The Collective and the Individual: Re-thinking the Role of Altruism in Institutions Through Akhuwat's Example

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ABSTRACT

Conventional economic postulates based on impersonal exchange do not account for altruism or values in their formulation. As a result, there is larger emphasis placed on the importance of free-market based justifications for development initiatives, and lesser importance placed on examining the role and competency of institutions that facilitate the market process in the political economy framework. This results in a market-oriented delineation of civil society organizations rather than creating true development. The market proliferation of conventional microcredit practices and the severe limitations they have run into of late are an indication of this problem. To demonstrate an alternative I use Akhuwat's (a microcredit institution based in Lahore, Pakistan) example, and its method of using religion as a preceptoral mechanism in place to incubate values and institutionalize altruism. Akhuwat is novel in its approach in that it levies no interest on its loans and uses religion as a tool that enables inculcation of the missing value system, thus harnessing community and instilling a collective oriented outlook in agents to systemically accomplish goals of social justice.

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LIST OF ACRONYMS

CSO	Civil Society Organization
IFI	International Financial Institution
MFI	Microfinance Institution
NGO	Non-Governmental Organization
NPV	Net Present Value
PKR	Pakistani Rupee
SME	Small-Medium Enterprise
SPO	Service Provider Organization
RKT	Rotten Kid Theorem

CHAPTER 1

INTRODUCTION

It is argued that the over-emphasis on the market orientation of economic processes without good institutions in place has resulted in poor developmental outcomes. Microcredit recently has found itself to be an example of this problem. The microcredit industry has come under heavy criticism for converting socially driven initiatives into profit-driven ventures, exploiting the most financially vulnerable segments of a population. This question of microcredit is also representative of the question of the market-oriented definition of the non-profit sector and brings into doubt the true intentions driving welfare initiatives. Potential for subjugation and other instrumental problems derails the argument for grassroots development economics and brings into question the integrity of microcredit, since it is counterintuitive to the original intention of empowering the poor.

Akhuwat, an interest-free microcredit institution in Pakistan has emerged with answers and demonstrates an alternative model. Akhuwat is innovative not just in that it provides completely interest-free loans to its borrowers, but it tries to shift the focus from individual self-interest to collective responsibility of all individuals towards each other. It actively separates itself from conventional models, and emphasizes that its premise of poverty alleviation is grounded in principles of social justice, communal support and volunteerism. Thus, this innovative and unconventional approach to microcredit, where the focus is on the collective wellbeing, demonstrates where the core priorities of microcredit and development at large should lie.

Furthermore, Akhuwat has encapsulated values and harnesses them by operating as a faith inspired organization, with its methods in line with the tenets of Islam. The unbridled market emphasis as a tool for development initiatives conceptually creates misaligned incentives in the developmental organization-beneficiary dynamic. These problems beckon revisiting postulates which allow gauging important missing links of altruism and values in institutions. Building on these premises the preceptoral mechanism is identified as a third mechanism.

The approach thence requires an examination of collective dynamics, and the role of individuals, agents and institutions under the Islamic value-system as a social code for attaining goals of social justice. The responsibility of the individual to the collective is important for harnessing solidarity and collective support. The role of organizations like Akhuwat in harnessing community in addition to individual empowerment is worthy of close examination.

In addition to addressing important innovations for microcredit in response to its critical problems, this thesis also seeks to address institutional problems holistically. It suggests a conceptual framework, based on pre-existing socio-cultural value systems, as a potential apparatus for guiding development initiatives like microcredit. For this purpose it draws from literature on behavioral economics and also incorporates literature on Islamic social conduct and the political-economy framework using Akhuwat as a case-study.

The thesis is divided into seven sections. Chapter 2 conceptually looks at the need for identifying altruism as a missing ingredient for true development. It identifies the absence of good institutions as the reason for the ineffectiveness of the "value less" market processes, resulting in failure for economic catch-up. It identifies Akhuwat's use of the Islamic value system already in place as a potential tool to incorporate these ingredients. Chapter 3 explores a conceptual comparison of household dynamics of altruism with the NGO-beneficiary dynamic. It identifies the differences in core motivations in either scenario regarding displays of altruistic behavior. Chapter 4 looks at the preceptoral mechanism and its use of the Islamic value system as a tool to fill in the development gap for institutional altruism in a political economy framework. Chapter 5 identifies the needs microcredit seeks to address and the constraints it has run into of late. Chapter 6 explores Akhuwat as an alternative to these problems and discusses the practical implementations of a preceptoral mechanism through its innovations. This chapter is based on my field observations as an intern for the organization. Chapter 7 concludes by suggesting broader implications of the institutional switch the organization embodies i.e. a switch from a pure market orientation to a mix of market and preceptoral mechanisms.

CHAPTER 2

RATIONALITY AND THE ROLE OF ALTRUISM

The notion that "each individual having the power to act in his or her own self-interest will be led as if by an 'invisible hand' to actions that produce the maximum wealth for a society of individuals" was proposed by Adam Smith, a Scottish economist of the mid-18th century (Wolff and Resnick 89). Since then many core economic principles and fundamentals of market theory have been built and formulated on this notion. Since economies following this premise fail to develop, this core proposition is brought into question.

As Sen (1977, 11) argues, suggesting that an economic agent is driven by utility maximization, such that "each person's utility is a function of the person's consumption, savings and wealth creation is a useful assumption for a lot of analysis, and has contributed to the elegance of economic theory. But, this same convenient postulate has also blinded us to some facets of reality."

2.1 Limits of Rationality: Egoism and General Good

Sen (1977) highlights several reasons why fundamental economic assumptions residing on rationality, where "every agent" is motivated to satisfy their own self-interests, can run into problems. He starts with Edgeworth's model of contracts between two egoistical individuals where "outcome is said to be in the core of the economy if and only if it fulfills a set of conditions of unimprovability" (319) which identified the concepts of pareto optimality and general equilibrium. Sen highlights that this, in addition to purporting that no one agent can be better off without causing somebody else to be worse off, also suggests that no "coalition of individuals" (319) can improve themselves by altering trade amongst themselves. He argues that this does not create social welfare, since a person who starts with ill endowed initial conditions will remain ill endowed even after engaging in transactions and barter. There is no leeway in such an arrangement to climb out of where the agent starts from, other than remaining in "the core" (Sen 319), which is unsatisfactory to the agent if they are not content with their initial conditions.

