

- Credit and Enterprise Development
- Community Physical Infrastructure
- Human and Institutional Development
- Health and Education

Funds use for activities in poor communities. PPAF execute its plans by their partner in public and private sectors by giving them resources. In following, there is discussion about strategy of PPAF regarding poverty alleviation and empowerment of poor:

Credit and Enterprise Development

PPAF is premier source of funding and, with its partner organizations, covering 1.27 million current microcredit borrowers. PPAF had disbursed KR 16.6 billion with partner organizations in 80 districts. Credit and Enterprise Development division is responsible to lend regulate and disbursed loan while considering with deep concern about geographical coverage and gender equality. In FY 2006-07, micro credit loans to women reach a record number, 266,495, the ratio of active female is 54% of total borrowers. Women borrowers are very low in number in start of PPAF that was 1.74 percent in 2000-1 but with now policy is emphasizing to lend loan to women with equality.

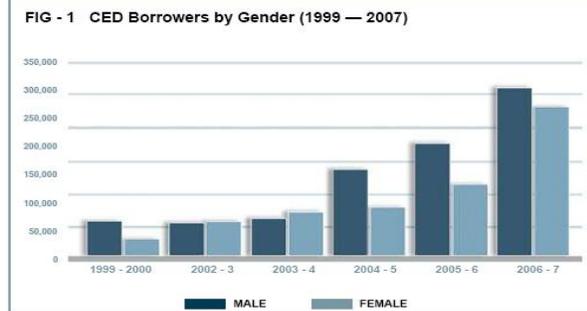
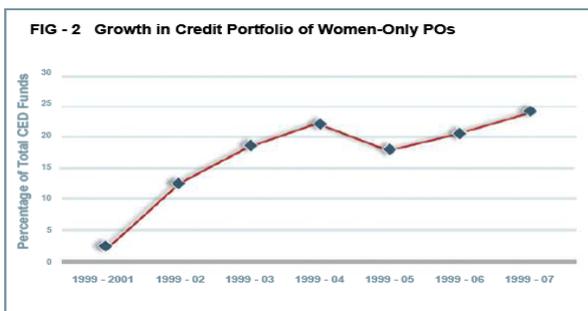


Fig 7: Growth in credit portfolio on Women-only Pos and CED Borrwoers by Gender (1999-2007) (Source: PPAF,2007,p.9)

Another major approach which has been taken by PPAF is to make balance between male and female borrowers because there was big gap between them and other issue which has been tackled about shifting of paradigm of lending loan from agri sector to other sector like small enterprise and livestock. At the end of year 2007, agriculture has major portion of 37% but if we include live stock with it, almost more than 50% of total disbursement. While small enterprises have 36 % of total loans (PPAF,2007).

Community Physical Infrastructure

For empowering of people, human development and poverty alleviation can be developed by community physical infrastructure with other mechanism. Physical infrastructure make possible to give quality of life and access to different facilities like drinking water supplies, sanitation facilities, irrigation and others.

CPI division of PPAF has been spent PKR 3.918 billion through 44 partner organization. By June 2007, PPAF had financed over 13,498 infrastructure schemes, benefiting approximately 991,010 households in 110 districts including 4 tribal agencies. For FY 2006-07 PPAF initiated different infrastructure schemes, largely concentrated on four core sectors: drinking water supply with 467 schemes, 649 irrigation schemes, and sanitation with 538 schemes and roads with 237 schemes (PPAF,2007).

Human and Institutional Development

With trainings and sharpening technical skills, financial resources can be utilized with more productivity. PPAF conducted training and skill enhancement programs by this unit for strengthening the institutional and human resource base of partner organizations and participating communities. In current year, PPAF spent PKR 450.87 million that was PKR 392.54 million in FY 2005-2006.

Trainings are conducted in two sectors, one is for partners staff and other for borrowers. The number is increasing every year and this approach will lead to best utilization of micro loan. Mostly trainings are conducted for management skills, vocational skills, enterprise development skills, agriculture management skills, and live stock management skills (PPAF,2007).

Health and Education

Health and Education is 4th tool to alleviate poverty and make health and education facilities possible to poor. It is response to poverty with combining microcredit, community infrastructure, institutional development and skill enhancement for better livelihoods.

From last two year, PPAF’s Community Health Centers are providing health services to 81,000 patients, 75 percent of whom were women. While in education sector, total 8,610 enrolments were reported and 71 percent of whom were girls. Total fund disbursed was more PKR 100 million through 9 partner organizations in education sector while in health sector, it was PKR 63 million (PPAF,2007).

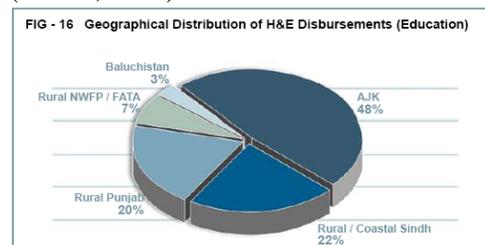


Fig 8: Geographical Dist. For Education (Source: PPAF,2007,p.29)

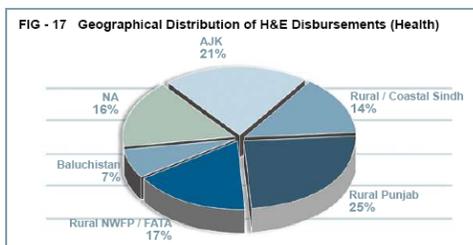


Fig 9: Disbursement for health (Source: PPAF,2007,p.29)

4.9 Akhuwat-Some historical facts

Before Akhuwat was established and there were not any ideas to establish it, Dr Amjad Saqib was working at the Punjab Rural Support Program (PRSP) and there interest were charged 20 percent which he found it very high and it is not suitable to Islamic rules, even formal banking interests were lower which was available to 'creditworthy' affluent individuals. Then Dr. Saqib felt it disturbing and however he wanted to start his own microfinance program where the loans were in the form of Qarz-e-Hasna (Helping someone in need with interest-free loans; these are preferred over charity). And with the first initial donation amount of Rs. 10 000 in 2001 Akhuwat was formed and the first loan was given out to a woman. The main mission, objective of Akhuwat provide interest free credit to the poor as the result to increase in their financial and living situations. (Akhuwat book,p.4)

Akhuwat derives its name from the history which first experienced by people of Madina (Saudi Arabia) shared their wealth with "muhajirin" immigrants from Makkah and the name is 'mua-khaat' or brotherhood. The main philosophy of this story is based on to share the resources of society with poor and needy people. Also for Akhuwat, microcredit is a means to an end and here meaning of an end is a vibrant, economically strong society, based on shearing resources. (Akhuwat book,p.5)

For initial few years Akhuwat was only a giving money to poor to see how microfinance which gives credit without interest would work, but soon by 2003, hard work of Akhuwat had showed its fruits, the donations had increased to Rs. 1,5 million and loan recovery rate was 100 percent. As a result of consequences, Akhuwat registered as formal institution under the societies registration act of 1860. (Akhuwat book,p.5)

So far till now, Akhuwat working in 17 branches in the Punjab (Pakistan) and with 7,150 active clients and its total amount of disbursement in 5 years reached up to Rs 150 million which is very good success in very short period. During these years Akhuwat still remains its mission to give free interest loans to the poor people and also to increase their volume by starting the same activities in other cities. Also after visit of Governor of Punjab, Lt General Khalid Maqbool in 2003, was the reason of bringing main trust to Akhuwat. The Governor wanted to observe it in practice by meeting with clients, which generated more publicity. The donations and applications for loans has increased tremendously and every month 1000 new loans given out in Lahore (Akhuwat,2008).

4.10 Organizational structure

The board of ten members which consists of philanthropists, civil servants and businessmen governs Akhuwat. As defined in the Articles of Association, the main responsibility of Akhuwat rests on the board. And their main functions are formulate and approve policies, provide guidance and direction on different matters and as salient responsibility they provide marketing services for Akhuwat and most important to mobilize funds for loans. The board meets quarterly to review operations and take policy decisions and its review take place every 3 years where change make take place on board. (Akhuwat book,p.5)

Dr. Amjad Saqib runs Akhuwat as executive director. The organizational structure mainly consists of the Operations department, and matters pertaining to the Human Resources, IT and other issues are managed by the Program Manager. Organization with 52 person team which shows it is still small company.

4.11 Philosophy of microfinance, lending by Akhuwat

To achieve its goals Akhuwat is running two types of programs microfinance program which is directed to increase the income of poor and second program is social development program for improving the quality of life of the poor.