In line with this Sen points out that Adam Smith's notion of the individual motivated by greed is a limited one-dimensional premise that severely constrains "the nature of the models that can be admitted into the analysis" in the debate between "egoism and general good" (321). "A specific concept of man is ingrained in the question itself, and there is no freedom to depart from this question…" (Sen 322). Sen also brings up the theory of revealed preferences as an explanation of the agent motivated by self-interest, wherein "It is possible to define a person's interests in such a way that no matter what he does he can be seen to be furthering his own interests in every isolated act of choice" (Sen 322). According to the theory, any behavior any agent chooses to exercise can be seen as an act of self-interest. “Whether you are a single-minded egoist or a raving altruist or a class conscious militant, you will appear to be maximizing your own utility in this enchanted world of definitions” (Sen 323). He mentions that if this were to hold, the only issue that contradicts the principle of utility maximization is inconsistency in choices and behavior. “A person’s choices are considered “rational” in this approach if and only if these choices can be explained in terms of some preference relation…” (Sen 323) and thus raises the question whether behavior can be restricted and condensed to the prescribed parameters of consistent choice, which is the premise for welfare maximization (Sen 324). Therefore the argument lends itself to be refuted by actual observations of behavior (Sen 325). What constitutes as consistent is also hard to quantify, even in laboratory settings, because of lapses of time and advent of technology, and the concept is thus subjective.

Similarly Basu (2011) counters this approach to reconciling everything through selfishness, by highlighting that “what has to be kept in mind is that contrary to what many economists claim, it is not a tautological definition of selfishness that economics uses” (106). He mentions that it is imperative to thus distinguish between choice and utility, when discerning selfishness (Basu 106) “because all behavior would then be compatible with selfishness and so the selfishness assumption would not be able to predict any particular behavior” (Basu 106).

As an extension of the notion of arguing against reconciling all actions and intent with egoism, Sen differentiates between “sympathy” and “commitment” as concepts determining choices. According to Sen, sympathy is when one’s own interests are affected in their regard for someone else. “If the knowledge of torture of others makes you sick, it is a case of sympathy” (Sen 327). In contrast Sen describes commitment with the notion that if the action mobilizes you, but does not make you worse off wherein “you think it is wrong and you are ready to do something to stop it, it is a case of commitment” (Sen 327). Keeping this in mind, Sen points out that since sympathy is driving one’s interests and involves “the pursuit of one’s own utility” (327) it can fall under egoism. Commitment on the other hand cannot be categorized under egoism. According to Sen it “drives a wedge between personal choice and personal welfare, and much of traditional economic theory relies on the identity of the two” (329). Since there is no intrinsic notion of the agent’s well-being driving their action, this can be problematic for economic models built on that premise. “…the basic link between choice, behavior and welfare achievements in the traditional models is severed as soon as commitment is admitted as an ingredient of choice” (Sen 329).

Basu argues that “other ‘social’ characteristics of altruism, a sense of fairness and the public good urge…” (104) are innate and that we have been socialized overtime to discount them as means to engage with the predominant system of satisfying self-interest (118). He criticizes Smith’s archaic Invisible Hand Theorem for its vast influence in modeling economic policy (Basu 118) because it privileges greed, especially since this is the advice handed down from advanced governments to developing ones. Because of its pervasiveness and universal entrenchment, it has inadvertently lent itself to the institutionalization of selfishness and normalized purely self-seeking behavior on the basis that the "coordinating power" (Basu 118) of the invisible hand of the market will automatically create a positive net result for society overall:

> We are taught that not only are consumers and producers self-seeking but so are politicians, bureaucrats and judges, and more significantly, that this situation is fine. This has some alarming consequences. It means…that all we can expect of judges is for them to pass verdicts that best serve their own interests. So the only way to make judges and magistrates issue a just verdict is to design the institutional and incentive structure of the courts in such a way that it is in each judge's self-interest to be just. (Basu 118)

According to Basu, this approach has had socially and morally detrimental consequences and stunted economic growth and development "because the truth about development is that it needs human-beings to be other-regarding, fair and trustworthy" (118). Basu theorizes that these traits are "innately available" (118), and are often inhibited as a result of the emphasis on socialization and the need to engage at large with the system motivated by self-interest (118). He elucidates with an important example:

> Take the problem of bureaucratic corruption, which has been eating into the fabric of so many societies and blighting the possibility of development. The standard policy response to this, inspired by the popularity of the Invisible Hand theorem and the visible global economists, is to argue that government ought to redesign the system of incentives and punishments for bureaucrats. What we do not say is that the ubiquity of corruption has a lot to do with the lack (or more appropriately, suppression) of personal integrity and individual moral commitments. The design of

> incentives plays a role, but our own sense of values and morals play bigger one. Governments that are noncorrupt are largely so not because of third-party monitoring of such corruption but instead because of the self-monitoring of bureaucrats and politicians. There is no scope for this in standard economics and economic sociology because these disciplines provide little space for self-monitoring (Basu 118).

Essentially he argues that it is the self-monitoring of institutions premised in mutual cooperation and social order that creates the framework for the market process to succeed. "…traits like personal integrity or conformity to social norms, which get so little mention in economics, are essential for understanding the order that we witness in society (to the extent that we do)" (Basu 104). However, the overemphasis on rationality and self-interest misplaces these attributes and inadvertently hinders integrity, and plows the seeds for chaos whereby "If too many opportunistic groups come into existence, society could crumble into the low-output equilibrium of selfish disorder" (Basu 107) and thus come in the way of economic progress.

Where Basu points out some important ambiguities, the challenge of classical/neo-classical economics approach is that the predictions based on their assumptions (premised on rationality/greed) are not generally falsified because, for example, the demand curve generally does seem to slope down. Thus, challenging the postulates further necessitates demonstrating that human behavior does not conform to them and developing an alternative set of postulates and testable predictions that are not falsified. This leads to the important distinction between a value driven and a value-less system (as presumed by the invisible hand theorem and the neo-liberal approach), and what form might the postulates of a value driven system shape out to be as compared to a value-less one.

2.2 Re-thinking the "Value-less" Demand Curve Postulates

The issue of the un-falsifiability of presumptions of self-interest, because the demand curve slopes down, can be addressed in three ways. Firstly, it could be said that a large standard deviation opens the space for explaining interesting alternative human behavior.

Secondly, it is worth mentioning again Sen's issue of defining observable consistency of behavior outside of laboratory settings; whether a preference relation can ever actually be established as a premise of welfare maximization, and thus the ensuing problems of testability in this context (Sen 323). According to him, due to time and constant advent of technology it is not possible to realistically establish preference relations, thus choice, and consequently rationality outside of a controlled setting. They are subjective and impossible to constrain and identify, thus putting serious problems of immeasurability in the postulates driving the neo-liberal hypothesis.