Microfinance program consists of Group based loans, Individual loans and rural credit program. Akhuwat started to give loans with The Group loans methodology in 2001 and brought individual loans into action in 2003. Group lending loans were focused especially on women who organized in Self Help Groups which consists of 10 people each. And group selecting the leader who would be responsible person as a leader and 10 women should save selectively Rs 3,000 to be eligible for receiving the loans. After that group will receive loans by turn but for return of the loans would be responsible the whole group, however there is no any interest rates but there is membership fees which 5 percent from amount of loan should be paid because says Dr Saqib to feel the responsibility of the loan and they should value it if there not would be any fees the money would be just free meal. In group lending, meetings held every 2 weeks with loan group members and Akhuwat member staff and they discuss the further achievements of the group, problems and also some lessons to teach group members about business ethics to develop their further business successes. (Akhuwat book,p.7)

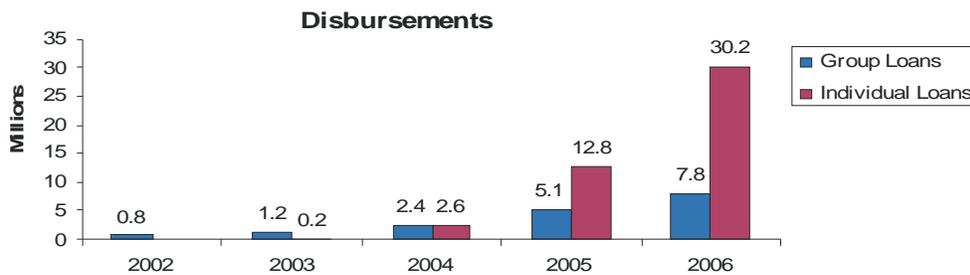


Fig 10:(Akhuwat book,p.8)

Individual loans and Akhuwat methodology

Akhuwat has a large portfolio of individual lending with a total of 14,711 beneficiaries and it has devised a rigorous appraisal method to ensure maximum recovery. In 2005, individual loan disbursements grew by almost 390 percent and in 2006 they grew by 135 percent. Almost all process of individual loans takes place in Mosques and churches. Mosques and Churches are the most important places to people and it is more reliable places also everybody believes each other and trust is very strong there. According to Dr. Saqib, the decision was deliberate as he states, ‘for far too long, we limited the use of mosques to just prayers. In between, they are desolate. With our offices in mosques, we have saved tremendously on operational costs. We don't pay rent or utility bills’. Furthermore, it increases the participation of people. It also attaches a religious sanctity to returning the loan on time as the concept of accountability is intensified as it is a place of worship and also gives the whole process a feel of ‘barkat’(means blessing). “In a Muslim society, mosque has always been a centre of community interaction. We also want to utilize this institution for the betterment of people living around it. We also like to work in churches as one of our branches was established in a famous church of Lahore”, Dr. Saqib explained. People who has business idea and plans bring it to mosques and Unit manager of Ahkuwat checks it carefully does it work or not, he checks also the situation of family, their income must be less than Rs 1000, after checking all qualities family members of the loan taker will sign the paper to be responsible for loan as family in mosque, the reason to include the sign of the family members to encourage all family members to work hard to return the loan and also maximize the benefits to for the whole family. Recently, the name of the individual loan changed to “Family loan” for productive purposes (Akhuwat,2008).

As soon as Unit manager finishes checking application he passes application to The Branch manager who undertakes his own appraisal of applicant. After completing, application be discussed at credit committee which consists the Unit managers of the Branch, Branch manager and the Area manager After checking the applicant carefully, the final decision is made after 30 days. If

committee approves application they give money to applicant in mosque. In disbursement of loan process participate several people like Imam of the Mosque, community members and Akhuwat staff from the branch and head office. But before receiving loan applicant has to pay 5 percent loan fee for Akhuwat membership and also to secure the risk he should pay loan insurance 1 percent from total amount. In case of death, family members of applicant will receive Rs 5000 to cover funeral expenses, if he was the only earning member of family then they provided with monthly Rs 1000 during three month. If client is handicapped then the loan will be canceled and client is provided with wheelchair. Since the loan disbursed to the client, Unit managers have to monitor them in order to repay loan on time 7th of every month. And after repaying the loan credit committee discusses matters how the loan was useful and what aspects to be increased or does he had any difficulties to repay it and after that they decide to give loan again or not(Akhuwat,2008).

Also Akhuwat works on other types of loans. Loan products are family loan, Liberation loan, Housing loan and other products. Family loan as we discussed it above, the most given loan type and also contains 91 percent of loan portfolio. Loan amount is from some thousand till Rs 25,000, but most common loan for the first time is Rs 10,000 and installment Rs 1,000 a month.

Liberation loans consist 5 percent of loan portfolio of Akhuwat. These loans have to be approved by head office, if amount raise more than Rs 25,000, Executive director has to approve it(Akhuwat,2008).

Housing loans as well exists in loan portfolio of Akhuwat since last year. Its range is Rs 40 to 50,000 and has to be repaid in 2 years. Akhuwat is doing this loan cooperation with Al-Noor Umar Welfare trust, another voluntary organization. To other loans include health, marriage and Education loans; even if these loans are non-productive poor people need these loans to use medicines, educate their children and to get married. The maximum amount of these loans Rs 15,000. These loans are to be repaid within one year (Akhuwat,2008).

Akhuwat also teaches its clients with technical training. They give latest news business techniques and market information's. Also they provide internships to new learners with skillful businessmen who already established its enterprise to get enough experience from practice in order to run its own business in future. Akhuwat coordinates activities with other NGOs and Social Welfare Organizations so that social services can reach their own clients (Akhuwat,2008).

4.12 Expansion of Outreach of the company

Akhuwat with its core and different program, did it very successfully when it started to expand. There were only 3 workers at the beginning but now this number has increased. The Board is responsible for the review of organization and decides how to expand the outreach. But for sure it depends on the finance how much donations received and credit pools, it is unpredictable. The growth plan for the last year 2006-2007 was to provide with loans to 10,000 individuals and open new branches in eight cities. As usual plan, they always take map from previous year and they double that numbers for next year to expand the outreach. Dr Saqib says that they looking forward to cooperate with organizations to expansion in new cities. The outreach is to teach them to the model and provide them with credit pools and leave them do it independently outside of Lahor. He sees success not in sustainability figures but in how widely is the model spread and replicated and how effectively and efficiently the poor are served. He says that "Numbers overwhelm but saving the life of one person is akin to save entire mankind. While doing so, one must also observe the limits set by Allah Almighty". (Akhuwat book,p.14)

4.13 Financial management of Akhuwat

Mobilizing funds

As we stated above mobilizing funds for Akhuwat is the main function of The Board. The committee of each branch has the right to undertake initiatives to mobilize funds. Every year before Ramazan organization hosts for fund-raising function and invites more than 1000 people. Also Akhuwat is well known according to press which helps to raise funds. Akhuwat has its web page which was created by volunteer students who wanted to donate in their own way. Some volunteers are also working on marketing plans how to mobilize the funds, The Board also tries to contact with partner organizations which help to bridging with funds (Akhuwat,2008).

Asset, Liability and Equity Composition

Akhuwat's asset utilization (percentage of assets comprising loan portfolio) is around 78 percent and this is better than the industry average of 42.5 percent. And its operations are financed by grants and donations and since the 2002 Akhuwat received more than Rs 60 million as grants, this grants was Rs 30 million only for the last year and it means the grants increased almost 158 percent against the previous year grants.(As stated in figure 11) (Akhuwat book,p.16)

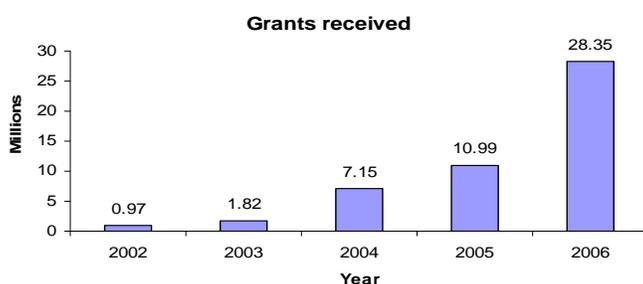


Fig 11: Grants received by Akhuwat

The financial picture of Akhuwat at the end of March 2007 was approximately as follows:

<i>Assets, or uses of finance</i>		<i>Liabilities, or sources of finance</i>	
Long term loans	\$ 11,000	Donations	\$ 983,000
Loans	\$ 831,000		
Cash and bank	\$ 141,000		
Total	\$ 983,000		\$ 983,000

Income and expenditure for the year 2005/2006

Grants	\$ 8,000		
Fees	\$ 57,000		
Total			\$ 65,000
Expenses	\$ 75,000		
Loss			\$ 10,000

(Pakistani rupees have been approximately converted to US\$ at the rate of Rs 60=\$1.00)

The operating losses were covered by special grants, which were made for the purpose, and it was calculated that the five per cent fee would cover the full operating costs by the end of the year, as the program expanded. (Akhuwat book,p.32-33)

4.14 Profitability and Sustainability

However, as Akhuwat does not charge any interest on its loans, and only charges a membership fee of 5 percent, it is unable to cover its costs which stand at 7 percent, organizations performance on

profitability and sustainability improving steadily. Nonetheless, as Akhuwat increases its outreach it will be able to lower the cost and in time will be able to cover its operating expenses. At the same time, OSS and FSS were 77 percent for 2006 and show that Akhuwat is not sustainable at the present as it cannot cover its operational and financial expenses. But, Akhuwat's operational efficiency is very high at 7.13 percent, while the industry average is 22.4 percent. Due to this financial indicator Akhuwat can achieve sustainability easily. (Akhuwat book,p.18)

According to the model, Akhuwat is not charging any interest fees for clients; otherwise they could easily achieve sustainability for 100 percent. Even if they do not charge any interests, due to their outreach expansion, the costs per borrower fall due to economies of scale, sustainability will also increase.