The third approach involves substituting the value-less presumptions with values, and comparing the new postulates. The current approach takes values for granted and does not account for them. The approach fails to recognize that in successful societies values are implicit as a result of good institutions, especially good educational institutions which transmit and incorporate them as highlighted by Basu. However, this failure to recognize the value systems and the role of good institutions that induce altruism results in an over emphasis on the self-correcting nature of the market oriented approach. This one-dimensional replication can be debilitating in societies which do not have comparable institutions in place to facilitate the market process.

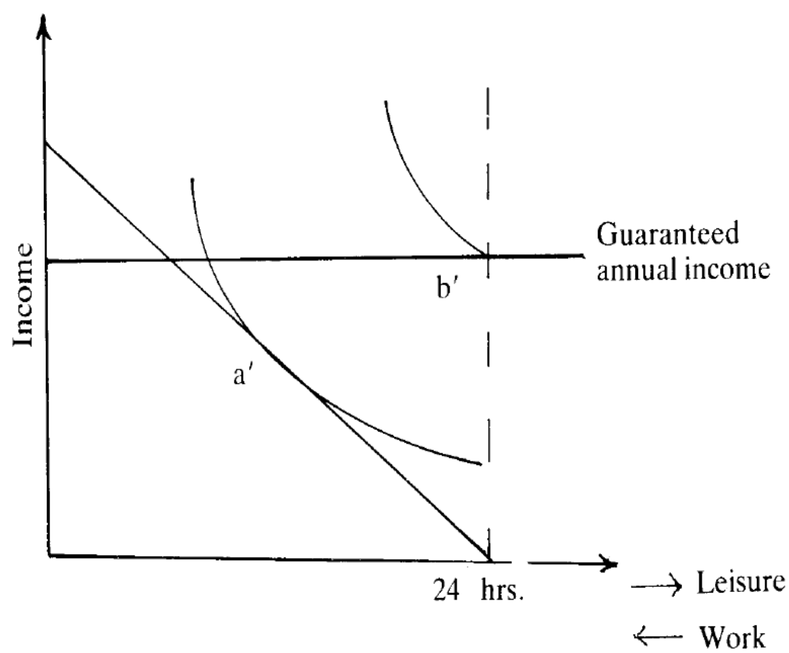
To be more contextual, in a poor country like Pakistan, where there has been a lack of economic take-off and stagnating growth, institutional causes may be the source of incompetent governance and bureaucratic inefficiencies (Méon and Sekkat 2005). There is a dearth of good educational institutions which facilitate the incubation of values and consequently, altruism, in high income societies notwithstanding the neo-classical focus on greed. Given this back drop, organizations like Akhuwat have realized this dearth and thus intelligently promulgated a value system capitalizing on a pre-existing Islamic value framework. In this context, it is important to note how the value-driven postulates of an Islamic oriented approach might differ from the secular oriented value-less postulates.

Primarily the difference in Islamic economics as compared to secular counterparts is the “eschatological” (Khan, 1985: 75) postulate concerning faith in the afterlife and the Final Judgment, which drives underlying incentives. “Certainly, the distinctions commonly drawn in Islamic economics literature between the "valueless" secular society and the Islamic one would suggest fundamentally different premises underlying social analysis” (Khan 75). The notion of belief in the hereafter undeniably impacts and determines social behavior differently compared to postulates emphasizing immediate self-gratification. Faith in the hereafter, and thus the Final Judgment drives the individual, at least theoretically in their deeds beyond immediate self-seeking behavior.

This distinction has important implications for determining the resulting demand curve:

> Using the familiar neo classical construct of labor-leisure choice, the graph below illustrates the behavior of a "rational" individual due to the provision of a guaranteed annual income.

Figure 1
Labor-Leisure Choice (Khan 1985:76)



> If leisure is assumed to be positively valued, and local non-satiation indicates that more leisure is preferred to less, then the rational individual will in this example do no work. This would follow because the initial point of welfare maximization would be at point a'. With the introduction of a guaranteed annual income, the individual would be better off at b' by doing no work and getting a positive amount of income. From an Islamic point of view this clearly would not be ethical behavior. Nonetheless one could test the Islamicity of a society by testing the hypothesis drawn from neo-classical analysis, whose premises are those of a materialistic and secular-oriented society. In the above example, a rejection of the hypothesis would indicate Islamic behavior (Khan 76).

This is one way to explore theoretical consequences of spiritual and moral values that postulate behavior driven by a set of ethics, Islamic or other. “Thus it may be a rational means of determining the progress in Islamisation of a society that has chosen to make such a transition” (Khan 76). While theoretically we can assume this because the faith lays stress on ethical, value-infused, standardized behavior for followers, it is not necessary that this is how observed behavior may actually play out. “When empirical verification establishes that the neo-classical analytical apparatus can be discarded or radically modified, a day for rejoicing may have arrived, for average behavior may be reflecting the existence of a truly moral and selfless society” (Khan 76). While this may seem like a distant and idealistic approach (where the same can be said about the invisible hand theorem), it allows for alternate postulates to be recognized and used, especially in societies where conventions are not allowing for catch-up.

Thus, while empirically we might not ever see the realization of ideal postulates, we can see that by embodying and promoting these alternative postulates there is untapped potential that organizations like Akhuwat are realizing. While it is unrealistic to assume society wide success, however the success of an organization premised on integrating values along with financial empowerment draws attention for it shows that there is room for alternate solutions. Especially by drawing on Sen's notion of commitment, an explanation for altruistic behavior can be forged that conceptually accounts for volunteerism, which is an important feature of the organization.

2.3 Role of Altruism

Once we have sifted through the fundamental premise of conventional economic models and acknowledged its limits at theoretically sustaining cooperative outcomes, social order, and inherent failure to recognize Sen's notion of "commitment," it is important to see whether this notion can be accounted for unconventionally, and what can be done to integrate these "ingredients" (Basu 104). This notion of Sen's commitment can be extended to Basu's "cooperative instinct" (Basu 101) which "covers prosocial characteristics like altruism, a sense of fairness, the urge to trust and be trustworthy…" (101), and thus clustered under the umbrella term of "altruism", as per Basu's modeling, wherein "it is reasonable to think of the model as an idiom for trust or other indicators of a person's sense of society…a person's likelihood cooperation depends on the expectation that the other person will cooperate. While explicitly that of altruism, the analysis that follows from this could also be thought of a mutual trust model" (Basu 108). Henceforth these concepts will be categorized as "altruism."

Basu gives another example, based off of the mere play of language, cognition and behavior which makes the case for altruism:

> Consider a person who gives a thousand dollars to a charity in Africa. It would be reasonable to say that this person chose to give this money (that would be a pretty normal use of English). But would we say that he or she is better off (in terms of most reasonable interpretations of well-being and personal happiness), but that the person nevertheless chose to make that little sacrifice for a good cause. Otherwise, "making a sacrifice" would have to be removed from our lexicon. This divergence between the index of individual behavior needs some getting used to since it is alien to traditional choice theory (Basu 106).