5 Analysis of data and interpretation

In this section, we analyzed empirical data by the help of conceptual framework, developed after literature review. We presented analysis regarding need of interactive strategy of microfinance and entrepreneurship, social services and intermediation by Akhuwat and sustainability issue.

5.1 Empowerment and Microfinance- Need of interactive strategy in Pakistan

Need of microfinance in Pakistan is crucial because of low poverty, major population living in rural areas, low human development, low skilled labor, non availability of basic human necessities and low number of opportunities to access of finance for business setup. The country has got struggling figures about poverty, education, health and business opportunities.

In country, unemployment rate is more in rural area while by gender; women are more affected by unemployment. In urban areas, more than 15% women are unemployed. It is due to many reasons including cultural problems, traditions, education, small number of business opportunities and hurdles to access to finance. Therefore Pakistan has big market for micro businesses that directly needs microfinance both in rural and urban areas.

Comparative Poverty Profile, (table1, p35), shows that people live under poverty more than 24 % while 6.5 is ultra poor. Further more, due to high inflation rate, poor economic conditions, bad law and order situation, political instability and increase in oil prices are pushing people from ‘Vulnerable’ category to ‘Poor’ category, that lead to unemployment also. By which these conditions put pressure on poor to come with different strategy to fight against poverty, and the best way that government, and society as a whole to encourage people for business , bring innovation in their idea and there should be easy access to finance. Microfinance can be a one product that can facilitate poor to start their business.

Different sectors that are involved for poverty reduction and empowerment of poor are education, health, micro loans, water supply and sanitation, social security and welfare, rural development and others. But this is very tragic situation in country the expenditure of these factor as per percentage to GDP is very low. Expense on education sector is only 1.84 of total GDP, while Health is only 0.51 percent. How any government can empower with these low budgetary expenses?

As we mentioned in start of discussion, Pakistan is country where microfinance could become essential tool for poverty alleviation, there is need of microfinance activities at large scale by MFIs with extensive support of government. Microfinance and encouraging people to implement entrepreneurial ideas in their business, both public and private sectors must take initiatives in microfinance field so that poverty can be reduced and poor’s empowerment will be possible.

5.2 Expanding outreach of Akhuwat-Empowering more people

Akhuwat is working in two provinces, Punjab and Sindh, covering the cities, Lahore, with eight branches, Rawalpindi, Faisalabad, Multan, Gujrat, Karachi, and small towns including Sharaq pur, Dijkot, Samundari, Chiniot, Lodhran, Jehanian, Duniyapur and Krore Pucca. Akhuwat is emphasizing to lend loans in urban areas but by approaching small towns, outreach is expanding to rural areas also. Pakistan is mainly emphasize on agriculture, and textile products which are 70% of total export and two third of population is living in rural areas, so there is excessive need to expand microfinance operations in rural areas. The other major reason to expand outreach is unavailability of microfinance or availability with higher interest rates. In urban areas, women are more empowered because of literacy, accessibility to human needs, and more business opportunities but in rural areas, women have not large number of business opportunities. Akhuwat’s strategy for outreach should be based on:

- Expanding outreach by expanding operations to more small towns and rural areas
- Expanding outreach by increasing in borrowers

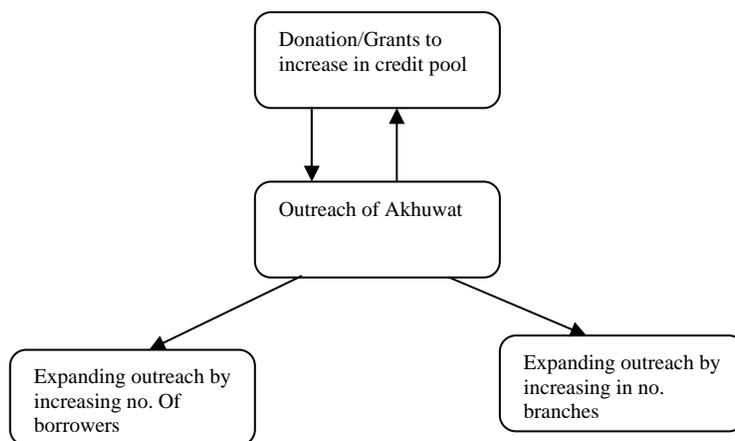


Fig 12: Outreach expansion paradigm

As in fig (12), outreach of Akhuwat can be increased by expanding credit pool. If there will be increase credit pool by donation or any other mean, it will effect on outreach because more finance will open the door to cover more poor. The second way to increase credit pool is by adding profit, getting from lending operations, and adds it to credit pool and circulate it. But in case of Akhuwat, only 5percent is charged on loan as an membership fee, while the administrative cost is more than 7 percent on each lending. Therefore, there is no contribution from Akhuwat’s own operation in to credit pool. This is the area where there is need of improvement and practice with innovation and entrepreneurial approach.

5.3 Why Akhuwat adopted Islamic microfinance-Was there any need?

Pakistan foundation was based on “Two Nation Theory” and from the start, it was basic demand of people that access to finance should be easy and it should be basis on Islamic teachings.

After introduction of clause in 1973’s constitutions that Government will take steps towards interest free banking, in 1979, initial step was taken towards Islamic finance by starting operation of NIT and ICP by interest free operations and investments. All banks now have two types of loans, PLS (Profit and Loss sharing) account for deposits and current account. As we have already discussed that more than 95 % of population is Muslims, and try to adopt Islamic practices. This is the reason that Islamic banking sector is growing with fast speed and now Islamic banking have 3.8 % of total deposits in banking sector of Pakistan and this percentage reached in few years only.

When I questioned from Zahid Husain about advantages of Islamic banking that why Islamic banking practice’s growth is so high, he replied that Islamic banking system has been misinterpreted in past that only Muslims are only the customers and Islamic banking system is only for Muslims but it is not so true. He said that Islamic banking system a wide range of products including Musharaka, Mudaraba, Murabahah, Ijara and some other products related to insurance. The important advantages of Islamic products are that these are at principal of profit and loss sharing. On deposit side, profit is not fixed but distribute after some specific period that is fluctuated and it is more than traditional banking system. While on investments and lending loan, it is based on same profit and loss sharing principal with some other methodologies. These principals attract both investor and borrowers to share ideas and expertise and put efforts from both sides to make a

successful business. He also said that Islamic banking system follows the moral values, when any company is defaulted or when bank charge profit on any product. When I asked about challenges and problems regarding Islamic banking system, Zahid Hussain replied that one of the major challenge is misconception that Islamic banking system is executing in only Islamic countries and only Muslims are utilizing Islamic banking products but it is not right as prescribed. He gave example that Citi Group, HSBC are also securing their market in Islamic Banking. According to him, this misconception should be removed. The other is issuing of credit cards by Islamic means. In this area, there is needed to be more research to formulate a model for credit cards. In our opinion, three factors are important in growth of Islamic banking in Pakistan. These factors are:

- Strict Islamic teaching about prohibition of Riba (Interest) on loans therefore people are very keen to follow teaching of Islam and use such banking service which are interest free.
- Constitutional and legal aspects about interest (Riba) and its prohibition, therefore banks are responsible to adopt Islamic banking practices.
- Profit and /or loss sharing based products attract customers to adopt.

Due to these reasons, 6 Islamic Banks and 12 commercial banks with Islamic products are gaining and maximizing share of bank industry year by year. Now Islamic banking sector have share 3.8% of total Pakistan's banking Industry with deposits of PKR 124 billions.

By the help of this discussion, we can perceive that Islamic Micro Finance (IMF) practices will grow in rapid mode and borrowers will adopt Islamic microfinance practices. Microfinance banks and strategy adopted by SBP for microfinance is quite new. After ordinance in 2001, microfinance practice got boosted and with 6 MFBs and many NGO MFIs, microfinance outreach has reached to more than one million borrowers which is projected to reach to 3 million by 2010. Islamic microfinance is quite new and from empirical data, we found that no one is practicing IMF practices except Akhuwat.