According to Basu, this concept of altruism should thus be treated like a public good (109). He gives the example that value systems can be integrated, adopted and learnt whereby "People can be taught not to litter in the streets. Societies can cultivate habits of charity. Corporations can become environmentally conscious or develop other forms of code of ethics. Even if we do not as yet understand how these things happen, it is important to recognize that unselfishness and altruism is a useful trait and can contribute to economic efficiency" (Basu 109). While Basu acknowledges that the methodology for integrating altruism is still not very clear, he provides a good argument for the need for its incorporation by governments and institutions (especially educational institutions) alike. "But at the same time, we do know that these traits change and can be changed" (Basu 109). It is at this very point where the roles of civil society institutions like Akhuwat step in and demonstrate practical examples of how to inject altruism to make collective action work for development. This will be demonstrated conceptually and empirically in the ensuing chapters.

CHAPTER 3

INJECTING ALTRUISM: DEVELOPING A CONCEPTUAL FRAMEWORK

Building on Basu's identification of the vacuum of values in a market oriented framework requires the incorporation of altruism and value systems to contribute to good institutions and their role in economic efficiency and development. This leads to the question of how to integrate altruism given present conditions, and how to encapsulate these values which have been eroded in the developing world due to an overemphasis overtime on the free-market economy and less emphasis on the importance of good institutions.

In terms of building a conceptual framework that integrates altruism given the present day conditions in the developing world, Becker's Rotten Kid Theorem (RKT) offers some concrete direction in theory, which can be tried to be contextually extended using religious values (as done for example by Akhuwat) in Islamic oriented societies. In order to fill the vacuum of good institutions, it is worth closely examining the example of ingrained dynamics of altruism, i.e. such as family dynamics and exploring how to extend them to the role of civil society organizations to theoretically make a case for them.

3.1 Becker's Economic Model of Altruism (Rotten Kid Theorem)

In order to contextualize altruism in the normative developmental landscape today as a tool for progress, Becker's RKT theorem, although usually a marker for distinguishing families from organizations in incentive theory, is worth examining as a theoretical framework for integrating altruism in the role of civil society organizations. According to the theorem, self-seeking kids will take actions that benefit the family if a benevolent head exists. The members of a familial unit, though egoistic, can be induced to look after the welfare of one another provided that their incentives to do so are aligned and that at least one agent assumes the role of the altruist. In the context of the familial unit in this theorem the parental figure holds the presumption of being altruistic, whereby "…*h* is altruistic to *i*. By definition of altruism, *h* is willing to give some of his wealth to *i*" (Becker 819). The amount the altruistic agent is willing to give to the second agent depends on "his degree of altruism, his and *i*'s wealth, the "cost" of giving, and other considerations" (Becker 819). In this scenario, *h* is the hypothetical parent and *i* the child, wherein the child receives gifts and/or money from the wealthy altruistic parent. According to the theorem the child will forgo their immediate interests in the larger welfare of the unit i.e. their own and the parent's combined overall welfare, since their income and consequent consumption hinge on the overall welfare of the unit:

> "The most important consideration benefitting altruists, however, and one that seems puzzling and paradoxical at first, is that egoistic *i* has an incentive to act "as if" he too were altruistic—toward *h*— in the sense that it would be to *i*'s advantage to raise the combined

> incomes of *i* and *h*. In particular, *i* would refrain from actions that lowered *h*'s own income unless *i*'s was raised even more, and *i* would lower their own income if *h*'s were raised even more" (Becker 820).

Likewise if there is a case of siblings in the unit and one of the siblings happens to be egoistic, wherein Becker terms them "rotten", who would take pleasure in making their sibling worse off, beyond making themself better off at the expense of their sibling. "The analysis is easily extended to incorporate altruism by *h* towards egoistic persons *j, k,…,* as well as *i*. Then *h* would transfer resources to *j, k,…,* as well as *i*" (Becker 821). The theorem is that the "rotten kid" in this framework has an incentive to not contribute to any activities that may harm the sibling and instead seek out situations that maximize their welfare, since their own welfare is directly linked with the collective's in terms of the money they receive from the parent. "Even though *i, j, k,…,* are completely egoistical they are linked together through *h*'s altruism. Their own interest, not altruism motivates them to maximize the sum of their own and *h*'s incomes—that is, to maximize *h*'s social income. This provides another reason why an altruist's own consumption may not be less than an egoist's consumption: beneficiaries of their altruism consider all indirect as well as direct effects of their behavior on his own consumption. They do not consider the effect of their behavior on the consumption of other persons not linked to this altruist (Becker 821).

Thus the theorem suggests that by interlinking welfare, the parent can structure incentives this way so that the rotten kid may "behave." Without creating any formal incentive structure, the altruistic parent can induce the rotten child to behave altruistically, thus injecting altruism in a dynamic that would contribute to the overall welfare of the unit, rather than each agent cancelling out each other's welfare in their one dimensional pursuit to only maximize their own interests. "…The most important new consequence of multi-person altruism relates to the behavior of recipients toward each other. Although *i*,*j*,*k*,…are all egotistical and do not give or receive transfers from each other, each has an incentive to consider the effects of his behavior on others (Becker 821). The theorem notes that even if individuals retain egoistic tendencies, by gearing incentives they can be motivated to act altruistically, or in the welfare of others. Whether this altruism may be "simulated" or meaningfully realized is an issue that will be dealt with later. At this stage, what the theorem allows us is the room to identify and inject altruism to fill the vacuum in the existing conditions in the developmental world, which have been dealing with the disadvantages of unregulated markets and a lack of good institutions and value systems.

Where it might be argued that this theorem is only applicable in family dynamics, my argument is that if shaped right in terms of reconciling motivation of agents with value systems, it could be used as a foundation for altruism within the context of civil society organizations (CSOs) and community members. Even Becker notes "Elsewhere I have called this the "rotten kid theorem, although its applicability is not restricted to interaction among siblings" (821). This brings us to the question of how to lay the conceptual groundwork for extending this framework for altruism beyond the assumptions of the family dynamic.

3.2 Extending Rotten Kid Theorem to the Role of Civil Society Organizations

Becker notes that the "…the rotten kid theorem is essentially a theorem about the incentive that egoists have to simulate altruism when they benefit from someone else's altruism. More generally, an egoist has an incentive to try to simulate altruism whenever altruistic behavior increases their own consumption through its effect on the behavior of others" (822). What is important to note is that the model allows for the "simulation" of altruism in the context of a system guided by maximizing individual welfare. While earlier we had conceptually isolated the need for integrating altruism, we are now developing a framework for integrating that altruism, given today's hegemonic economic prescriptions in the developing world, and how to establish that as the foundation of good institutions and civil society organizations.

Family economics is an important focus in economics and has been explored at length by economists like Becker. Transfers and exchanges within the household are premised on notions of care and compassion which do not generally exist between unrelated economic agents. "Interactions among family members differ from that among unrelated individuals in that familial interactions are mediated by some "bond of caring" on the part of at least one member – denoted as the head or parent – rather than the impersonal marketplace" (Bruce 156).

Becker's model has underlying assumptions and implications which need to be identified, and isolated before they can be extended beyond the familial framework. Firstly, it assumes a benign household head which demonstrates altruistic behavior towards their children; this is specific to families and not a factual phenomenon for unrelated agents. Secondly, the model allows the children to remain egoists but just switches incentives around so that they demonstrate altruistic behavior, and this is purely externally observed. They may or may not be guided or motivated by altruism, or by Sen's notions of "commitment", or even, if so, this is not overt or observable. But what this allows is room for this altruistic display of behavior to be reconciled and pursued by means of a methodological framework.

Taking these assumptions and implications into account we can now proceed to embed them in the role of public institutions and civil society organization like Akhuwat, to empower citizens.

3.3 Role of Public Institutions and Civil Society Organizations as the Altruist Head

Social structures "…influence the set of feasible economic institutions able to promote impersonal exchange" (Grief 171). The altruistic agent was described by Becker as "…*h* is altruistic to *i*. By definition of altruism, *h* is willing to give some of their wealth to *i*" (Becker 819). The amount the altruistic agent is willing to give to the second agent depends on "his degree of altruism, his and *i*'s wealth, the "cost" of giving, and other considerations" (Becker 819). In order to the extend the model, as a tool for integrating altruism, public institutions and civil society organizations, assume the role of the benign head, wherein their services and provisions serve as the transfers described in the familial setting.

3.4 Children as Citizens and Individual Agents

Likewise, individual beneficiaries and citizens assume the role of the egoist agents. This immediately brings up the question of why would they have an incentive to stimulate altruism without the framework of the family? This can be addressed in two ways. Firstly, assuming that they are strictly egoists, they will need to simulate altruism until they "graduate," become self-reliant and are no longer dependent on the altruist organization, since their interests are tied to the organization as a child is to the household head.

Secondly, they can be motivated based on instilling and harnessing values that promote social responsibility based on being educated and made aware and perceptive enough to see the holistic benefits of their motivations. Using the existing value systems based on faith, and cultural values for these motivations is what will be explored in the next section. The CSO acts as an altruistic head of a household, induces altruistic behavior by emphasizing the value system which each individual internalizes.

The model only requires observable altruism. Thus we can reconcile true motivation through either of these approaches, as long as the resulting behavior and the nature of those actions is altruistic. In fact, it could then even be self-seeking provided it does not bode harm to other community members that are a part of the collective.

3.5 Role of Religion and Cultural Value Systems

We established that the incentives for egoist agents to engage in altruistic behavior results in the maximum welfare of the collective i.e. a familial unit would have had to be perceptive enough to understand the benefits of maximizing the welfare of the collective over their own immediate individualistic interests. The same can be devised in the context of the CSO and the disenfranchised citizen using pre-existing religious or cultural values as a potential tool, as exhibited by Akhuwat. Beneficiaries can be motivated to be perceptive enough while pursuing their own welfare to realize that their interest is tied to the collective. The qualities emphasized by Basu of solidarity and community unity can also be inculcated by development organizations by using Akhuwat's approach of tapping pre-existing religious values in a community.

Firstly, Akhuwat places emphasis on and draws inspiration from "brotherhood" or solidarity by invoking the doctrine of *Muakhat-e-Medina*[1], which immediately expects communal solidarity amongst believers to the extent that each individual be willing to literally adopt another as a family member.

[1] *Muakhat-e-Medina* refers to the period in Islamic history after *hijrat* (migration) 622 AD to the city of Medina from Mecca when the Islamic prophet Muhammad instituted brotherhood between the *muhajir* (the emigrants), and the *ansar* (the helpers).

Secondly, beneficiaries are encouraged to actively climb out of poverty and give back and thus alter their status from recipients to givers.

Thirdly, by placing the focus on the mosque as the communal epicenter, the organization harnesses community as a collective and thus creates incentives for a cooperative outlook, even if the beneficiaries' task at hand is to empower themselves by seeking out their own financial interests. Fourthly, with no punitive repayment mechanisms in place, borrowers have no economic inclination to return the money. You would expect them to default but instead they do not and becoming empowered they tend to give back rather than act as a "rotten kid."

Becker's framework, though not directly applicable, is useful as a conceptual framework. In both cases self-interest is at play. In Becker's household head-family model, *i* or even the rotten kid realize that their interest is tied to the collective. In the NGO functionary and community members' case, that may also hold but the bonds are weaker. The source of motivation is different i.e. religious edicts drive altruism in this case. The individual is motivated to do good to seek reward through faith. There is no guarantee of good behavior in this case, or in Becker's model, or at least no probability can be assigned. The NGO functionaries "principal" is guided by a religious philosophy that they are supposedly governed by but which may be dormant. The principal/agent model applies in both contexts; however, whereas in Becker's model the agent is motivated by self-interest, in Akhuwat's case norms of altruism are framed by eschatological incentives.

CHAPTER 4

THE INDIVIDUAL'S RESPONSIBILITY TO THE COLLECTIVE IN ISLAM

We continue now with Basu's (109) argument about the importance of altruism, as a public good. Basu identified the potential and necessity for a society (perhaps too idealistically) to adopt altruistic values in their approach through emphasis on good institutions and education. Thence what is important next is to analyze how to incorporate this approach building on the pre-existing religious value systems through agents and institutions which are functionaries of these systems.

4.1 Preceptoral Mechanism and the Islamic Value System

Khan (1987) uses Lindblom's methodology for classifying political-economic systems and points to the preceptoral as a key mechanism. This methodology categorizes "three control mechanisms: authority (centralized bureaucratic control), market, and the preceptoral. According to this methodology, all political-economic systems use a combination of these instruments whereby "socialist regimes rely more on authority, while the Western liberal democracies rely more on market mechanisms. The preceptoral mechanism, which has been employed by countries like China and Cuba mainly in conjunction with authority, may be of particular interest from the viewpoint of an Islamic system." (Khan 15)

The preceptoral mechanism could instill values in economic agents and institutions so that it prevents bureaucratic inefficiencies and corruption, and salvage a society on the brink of chaos due to unbridled competition driven solely by a focus on self-interest. It involves "'educating' the population towards the right socio-economic conduct" (Khan 16). According to Basu, as noted earlier, development needs agents to be "fair and trustworthy" (118) and these traits are intrinsically available but are suppressed as a consequence for the over-arching emphasis on engaging with the economic system solely driven by maximizing individual welfare.