Discussing issue with Zahid Awan about practices of Islamic microfinance, and its products, he elaborated that IMF is in practice from era of Holy Prophet (PBUH) by inventing Qard-e-Hassan way by which Holy Prophet (PBUH) encourage rich people to give finances to poor people those have nothing for guarantee and give open to repayment so that they can use this money in business, earn profit and repay it. But this way is not in practice as a banking service or microfinance service. According to him, in following there are some advantages of Islamic Microfinance:

- IMF products, like Musharaka and Mudaraba, are based on partnership of both lender and borrower that increase participation of both sides in business activities
- Profit sharing schemes can minimize risk on loans and this can be advantage for borrower also to increase productivity of business and earn more profit.
- By Murabahah scheme, IMFIs can minimize risk factor by increasing risks
- Poor borrowers, normally, more loyal to their business because they have no other way to earn and hard worker, therefore default rate is low in microfinance. By adding Islamic teaching, binding is stronger and therefore poor return loan with motivation.
- Islam teaches every rich Muslim to give loans to poor or give charity to poor. IMFIs should minimize profit as much as possible because of Islamic teachings for poor. So IMF is very suitable microfinance services for poor
- Islam encourages Muslims to give Sadqa, Ushar, and Zakat to poor. Zakat is compulsory on every rich Muslim to give 2.5 percent of his total wealth to poor. Sadqa is not compulsory

but Ushar is compulsory on every landlord. The amount collected by these accounts must give to poor. IMFIs have more resources to collect funds and charity to finance poor.

While discussing the challenges to Islamic microfinance Zahid Hossain indicated:

- Risk factor is high in MF, therefore being a new field, there is high risk involved on IMF products
- Every MFI has huge number of borrowers because of this they collect a very low amount as loan. IMF products like Musharaka or Mudaraba are based on partnership between borrowers and lender, and profit can be share if daily transactions can be recorded. But for micro business, people do not keep daily record, even no written slip or record. Another reason is that, borrowers may be illiterate, so they will not be able to record it. So how IMFIs can manage profit sharing and on what basis, then will share profit?

5.4 Akhuwat's Innovation for lending loans-adding components in Grameen Model

In Pakistan, three different kinds of methods for lending loans are in practice. AKRSP followed community based organization, while KASHF and most MFIs adopted Grameen Model, while few MFIs are serving individuals also with solidarity group. Akhuwat learned from experience adopted individual lending with innovation and adding few new components in already practice method. Following are some distinct points of model:

- Every branch is associated with a central mosque in the locality where operation will be started
- Introduction programs are given after the prayer. Mosques in Islam are a central location for social gathering and provide opportunity to meet 5 times in a day and Akhuwat utilizes this opportunity. While in Church for Christians and Mender for Hindu. It makes it possible to reach more people and repeatedly meeting with borrowers and people.
- Utilizing of mosque as meeting place, save utilities expense that indirectly facilitate to borrowers in the form of interest free loans
- Akhuwat calls individual loan to family loan because of interaction with family before giving loans and making wife a copartner of loan.
- Special check and counter check on borrowers for criminal allegation or drug addiction
- Disbursement will take place in mosque and purpose is to make sure that matters are looked over in an honest and transparent way. The motive behind this is the religious sanctity to returning the loan on time as the concept of accountability is intensified as mosque is a place of worship and also it gives whole process a feel of 'barakat' (blessings).
- 5 percent of total is charged as membership/administration fee.
- 1 percent is charged as insurance of business that give following benefits:
 - Insurance covers risk of death. In case of death, loan is written off and PKR 5000 is provided for funeral expense
 - If that client was only the earning member then PKR 1000 per month is provided for three month for basic expenditure
 - In case of handicapped then loan is written off and provided wheelchair
- On completion of repayment, borrowers will be facilitated by Akhuwat with additional loan amount
- "Akhuwat online" idea that will be implemented in near future by which donors can interact online-video conferencing with borrowers and can monitor their donation. By this method, Akhuwat want to increase number and amount of donation. (Akhuwat hand book and interview)

5.5 Challenges to Akhuwat's way of microfinance

While studying Akhuwat's way, there are many things which should be more discussed and some challenges Akhuwat can face in future.

Akhuwat has adopted Qard-e-Hassan way of microfinance in which loan is given to borrower without interest but MFIs can charge some percentage of amount as administrative/membership fee and require two or more guarantor as social collateral. Akhuwat is charging 5 percent as membership fee on loan amount. But when operation will expand, and when there will be big number of borrowers then it will be difficult for Akhuwat to maintain administrative expense with amount of 5 percent membership fee which is not sufficient to cover administrative cost of organization that is 7 percent per loan. Now membership fee is covering 76% of total administrative cost while 24 % short fall is covering by contribution from board of Directors of Akhuwat. When I asked this question to Dr. Amjad Saqib, he replied that Akhuwat is adopting two pronged strategy, one is broadened funding opportunities by implementing different strategies like implementation of "Akhuwat online" and have plan to implement Muharabah way of financing. But it is not still finalized.

Other challenge that Akhuwat can face is lending to individual, even it is successful till now. The problem that organization can face is that if business will go to default and person has nothing to pay and even no group based social collateral which can pressurize him/her like as solidarity group. To deal individual and to keep check and track loan case of that individual will bring more cost. But responding to this point, Dr. Amjad Saqib said that we, therefore, use Mosque as a hub of loan lending activities to minimize cost and keep close relation with customers. But still, this is question that keeps record of 25000 borrowers take less expense or keeps record of 2500 groups? To get explanation on this issue, we raised before Zahid Hussain, he admitted that the big problem MFIs face is big risk and financial set back to MFIs that result into higher interest rate, there are two strategies to handle the issue of financial risks and high administrative cost; one is to decrease administrative cost by adopting innovative approaches, second is to bring some more innovations in social collateral.

5.6 Social services and intermediation by Akhuwat

Poor need more than microfinance to address the problems of poverty and accessibility to other life needs like food, health, family planning, education , social support network and so on. Therefore, Ledgerwood (2000) addresses that MFIs serve to their clients with additional social services with financial intermediation. Social intermediations are included Group formation, Leadership training and Cooperative learning, while social services are included Education, health and nutrition and literacy training.

PPAF which is an apex institution is doing its operations in community physical infrastructure, human and institutional development and health and education, with credit and enterprise development.

Table 2: Amount spent by PPAF on different social services and social intermediation
(amount is in million)

Sectors	Amount spent in 2007 (PKR)
Credit and enterprise development	16,600
Community physical structure	3,198
Human and institutional development	450.87
Health and education	163

PPAF strategy is supporting the idea that microfinance is development tool rather than only financial service provider. According to Ledgerwood(2000,pp.1) ,microfinance is not simply banking system but development tool, combining both financial and social intermediation.

Akhuwat’s model is also supporting the idea of “microfinance as a development tool”. Akhuwat is not giving micro credit but offering liberation loan, housing loan, loan for education, health and marriage. Akhuwat adopt innovation in one kind of loan, liberation loan, which is not so common in Pakistan. People get loans from one bank on any account and pay it to another banks but no commercial bank is offering that kind of service.

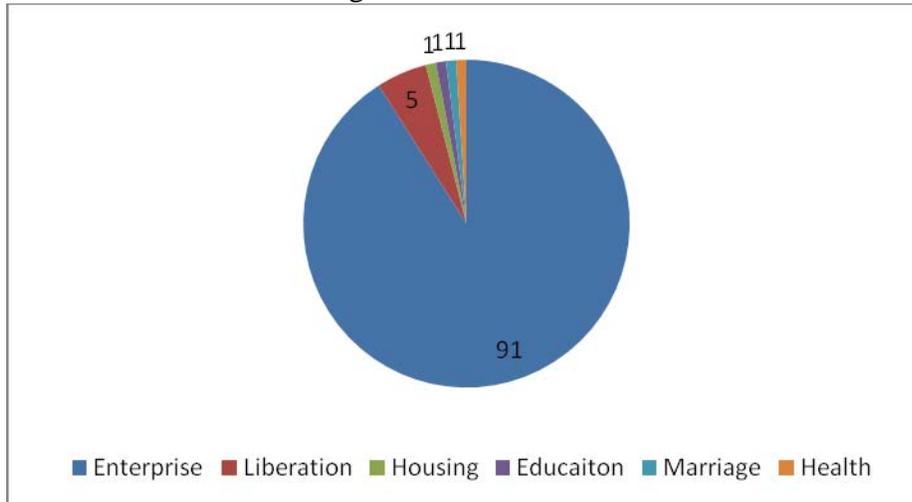


Fig. 13: Disbursement loan by Akhuwat in different social services and in micro lending (Data source: Akhuwat handbook)

Family loan is the same individual loan that we discussed in previous section. This loan is used set up a new business or to extend the previous one. Family loan is 91 % of total loan disbursed by Akhuwat.

Liberation loan is for those poor who borrowed money from other lender on high interest rates. Akhuwat pays principal amount of loan to lender and the borrower then repay this amount to Akhuwat in installment. Liberation loan is 5 percent of total disbursed amount. In Pakistan, especially in rural areas, individual loan lender give loan to poor on more than 30 percent and many cases, rate increase to 50 percent per year. In case of default, poor live like slave and there were many cases reported in media that whole family worked on landlord’s land to repay amount with interest, and they worked many years to repay only few thousands. Liberation loan is somewhat an innovative product that is helping poor to come out from salivary life and start their own business.

Housing loan is not common practice of MFIs in Pakistan. Housing is a big problem in Pakistan because of increase in rates of house rent and houses. Since few years back, real estate is one of such sector where huge investment came that in result increase in prices. Pakistanis living outside country especially in USA invest in real estate because of instability in peace and economy after 9/11 event. Due to these reasons, real estate prices increase and it is very difficult for poor to build their own house. Akhuwat’s housing loans facilitate poor to purchase home or build a new one.

Health, Marriage and Education loans are contributing to lift the standards of poor. Poor people generally invest all amounts which they have and borrowed and if they face any problem regarding

their health, they will spend money from their business which in result brings down his/her business. To eliminate this pressure, Akhuwat is offering loan for health, education and marriage. These loans positively effect and indirectly give benefit to poor and to his business.

While addressing the issue of social needs and services, Akhuwat coordinates activities with other NGOs and Social Welfare Organization so that poor can get benefits from social services.

Enterprise development: Enterprise Development is another tool that facilitate poor with micro lending. MFIs offer trainings to poor entrepreneurs to develop expertise and skills so that can produce more productive results. Akhuwat offer trainings to their borrower for their enterprise so they can come up to deal their business with technical skills. When I asked the question from all 9 borrowers during interview about training, few replied that they trained and give suggestions to other new borrowers who are first time starter in business. Akhuwat in this way, facilitate borrowers for get together and share their skills, experience.

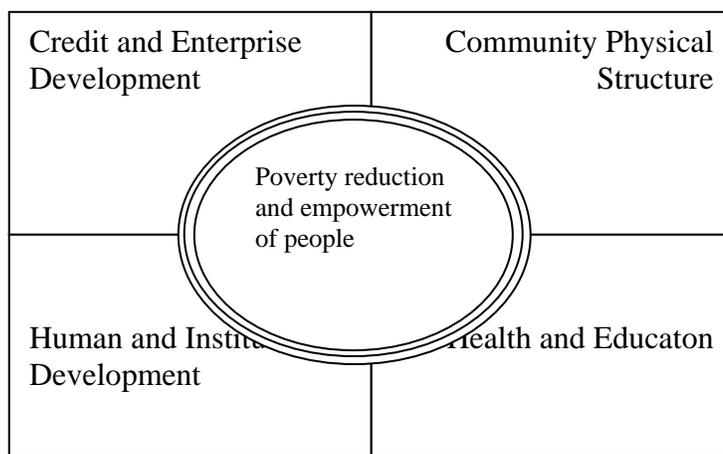


Fig14 : Poverty reduction and empowerment of poor model

From fig (14), we elaborate that by 4 factors, country can fight with poverty and empower poor people. If people will have access to all basic human needs, no threat of finance, they can express their views freely. As we discussed, microfinance is a development tool, combination of micro lending with other factors can make possible to alleviate poverty.

5.7 Contribution of Micro entrepreneurship in micro enterprise and some success stories of Akhuwat

According to Mondal (p.2), poor start business by getting finance from MFIs and act as either micro borrower or micro entrepreneur. Micro borrower get loan and start business and don't take any innovation in his/her business while micro entrepreneur start business and start trying new ideas, bring innovation in his/her business process. Microentrepreneur takes risk, bring innovation, and do business different from others. This risk taking behavior normally is not present at micro finance borrowers because of having less technical skills, illiteracy, and small number of options to do new experiences. As Timmons (Bengtsson, Peterson, 2008,p.6) describes three entrepreneurial components, Opportunity, Resource and the Team. The entrepreneur exploits opportunities by using resources with the help of a team and produces a new production system according to Schumpeter theory of innovation.

As we discussed in empirical chapter about entrepreneurship in Pakistan that economic policies of governments in Pakistan always favor to large scale industry as government thought that

entrepreneurship is present in large scale industry therefore no supportive policies for SME sector and micro business sector were issued.

In Pakistan, microfinance borrowers are doing business successfully and therefore repayment ratio is more than 90 percent of many MFIs and for Akhuwat, this ratio is more than 99 percent. Some borrowers are doing business in general way, just to earn profit and boost up their economic condition while few borrowers are also experiencing new business process and try to innovate new production system or reconstruct production system in a new way. The other method they use to reproduce products in lesser cost and sell it on with fewer prices than other market.

In empirical findings chapter, we presented 9 stories of micro enterprises, their business introduction, strategy, way of business and earning. We found that many of them are doing business in innovative way by bringing innovations in production system. We selected two micro enterprises and analyzed whether entrepreneurship exists on micro enterprise level or not and what is contribution of entrepreneurship in their business success. We analyzed each business by two theories, Schumpeter theory of innovation and Austrian perspective about entrepreneurship, separately.

5.7.1 Gulzar Ahmad-A microentrepreneur bring quality in competitive market

Gulzar Ahmad got loan from Akhuwat and started his business with the name of Madina Trader. He produced plastic clips with one hand operated machine. During first year, he was thinking that he can produce the same product by producing it in cheaper price but with higher quality than competitor. According (Kirzner,1997) entrepreneurial discovery emerged in Austrian economics by evolving elements:

- Market is act as entrepreneurially driven process
- Knowledge which can be increase by market interaction
- Entrepreneur anticipating market and need of customers exactly and correctly
- Produce more cheaply than competitor and earn profit

In our opinion, Mr. Ahmad's business case is fulfilling the concept of Austrian theory. He started business with a one machine and supplied his product to market. But he thought that he was doing the same as other doing. There was no such distinction even in prices so in competitive market where big player is present, his survival became difficult. After repayment of first loan he applied loan again of PKR 12,000 and invested his own 18,000 which he earned in first year of his business. He learned from market gained knowledge that with out adopting different approach, it would be difficult to survive in market. Therefore he put three new initiatives in his business; all was carrying risks for such a small business:

1. He bought a new automatic machine so that he could produce large quantity of clips in less time, with more finishing of products.
2. He decided to use higher quality imported plastic because his rivals were using local material at small scales. He was first one in market who started to use imported plastic.
3. Plan to buy his own transport (Raksha, a three wheel motor bike with two seats at back of driver. It can be used for transportation of goods and passengers.) so that he could minimize transportation expense when he supplied clips to different firms. But he planned to buy Raksha few months later.

To expand his business, he started to search some more firms where he could sell clips because now he had more capacity to produce clips with higher quality. At this stage he was succeeded because

of quality product. At this stage, market process and activity was directly interacting and process by entrepreneurial behavior.

Few months later, he bought a Raksha, and then he minimizes prices because he deducts cost of transportation from total product price. By this step, he was able to produce quality products with cheaper rates and expanded market. After successfully repayment of loan, he got again and purchased another machine and his wife became a team member of his business. He got and utilized opportunities and used his resources in innovative way and work as a team leader by adding his brother and wife in his business. Now his monthly sale has jumped to more than PKR 45,000 and he is now earning PKR 12,000 to 14,000 profits per month. Now his kids are studying in a good standard school, having accessibility to basic human needs, and using his own transportation. Now he is planning to expand his business by purchasing a machine by which he can produce electricity button. So, entrepreneurial behavior is working with more innovative business ideas.

5.7.2 Sofia Bibi- Innovation in Production system

Sofia Bibi started her business by producing silk based embroidered face of shoes to different local shoe produces. We analyze Sofia's case by Schumpeter theory of innovation. We take following points to analyze the case:

- Introduction of new good for users or new quality of good
- Opening of new market
- The conquest of a new source of supply of raw material
- Carrying out of the new organization of any industry

Generally in Pakistan, embroidery on cloth is very famous and female prefer to wear such kind of suiting on marriage or other social events. Cotton thread, silk, gold, silver are used for embroidering cloths. In shoes, silk is not so famous to use for embroidering of head of shoes. It is difficult to find that how either silk is using in embroidering of face of shoes or not but according to Sofia bb, she did not see anywhere else that anyone can use silk embroidering. But she gave this idea to English shoes by her husband and English shoes were ready to producing of such kind of shoes. In our opinion, there is chances that silk may use before she used but still this idea came under Schumpeter approach because he started her business with an innovative idea that was not so much in practice in market and he produce a new quality of good.

The best practice they started in their business was that they produce face of shoes for a big player in shoe industry, English shoes. It was a new market for English shoes and also for Sofia bb. English Shoes have their outlets in Pakistan, London, Dubai and Kingdom of Saudi Arabia. By this step, Sofia bb opens a new market for her product.

Silk normally use for embroidering of cloth. Sofia Bibi started her business by producing such kind of products where she started to make use of input material in a new form. It was not so common in Pakistan and using raw materials in such way made it possible for her to reach in new market. Due to her innovative idea she got prize money of PKR 10,000 from Governor of Punjab province.