With the preceptoral mechanism we see an important mindful approach to addressing this developmental issue. In Islamic societies, there is a potential instrumental value system already in place to accomplish developmental goals. Islamic societies may have identified and established this to be so, but to date attained little success. In order for the preceptoral mechanism to be an effective tool, these societies need to understand, utilize, and thus hone the tool intelligently, which Akhuwat as an organization has done. However, before we explore this case-study, it is important to understand the defining characteristics of the system under consideration.

4.2 Social Code in Islam

An important discourse for understanding social code in Islam is understanding the debates it emerges from. Not surprisingly, due to various schools of thought, there are many opinions on the subject, and so it is important to consider the main overlap in their approach and ideas (Khan 17). The dominant school of thought in most Muslim societies is *Sunni*. We draw on the *ijtihad* (original thinking) of this broad school of thought.

An important issue in defining Islamic social and communal behavior is the emphasis on and the distinction between the individual believer's personal and social obligations. *Haqooq Allah* is understood to be the individual's duties directly towards God and *haqooq al-ibaad* is understood as duties towards mankind. In this context, the 'secularists' oppose the notion of a "relation between Law and State" (Khan 17) and only give precedent to the notion of the individual's faith being a personal relationship between an individual and God. In contrast to them the Islamists emphasize the converse. In addition to the direct relationship between the individual and God, there is also an individual code to engage socially and communally through religious obligations. Whether there needs to be laws in place to encourage this is an off-shoot of this issue.

The secular stance holds that Prophet Muhammad's "message and purpose were essentially religious and that religion was an individual's private concern" (Khan 17). According to them, this has the implication that the individual's moral journey was their own and their responsibility to conduct themselves lawfully is their own and not for the state to impose or mandate (Khan 17). The Islamists response is that this contention could be applicable only if it had been "adequately established…that the Prophet acted secularly, and extra religiously in his role as law giver or political leader" (Khan 18) which has not been the case. The secularists also argue that since the Quran emphasizes that there is "no compulsion in religion" (Khan 19), this inherently contradicts the concept of an Islamic State; for there are then no legitimate grounds for it to enforce religious principles. Where this might be a valid point, the Islamists also proffer legitimate justifications for their approach which need to be acknowledged.

The Islamists contend with three main observations that require mandating religious ordinance through authority (Khan 19). Firstly, this is done through mandating *zakat* (a social welfare tax) to attain social justice goals (Khan 19). Secondly, they maintain that the Prophet's example used state control to establish "revealed law" (Khan 19) and set mandates for the community once it was formalized in Medina, for it to be maintained and replicated. "…it later became necessary for all Muslims and hence for 'those in authority' (to whom the Quran refers) to follow his example" (Khan 19).

Their third reasoning is that where the individual conscience does not adhere to the desired Islamic communal result, it becomes essential for authority to intervene and impose mechanisms that lead to that outcome (Khan 19). For instance the strict Islamic restriction against the concept of interest needs to be considered here:

> The Quranic injunction is against *riba* (gains, including interest, that are ethically unjustified from an Islamic perspective). Accepting interest from a bank may first appear to be an individual's own decision. However, those supporting action by the state to abolish it, point at the Qurannic reference to 'war' declared in unambiguous language by God and His prophet against those who indulge in it. It is argued that because usury has social repercussions beyond an individual's conscience, the use of authority as preventive is justified (Khan 19).

What is important to gather from this debate is that there is indisputably heavy emphasis on the *haqooq Allah* obligations, under which the emphasis is on the individual's own conscience shaping their obligations to God. This in turn also renders the individual responsible for their moral conduct; thus, as a consequence establishing a faith driven social code (Khan 18). However, the example of *riba* suggests that relying on the individual's conscience as the driver may not eradicate social ills. Given this, authoritative measures are justified to put appropriate mechanism to achieve desired results pertaining to social justice.

At this point, it is necessary to step back and re-examine the uses of the Islamic social code as a preceptoral mechanism in the political-economy framework, rather than linger in the uncertain, irresolute deliberation of its relevance in the discourse on the authoritative mechanism of a political economy. In the Marxist experiment, the emphasis is on the construction of "a new person" (Khan 30), which in turn leads to the reshaping of institutions, cyclically ensuring the system's own survival and the achievement of its aims. Likewise, "although Islamization ultimately depends on moral regeneration as an individual effort, it cannot dispense with institutional changes insofar as the stated collective goal for society is social justice" (Khan 30).

With Akhuwat's example we see that as a "faith-inspired" organization rather than a "faith-based" one, it has adopted *haqooq al-ibaad* as a preceptoral tool rather than as an authoritative mechanism with important implications and lessons for civil society institutions. In order to demonstrate this it is important to expound the specific components that characterize the Islamic social code. In this regard, the Akhuwat model represents a civil society alternative to those not comfortable with or those who question the use of the authority mechanism to attain social justice in Islamic societies.

4.3 Social Justice in the Islamic Political-Economy Framework

Since the objectives of *haqooq al-ibaad* are premised on social justice, an important tool is the obligation of payment of *zakat* as an individual's responsibility to the collective. *Zakat* as delineated in Islamic teachings is the responsibility to help the poor with charitable contributions to purify the soul and grow spiritually while re-distributing wealth. It is also argued that this instills motivation for philanthropic initiatives, growth of volunteerism in a society and the growth of the individuals participating (Ghaus-Pasha 2).

The notion of *zakat* is embedded in the Muslim psyche as one of the five essential obligations. In essence, the procedural emphasis should be to "educate" the population to understand its ideology as a preceptoral mechanism; to move away from charity as an obligation to instead intelligent giving in order to develop holistic thinking and understanding in the members of a population. It is also argued that disproportionate authority to a particular headship leaves room for mismanagement and abuse of authority. However, if the collective embodies the preceptoral approach, it creates potential for its utilization as a tool for development.