While discussing for future prospect, she has planned to open her own outlet where she can present her own artwork and maximize her clientage and market.

5.8 Social Entrepreneurship and Akhuwat

As we stated at the beginning of our thesis, from our model we divide it into several parts and one of them is to analyze social entrepreneurship qualities from side of Akhuwat.

From our theories there was very good phrase: "what makes social entrepreneurship social, and what makes it entrepreneurship"(Peredo, McLean ,2006,pp.57) On both points we can give a lot of facts in case of Akhuwat towards the theories of researchers. Of course "Entrepreneurship" without

Schumpeter is unimaginable. As he stated (Swedberg R.,2000, p. 15) that Entrepreneur the person who innovates and makes the change. We can without any doubt say Akhuwat's executive manager a social Entrepreneur as Schumpeter described. In the early months of 2001, following a visit to a Punjab Rural Support Program (PRSP) community site in Raiwind, Dr Amjad Saquib and his 1985 Civil Service Academy batch mates decided to meet for dinner at the Gymkhana Club. At the dinner, conversation veered toward the efficacy of poverty alleviation programs such as those operated through the Punjab Rural Support Program, where Dr Saquib was General Manager. Dr Saquib's colleagues said that with such high lending rates (20 %), the microfinance activities could not make a real difference in the lives of the poor. Dr. Saquib suggested that with free capital, the rates could be brought down and poverty alleviation efforts made more effective. Mr. Saleem Ahmad Ranjha, made a spontaneous contribution of Rs 10,000, and requested Dr Saquib to implement his ideas. Thus the Akhuwat credit pool was established and the first donation was loaned to a woman. The group to which she belonged was symbolically named Bismillah(Begin in the name of Allah the most Beneficent the most Merciful) Group. Eventually, the lending pool expanded to Rs.100, 000. In a few months, a contribution of Rs.200, 000 extended the lending arrangement to five-six groups of women. As a General Manager of the Punjab Rural Support Program (PRSP), he found charging 20% interest rate on the loans as disturbing. So in order to alleviate poverty he found out his new model of microcredit without interest.

And also there are many researchers who still argue between not for profit and for profit types of Social Entrepreneurship which some authors assure that Social Entrepreneurship organizations must be only not for profit way, while others think that it may be for creating value for owner as a profit generation. At the same time some researchers states about third type which contains both not for profit and for profit sectors and appear hybrid type of creating social value, but in our Case of Akhuwat, organization is not for profit organization, and never thought to be for profit generating here are the words of Dr Saqib about it: "We have served more than 22,000 borrowers to-date. For us it is neither business, nor industry, hence, there is no question of profitability ". Dr. Amjad Saqib, Executive Director, Akhuwat tells NGO World.

As Anderson and Dees (2002) stated that "Social entrepreneurship is about finding new and better ways to create and sustain social value" (p. 192). Akhuwat riches the real people who really need money to do business not to buy cars or get rich and think to go to travel around the world but people who needs to earn some money in order to sustain themselves to buy daily food to live. Social Entrepreneurship concept: an activity that includes ability to find out specific social problems and specific solutions for these problems in society to address it; the evaluation of the social impact, the business model and the sustainability of the venture; and the creation of a social mission-oriented *for-profit* or a business-oriented *nonprofit* entity.(A.M. Peredo, M. McLean / Journal of World Business 41 (2006) 56–65).Lets look what Akhuwat doing towards this concept, As we wrote above there is no any interest rate for loans just only At the start of a loan agreement, a membership fee of up to 6 per cent of the loan is paid towards the operational expenses (5 % servicing, delivery, and 1% insurance) of the organization. Minimum loans are for Rs 1,000 and maximum are for Rs 20,000. Loans amounting to less than Rs. 4000 are exempt from membership and insurance fee. Most loans are in the Rs 10,000 range. These are paid back at Rs 1,000 per month. (Akhuwat book, p.10)Yes, operational expanses should be covered but for this amount of money they cover only 70 percent of the expenses and the rest are paid by The Board of Managers. Amazing, Executive director Dr Saqib works for nothing, he does not receive any amount of money as a salary, also The Board of Directors who sustains of Akhuwat to find funds and donations for loans and decide a lot of things in the organization work process work for free. And there are many volunteers such as students who help to open official web page of organization and now helping to donate money through internet, some professionals in microfinance, auditors to check working

process and many people. For example, another well-wisher suggested a 'Friends of Akhuwat' program for the UK, where individuals can donate £100 a year to the credit pool of the organization. These ideas need to be strengthened and developed. (Akhuwat book,p.6)

Dr Saqib, the Executive Director, works on a voluntary basis. The use of the mosque as the organization's infrastructure has replaced the use of PRSP's premises. Group loans are mainly administered from the houses of the group presidents where all fortnightly meetings are convened. Core staff consists of fifty five main workers, paid through the operational pool. There had been only two core workers in the organization's early years. No vehicles have been bought, and those using personal conveyance for Akhuwat work are compensated according to a fixed rate. Volunteers help in the retrieval of payments at the beginning of the month, as well as in reminding borrowers to repay. In general, it was not easy for Akhuwat's success as Dr Saqib said: "We feel no embarrassment in asking for favors or contributions from others, or using our contacts for Akhuwat." All the Directors use their personal contacts and influence to further Akhuwat's work. They are all apparently convinced that their remuneration lay in the fact that "they are able to carry out God's work." We can easily say that they innovated a new type of microcredit organization which works for poorest of the poor and they made a change by bringing a change to the lives of people by giving them hope and place from their ideas to start their business with their own ideas. Yes, they are innovative and they are change makers. (Akhuwat book,p.24-26)

5.9 New way of serving poor in Microfinance field

The World Bank (2003) states that services to satisfy basic human needs, particularly those that contribute to health and education, are failing poor people in terms of access, quality, and affordability. The main reason for this is public spending are not reaching poor people if it reaches it is in poor quality and still their needs remaining unmet. But because of growing number of initiatives of Social Entrepreneurship field who searches new ways and problems in society and solve this society problems in different way. According to Seelosa & Mair(2005,p.48)"Employing novel types of resources and combining them in new ways, Social Entrepreneurship is a rich field for the discovery of inspired models of value creation". As we gave a lot of examples of initiatives which "The Institute for OneWorld Health" (USA) pharmaceutical organization helps to countries where they cannot reach any pharmaceutical goods which they need it but they can not afford to buy it, "Sakem"(Egypt) as well Egyptian organization not only creates economic, social, and cultural value, but also has a significant influence to Egyptian society. And finally The Grameen bank founded in 1976 to supply credit to those who would not qualify as customers of established banks by Muhammad Yunus an economics professor, And received Noble Prize for his challenges for established organizations to prove that poor people as well has ability to open their own business and able to pay back loan interests at required time zones (Grameen Communications, 2004).

Our actual case study as well in microfinance field which acts with name Akhuwat founded in 2001 by Dr Amjad Saqib. While a lot of established organizations failed to support to give loans to poor people, Akhuwat organization from 2001 till 2006 has 6,000 active borrowers including both the individual borrowers and group loans. Akhuwat has served 13,000 beneficiaries through a credit pool of Rs. 60 million and it has disbursed loans worth Rs. 130 million. Akhuwat has expanded outside Lahore and now has a total of 11 branches in Lahore, Rawalpindi and Faisalabad. All this expansion is done whilst keeping the loans interest free with the same membership fee of 5%. Akhuwat is a novel initiative, which entirely banks on civil society; it has been able to use the existing network of mosques and churches as its branch offices and to bring marginalized communities together for community meetings, loan appraisals and recovery and training events. Akhuwat operates with a small team of core staff and has succeeded in mobilizing volunteers to perform various administrative and professional tasks which have contributed to the low operational

costs of the organization. Akhuwat does not seek funding from international aid agencies but depends on the generous spirit of its board of directors, local businessmen and philanthropists to contribute to its credit pool. The loans are interest free and their repayment schedule is flexible and decided by the borrowers according to the size of loan and the nature of expected return on micro-enterprise (Akhuwat, 2008).

Akhuwat is a concept where a well-to-do family sponsors one or more poor families. Many poor families can be saved from abject poverty by sharing some of our resources. The loan, Akhuwat provides is given for one year and once returned it is lent again to another underprivileged family. The more the society donates the more benefits the poor will reap. The program was started with a paltry sum of Rs. 10,000 and has been able to create a Qarz-a-Hasna Fund or Credit Pool of 60 million rupees. The President of Pakistan, General Pervaiz Musharraf and the Governor of Punjab, Lt. Gen. Khalid Maqbool is amongst the many donors of the fund. The donations range from a few thousand to millions of rupees. The hallmark is total reliance on civil society and on the Pakistani philanthropists imbued with the spirit of *Mua'khat*. (Akhuwat book, p. 26)

However, Grameen bank is also serving poor people since 1976, but Akhuwat's way of micro financing is totally different and has a new model. The interest rates are the first big difference which in Grameen bank this rate is very high, but the same issue in Akhuwat it is interest free and only charged 6 % (5 % for loan 1% for insurance) at the beginning. Second issue is operational expenses which Akhuwat try not to spend much money for operational expenses for vehicles, renting house for offices and salaries of The Board managers who work on a voluntary basis.

5.10 Contribution of Akhuwat to sustainable development

As we know we are running across with global threats to the world like terrorism, war, natural catastrophes, the hungry and the diseased pictures still busting in newspapers and TV's and mainly they touch poor people which lose their houses, or death. Even for example, lately, in China's Sichuan province there was a terrible earthquake which buried more than 15,000 people, mostly poor (CNN, 14 May 2008). When I asked a question from the Chinese student about disaster and giving him my regrets, and he answered me with deep breath in a sane "mostly, the power of nature earthquake buried under shelters are poor people who live in old and not in good situation shelters". Yes, again poor people who always in summits of Millennium development goals protected in books but not in action. Such kind of examples are a lot, may be our inks not enough to describe about them, but anyway everybody must be responsible for poor people even in their own province, region and city. One of such kind of person and organization is Akhuwat under executive director Dr Amjad Saqib. He thinks that "every global problem begins in local places which must be managed locally by social entrepreneurs, that's why in order to solve global problems, we should find solutions to local problems which in result may cause global problems." At the same time United Nations called all countries to spread sustainable development problems globally and stated: No single blueprint of sustainability can be found, as economic and social systems and ecological conditions differ widely among countries. Each nation will have to work out its own concrete policy implications. Yet irrespective of these differences, sustainable development should be seen as a global objective.' (United Nations General Assembly 1987) To put into action sustainable development, United Nations defined a set of Millennium Development Goals which based on The Resolution by the General Assembly in September 2000 in which included 8 specific, quantifiable and monitorable goals for development and poverty alleviation by 2015. Human rights, health, education and environmental issues included to the Goals (Seelos, Mair, 2005). Akhuwat provides poor people several types of loan products which includes Group loans, individual loans, loans for health, educational loans and house loans. And all of them are available only for poor people and most importantly without interest. If we look at loan portfolio of organization most loans 91 % (13,351st)

goes for enterprise loans, 5 % (762st) for liberation loans, housing loans 1% (147), education loans 1% (132), marriage loans 1% (218) and finally health loans 1% (101). Most loans are given to enterprise loans especially individual and group loans. As we see from portfolio of distribution of loans, the Organization is doing well towards sustainable development goals, which include areas most importantly economic development, for future needs of new generation, health, education and environment problems. (Akhuwat book, p.5-6)

And here we want to give description for Sustainable Development as Brundtland's (1987) definition of SD as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" And many initiatives of Social Entrepreneurship such as Sakem, BRAC and of course Akhuwat make abstract notion of Sustainable Development definition to move to practice. If we see definition carefully we can notice three aspects in it which : 1) satisfying basic human needs; 2) form communities that establish norms, rights and collaborative behavior; 3) transfer more abstract needs of future generations into action today (Seelos Mair ,2005).

Satisfying basic human needs, as Brundtland(1987) " report that priority be given to satisfying the essential needs of the poor" (Seelos Mair ,2005,p.8). Akhuwat as basic contribution to basic needs of people creating job places for people and giving them opportunity to sustain their lives by themselves by providing poor layer of society with group and individual loans without interest. Also Akhuwat's Group lending program only focused on women who were organized in Self Help Groups (SHGs) of 10 members each and thus relied on social collateral. Main idea is to give inactive layer of society women to be active sustaining their family. And there are some social sides such as 1 % insurance which paid by poor for loan just incase of death the loan is written off and the family is provided Rs.5,000 for funeral expenses. If the client was the only earning member of the household then the family is provided with Rs.1, 000 a month for three months to meet basic expenditures. If the client becomes handicapped then again the loan is written off and he is provided a wheelchair. And also we want to mention about own workers of Akhuwat that Unit Managers get a bonus for 100 percent recovery in their monthly pay and if they have disbursed more than 150 loans and are meeting their monthly target of disbursing 25 loans a month, they are eligible for an interest free loan to purchase a motorcycle. Akhuwat also provides its staff with some medical facilities and educational allowance for their children. Furthermore, staff members get an extra month's salary every year. (Akhuwat book,p.13)

Changing norms and behavior to create opportunities

As stated by Brundtland(1987) as a second important development aspect that the poor be given the '*opportunity to satisfy their aspirations for a better life*'. And health and social issues were taken as important aspects before operationalize in economic life (Seelos Mair ,2005). Akhuwat provide its first loans as a group loans to the group of women who was socially passive in Pakistan. Women in Pakistan were the most vulnerable and had the least rights comparing to the men. As Akhuwat started to give loans to women, their rights in society and economic life increased and with these activities Akhuwat changed the rules and perceptions about women also reduced inequality between genders. As group loan process groups which contain women meet every week to repay their loans and discuss their ideas for future plans. This instilled discipline, mutual support and individual as well as communal responsibility created by Akhuwat. Also unusual type of micro financing which created new model by Dr Saqib also changed perceptions about microfinance that it is possible to give interest free loans and rich 100 % sustainable development. (Akhuwat book,p.18)

To think and create environment for future generations need

As third aspect stated Brandtland(1987) was satisfying current generations need achieved by "without compromising the ability of future generations to meet their own needs" (Seelos Mair

,2005,p.9). Future generations need abstract to us and we don't know exactly what they need but we know that they have to choose it freely by themselves and our main issue as sustainable development is to give them, leave them good environment and alleviate poverty also to eradicate barriers which stops some forces to choose future generation their own needs freely. Environment is our common social asset which we should take care at the same time at the same value. While many poor countries solving their own current problems and forgot about future generation needs. Of course one of these countries is Pakistan. As we stated in previous sections there are many poor peoples in Pakistan and their daily problem is how to find money to feed their children, and they never think about future of their children of course they think but they can not afford for that, for example they don't have enough money for school and college fees, after growing up they have to go out to find some money not freely but they have to, if you ask some questions regarding their inside feelings about dreams they all wanted to study at Universities be teacher, doctor scientist and so on. Akhuwat started its mission in 2001 and till 2006 they already have given 132 educational loans for poor families to go to universities. Also many poor people can not afford to make a wedding for their children, and Akhuwat given out 218 marriage loans for poor people. And these educational loans are giving their return to sustain future generation children in order to gather loans to study at universities for their poor friends they help to organize to create web page for Akhuwat which helps to gather donations for poor people online. These are the students which Akhuwat help them by giving educational loans as a result they are helping as working in voluntary basis to gather loans for their friends to study at universities. (Akhuwat's Feasibility report-1, p. 4)

6 Conclusion

Microfinance is emerging sector in Pakistan because Pakistan is attractive market for MFIs with a population more than 160 million and two third of population is rural based. Need of microfinance is higher than any other country because more than 17 percent of total population are living under poverty line and almost 7 percent among total poor people are ultra poor. Due to illiteracy, poor health facilities and physical infrastructure, condition of poor is becoming worst. Furthermore, poor's accessibility to finance is very limited and even having innovative ideas for setting up business, they have no amount to start their business. This situation reflects a very bad picture about poverty and increase the need of microfinance and its accessibility to maximum poor people. Steps should be taken on public and private sector to increase the outreach of microfinance.

Entrepreneurship has been neglecting issue in government policies. Today, SMEs and microenterprise are playing important role in economic activities of every country. But in Pakistan, generally, owner of SMEs and especially of microenterprise are doing their business in conventional ways. They don't bring any change or innovation in their production system and business strategy which result in poor productivity. On microenterprise level, in our opinion, entrepreneurship has become important because by bringing innovation in their production system or business operations, they can save resources, utilize in more productive way and can get productive results. Micro entrepreneurship should be encouraged by MFIs and Government should give entrepreneurship friendly policies.

Microfinance and entrepreneurship bring a new ways for business. Poor, generally, more sensitive for their business, and work hard and they have no other option to survive therefore they always think about their business and try to do something new if they have opportunity. Implementing entrepreneurial ideas in microenterprise bring more profit and productive result. Therefore, combination of microfinance and entrepreneurship is a very effective development tool that can alleviate poverty and empower people with more speed.

Lending methodology of Akhuwat is Qard-e-Hassan, a pure Islamic way of microfinance. As we discussed that Akhuwat is charging 5 percent of total loan as membership fee, but they are bearing 7 percent expense per loan. According to Akhuwat, by increasing their operations, they will minimize their expense and bring it to 5 percent. We reached on this result that this will not be a consistent way in future to minimize the cost because by expansion in operations, there will be need of more expense because of setting up of offices, hiring people and other utility expense. Therefore, to progress in consistent way, Akhuwat should adopt additional strategy of financing with Qard-e-Hassan. In our opinion, Muharabah will be very suitable for lending loan because for Akhuwat, it is the easiest way to do. Akhuwat has offices near to Mosques, frequent interaction with people and borrowers, and field staff meet extensively with borrowers, so by Muharabah, Akhuwat can purchase products or material or anyone which borrowers need, and put some profit and give to borrowers. By this way, Akhuwat can increase profitability, minimize administrative cost and put profit in credit pool for further lending or to use in expanding operation.