General Zia in the1970s institutionalized *zakat* authoritatively raising questions regarding the role of religion in matters of authority and state (Ziring 1988). Whether this is an effective approach remains to be empirically determined. Furthermore:

> Many Islamic political-economists, in expounding their views, perhaps inadvertently fall into the trap of merely describing a utopian vision of an Islamic system. This somewhat impractical exercise results from their implicit or explicit assumption concerning the need for the prior existence of an Islamic individual, which leads to general statements about morally motivated behavior solving societies' problems and leading to social justice. Although the existence of religiosity in Muslim countries is not denied, relying solely on that to bring the Islamic ideal of social justice is not theoretically justified and is probably unrealistic" (Khan 1987: 30).

Where this might be true, what is important to distinguish here is that this theorizing is being approached from the stance of an organization that premises itself on such notions and has potentially been successful in accomplishing its aims; aims which have been inspired through these explanations. Thus the conclusion here is that *zakat* as a preceptoral concept has immense potential to be explored, versus the Pakistani state's emphasis on institutionalizing it using the authority mechanism. Akhuwat as an organization actively takes this stance by educating its donors, borrowers, employees, and volunteers, in the value of this form of giving, which is an important innovation. Moreover, it creatively ties this social tool with the prohibition of *riba* and the need for microcredit to attain its vision of social justice or poverty alleviation.

CHAPTER 5

CONVENTIONAL MICROCREDIT AND ITS LIMITATIONS

In order to understand Akhuwat's specific innovations as a microcredit organization, we first identify the social needs microcredit addresses holistically. Second, we identify the limits of traditional microcredit and how Akhuwat presents alternative answers to these limitations. Third, the institutional implications beyond the practical implications for microcredit will be examined.

Akhuwat's institutional stance on altruism has important implications beyond the microcredit context. It is imperative to conceptually tie in macro concerns of distribution and inequality to micro ones. The micro approach of agents does not factor in the macro complexities. Rather than ignoring them, agents driven by a value based approach should be encouraged to factor these into their preferences so that the larger 'macro' concerns are organically addressed. Microcredit is one vehicle for this bottom up grassroots approach. Thus we first proceed by examining microcredit theory in the next chapter and tie the argument with the larger debate of reconciling a community oriented approach with utility maximization.

5.1 The Need for Microcredit

The microcredit movement arose from the dearth in accessibility of traditional financial services to the poor based on the premise of formal financial intermediaries that extending credit to the poor is a risky endeavor with more costs than returns. The main reasons driving this presumption are, firstly, the lack of collateral that can “guarantee” re-payment, and secondly, high transaction costs. Since small sized loans have smaller returns and the same administrative costs as larger ones and also since the poor are usually hard to access, pre-dominantly situated in rural localities, adding to transaction costs, formal organizations avoided small, remote borrowers. Essentially, exclusion has been a result of the general profit-maximizing approach that dominates the stance of contemporary functionaries, agents and institutions in a market-oriented economy.

This exclusion has serious repercussions for growth and development especially in developing economies where the largest population stratum comprises of the poverty stricken. This restricts both, “present value creation” (Gabriel 37) and “the potential for expanded future value creation” (Gabriel 37). What is implied by value creation is the potential in small scale entrepreneurship to generate surplus value that allows for self-sustenance, and thus the ability to overcome the cyclical nature of poverty which prevails due to a lack of initial funding as a result of existing institutional preferences of mainstream financial organizations.

> “Indeed, markets are an effective tool for transmitting some types of information. If you have money and needs, you can often make those needs “heard” because money provides you with a tool for transmitting your desires. However, when you do not have money to begin with, markets may be a relatively ineffective means of transmitting your desires” (Gabriel 37).

Transmitting your desires, implies the inherent ability to earn and thus be able to choose how to spend or save, based on individual desires or preferences.

Not only does the failure of provision of financial services impact the value created by potential “entrepreneurs with positive net present value project” (Gabriel 37) who just need the basic initial financing; it more so affects the “even larger number of poor or marginalized consumers who might be better off if provided access to microfinance projects” (Gabriel 37) in said communities. The cyclical consequences of the value creation potential for a community being lost are vast:

> Entrepreneurs who are unable to realize their dreams because of lack of funding (despite having positive net present value business ideas) and consumers who are not provided with financial products that might raise their standard of living and/or solve critical problems that affect other aspects of their lives (including their ability to raise their income) change the present and future of communities (even changing the mix of who is alive and who is not in the future). The latter will just as surely alter the wealth creating potential of the community as the former (Gabriel 22).

This dual and cyclical nature of the consequences show the larger negative repercussions of this fundamental need not being addressed for a community. It does not allow for goods or services to be created, hence not allowing for the economic processes to even take off initially, and in essence capturing the communities in standstill poverty traps.

Holistically, this has several consequences:

> Deprived entrepreneurs, potential entrepreneurs and consumers combine to shrink the set of positive net present value opportunities that may be realized in the community. By definition, positive net present value projects generate an addition to existing private wealth in the society, making citizens better off. Overall, these net present value projects could generate wider benefits to the society, as projects generating income for entrepreneurs would likely also generate income for their suppliers and other social agents whose livelihood is enhanced by economic relationships with such entrepreneurs (Gabriel 22).

Limitations like these encourage economic disparity at both the immediate community levels, adding up to impacts felt at the national levels leading to greater social inequality which perpetuates a climate of social instability. Sole traders and self-employed entrepreneurs are the ones most impacted by this lack of finance since the effects are felt directly with the income not generated. These small enterprises are the ones with the most potential of creating and harnessing conditions that advance economic take off processes by creating jobs, generating income and thus adding value leading to growth within these otherwise marginalized communities (Gabriel 37).

5.1.1 Culture of Exclusion

The fact that a significant majority of the population remains excluded from the provision of financial services alludes to a systematic problem that has been institutionalized overtime. This problem is a trait of the pre-dominating market-culture, established to be driven by self-interest. It points to "asymmetries of market power" (Gabriel 34) and the fact that "in most countries large-scale financial institutions continue to use their control over money flows and money creation to support a relatively small subset of entrepreneurial efforts and discriminate against other entrepreneurs (and potential entrepreneurs)" (Gabriel 34). As the structure stands, these communities are financially sidelined mainly because they lack "political clout or the type of social connections" (Gabriel 34) that are necessary for their voices to have any impact on those at the top of hierarchies and in positions of policy influence and who decide such policy.

> The very nature of corporate governance in these large-scale, publicly traded financial firms is such that directors and senior management are largely autonomous. They are more likely to be concerned by empire building than connecting to the underprivileged… They tend to care more about raising their own individual status within a narrow community of similarly situated executives by earning "competitive" salaries and bonuses that appear to be linked more to relationships within the internal circle of firm directors and other senior executives than long-term firm performance. The connections to community organizations or other institutions that might serve to connect these executives to the poor and marginalized are by-passed in favor of the country clubs and other exclusionary sites for networking and sharing information and ideas…this disdain for the poor and marginalized is the norm (particularly in lower income countries) and there are unambiguous social costs to this culture of exclusion (Gabriel 34-5).