Akhuwat is giving loan to individuals, and have finished giving loan in solidarity groups. We investigated this issue and raised questions during interview from different professional and reached this consensus that solidarity-group-lending is more effective than giving loan to individual because to handle individual loan, more expense is used. And when there will be thousands of borrowers benefited from Akhuwat, it will bring a huge burden of administrative cost on organization that can effect the sustainability of Akhuwat. Akhuwat should adopt both strategies of lending loan; individual loan and solidarity group loan. They can differentiate both by defining locality. If locality is dense by population, then adopt group lending otherwise individual loan.

In answering to sustainability and social entrepreneurship, we tried to find out the works done in the field of "Social Entrepreneurship" and its impact to the sustainable development which set

millennium Development Goals by United Nations. And use these theories toward our case study Akhuwat which works in the field of Micro financing with its new loaning model created according to “Shariah” by Dr Amjad Saqib and investigate what they did to alleviate poverty and contribution to sustainable development. .

As a result we find out that Akhuwat is non for profit organization which gives interest free loans to the poorest people of Pakistan and for sure even in little amount they reduced poverty. And their one of the most important ideology that everybody at first must think about their local problems, if they look at problems locally, there would be no any global problems in the world. Sustainable development problem now globally dispersed and day by day growing number of initiatives of Social Entrepreneurs trying to add their little value to social value creation. Also Dr Saqib said that in the field of Social Entrepreneurship there must not be any words about profit, the core value under it must be social value creation. This organization is contributing economic, social, health and educational values to sustainable development. In short, some headings according to the Brundtland’s (1987) definition of sustainable development, Akhuwats contributions are: Satisfying basic human needs by creating job places for people and giving them opportunity to sustain their lives by themselves by Providing poor layer of society with group and individual loans without interest; Changing norms and behavior to create opportunities, Akhuwat started its work to give loans to women, their rights in society and economic life increased and with these activities Akhuwat changed the rules and perceptions about women also reduced inequality between genders; To think and create environment for future generations need, Akhuwat till 2006 have given 132 educational loans for poor families to go to universities. Also many poor people can not afford to make a wedding for their children, and Akhuwat given out 218 marriage loans for poor people.

In general, as we found out during the research, the contribution of Akhuwat to sustainable development is enormous. We can proudly say that Akhuwat’s way of business is totally Social Entrepreneurial. It has got innovative new model of interest free microfinance and change maker leaders like Dr Amjad Saqib, is alleviating poverty and helping rural poor people with new ideas to create healthy society.

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Appendix

(A) Table 3: Microfinance Outreach of MFBs (SBP(d), 2007,p.19)

Micro Finance Outreach of MFBs					
	2002	2003	2004	2005	2006
Institution age (yrs)	2	3	4	5	6
No. of Branches	39	56	75	91	145
Total No. of Borrowers	56,939	95,090	177,648	248,091	326,498
No. of New Borrowers	56,939	38,151	82,558	70,443	78,407
Total No. of Depositors	2,773	10,150	18,589	32,577	70,891
No. of New Depositors	2,773	7,377	8,439	13,998	38,134
Average Loan Size (Rs)	6,332	7,969	7,340	9,450	8,721
Average Deposit Size	23,231	38,625	25,229	20,867	20,731

(B) Table 4: Mode of financing and deposits (SBP-2,2007,p.6)

(Rs. In million)

Modes of Financing	June-07	Sep-07	Inc./Dec.
Murabaha	35,767	36,469	2%
Ijarah	24,038	25,738	7%
Musharaka	582	1,394	139%
Mudaraba	-	84	-
Dimin. Musharaka	15,877	23,314	47%
Salam	952	1,276	34%
Istisna	757	39	-95%
Qarz/Qarz-e-Hasma	6	8	28%
Others	1,663	927	-44%

(C) Modes of Islamic financing

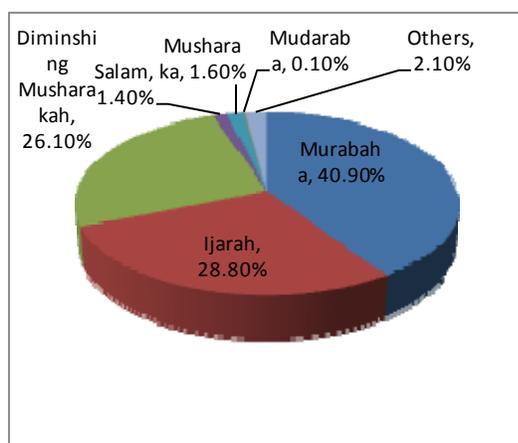


Fig 15: Modes of financing- June 07

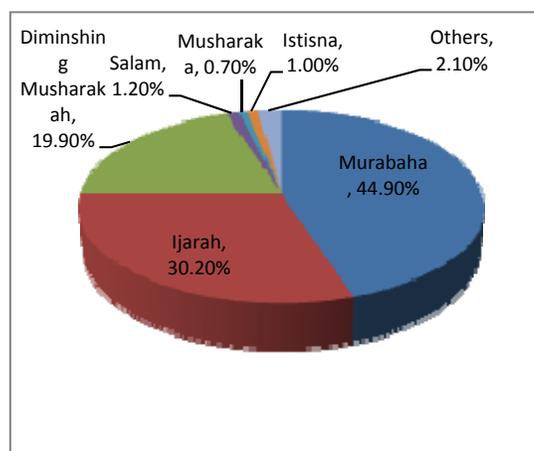


Fig 16: Modes of financing- Sep 07

(SBP-2,2007,p.6)

(D) Education statistics of Pakistan

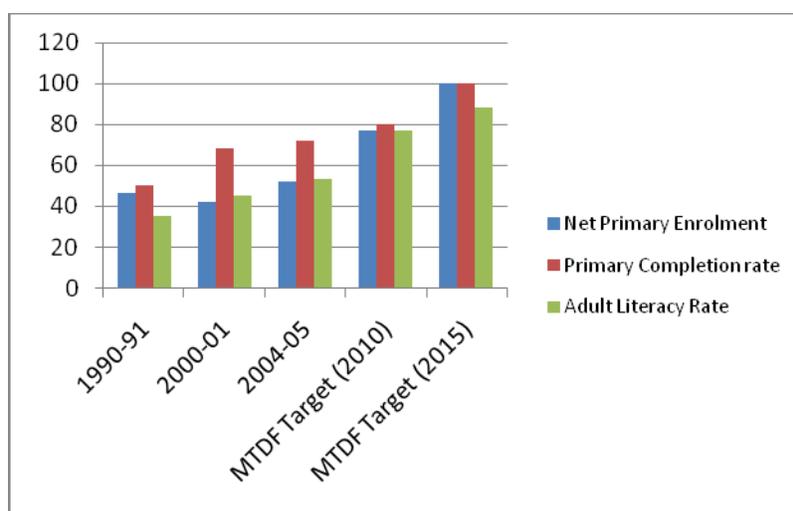


Fig 16: Education in Pakistan, Primary NER, GER and Literacy Rate (Source: Akram Khan, p.15)

(D) Unemployment rate

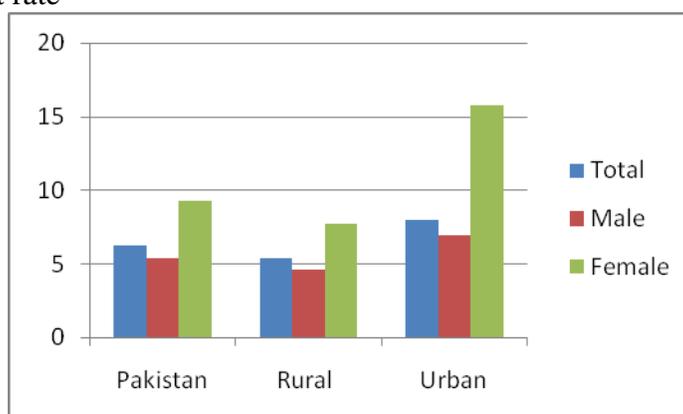


Fig 16: Unemployment rate in rural, urban and country as a whole

(E)Table 5: Budgetary Poverty Related Expenditure by Sectors as % of GDP (source: PRSP,2006,p.15)

Sectors	2003-04	2004-05	2005-06
Water supply/sanitation	0.10	0.10	0.13
Educaiton	1.73	1.78	1.84
Health	0.48	0.48	0.51
Social Security and Welfare	0.07	0.03	0.10
Rural Development	0.33	0.23	0.19