Thus, this "culture of exclusion" is a derivative of the market-based approach, as adopted by modern economics. It is against the notion that the invisible hand will make it free and fair. But it is a direct product of self-seeking behavior and that is an important distinction working against the emphasis on the self-regulating, free and fair nature of open markets.

It can be further argued that in addition to institutional barriers of power dynamics, the emphasis on collateral emphasizes the culture of distrust, another intrinsic product of self-seeking behavior wherein one's own competitive advantage usually lies in the disregard, if not at the expense and subjugation of another. This exclusion also points to the extent of trust deficit in a society and hints at institutional barriers, yet again, and the importance of acknowledging them beyond just noting the failure of markets.

Thus microcredit arose offering innovative solutions to constraints identified by conventional financial intermediaries.

5.1.2 Important Characteristics of Microcredit

To counter the problems arising from high transactions costs and lack of collateral and high risk of default microcredit is characterized by two important innovations, which include the peer lending method and loaning to women (Karnani 2007).

Peer group lending was an important cost-effective approach to deal with the problem of high transaction costs, whereby instead of loaning to individuals, loans are disbursed to groups which re-imagines the monitoring, loan managing and repayment responsibility by shifting these responsibilities among the group members which hold each other accountable. “Group-lending contracts effectively make a borrower’s neighbors co-signers to loans, mitigating problems created by informational asymmetries between lender and borrower” (Morduch 1570). By adopting this approach it thus becomes the group’s responsibility to select accordingly responsible members. Furthermore by converting this into a matter of social status being at stake, this is perceived to be more of an effective incentive for repayment than even “sanction from external institutions” (Gabriel

7). It is thus this organic, community harnessing, refreshing approach to financing that lends itself to “expanding the scope of the social and economic innovations” (Gabriel 23), thus transforming the approach towards enabling possibilities and opportunities in these communities.

Likewise, another important innovation that characterizes microcredit is the emphasis on loaning to women who are perceived to be more responsible beneficiaries:

> At Grameen Bank, for example, 97 percent of clients are women because “women have longer vision [and] want to change their lives much more intensively,” says Yunus. On the other hand, “men are more callous with money.” Evidence indeed suggests that when women retain control of microloans, they spend more on the health, security, and welfare of their families (Karnani).

This also feeds the notion of micro-credit as a means to empower women, in terms of “women’s bargaining power within the home, centrality to the community, awareness of social and political issues, and mobility” (Karnani). It also increases their “self-esteem and self-worth” (Karnani) according to certain research, although the true impact remains contested as we will see. It has been established though that it indeed can be a tool for female empowerment “but only in noneconomic ways” (Karnani).

These important innovations hint at the potential there is for larger common good by encouraging individuals to play a more active role in their own lives and that of their communities. Small enterprises are the smaller components of an overall more dynamic civil society (Gabriel 23). This potential is lost due to a lack of credit. Furthermore, the case is made that this value created, beyond just empowering the marginalized, is also potentially a profitable investment opportunity for the financier, rendering a sustainable industry for the movement. This raises an entirely new debate for the alignment of incentives, need for the market based approach and potential moral hazard problems.

5.1.3 For-Profit versus Nonprofit Approach to Microcredit

There are two main approaches exercised by microcredit. The nonprofit approach concerns itself with addressing societal issues of poverty alleviation whereas the for-profit approach concerns itself with extracting profit by means of tapping into an unlikely source of generating surplus value. The general broad-based approach to microcredit follows the latter approach, whereby, it offers market based solutions to poverty alleviation, wherein investors can seek to extort profit from the projects they fund and thus in the process do not necessarily have to focus on the social benefits, since it is assumed to be an “invisible hand” process.

> …management at large-scale firms, given time, may push the boundaries of market research in ways that eventually expose these business opportunities and at least some of these firms may venture into the microfinance arena and discover there is a good deal of money (and good will) to be earned by doing so (Gabriel 37-8).

> …microfinance is a potentially lucrative investment opportunity (Gabriel 37).

This market approach, while it addresses the issue of financial inclusion, is exploitative of the most financially vulnerable with high interest rates. It locks “beneficiaries” in cycles of debt, instead of enabling them to be self-sufficient. Charging profit-maximizing interest rates is justified by the commercial nature of the institution. The cyclical and detrimental implications have many nuances which will be explored further. While lack of access to finance captures these populations in a poverty trap, highlighting an important market failure, the for-profit, market based approach also heightens this poverty trap if not alleviate (McKenzie 28-9).

The nonprofit microcredit initiatives are mostly donor supported initiatives more concerned with the aim of poverty alleviation rather than generating profit. Despite the "nonprofit" approach, these organizations still tend to levy some form of basic interest rates to make up for administrative costs, inflation and cost of capital. The main criticism from a market stand point against them is that they are not sustainable and instead drive out the potential for a robust industry to be created if the for-profit approach was adopted:

> Donor-supported MFIs could crowd out commercially oriented providers of financial services. At least some anecdotal evidence suggests that commercial ventures are discouraged from entering markets, which are already well served by MFIs that received support from NGOs or government and therefore have lower costs. The users of financial services in those markets may benefit, at least initially, but donor resources might be better devoted to providing services that commercial institutions neglect. Furthermore, an abundance of aid-dependent MFIs might stifle the longer-term development of a more sophisticated, commercial financial sector (Hardy 12).

It remains unclear why a "sophisticated, commercial financial sector" is inherently assumed to be better, when we have observed before that it traditionally comes with the connotations of exclusion and power imbalances, as compared to a more organic, supportive, community oriented one. Where the organization might be aid dependent, it is still re-incentivizing the economic structure so that it promotes self-sufficiency within individuals striving in their communities as compared to other development programs that have been criticized for encouraging dependence by driving away incentives for independence.

5.1.4 Microcredit and Inducing Development: Self-Sufficiency versus Aid Dependency of Target Segments

In terms of development and poverty alleviation, successful microcredit programs enable the target population to become self-reliant, dynamic agents of the economy.

> The provision of financial services empowers clients in a way lump sum transfers do not. Instead of aid-dependence, clients who have access to financial services gain autonomy and, ultimately, access to the formal economy. Thus, MFIs can mitigate the powerlessness that is often an intrinsic feature of poverty, and even improve the functioning of society (Hardy 13).

Microcredit offers a system which instead places incentives so that the target population strives to become independent, through tying financing to loans needing to be repaid, thus priming intelligent use of the funds; instead of them being squandered unlike the usual one-dimensional provision of aid, wherein the premise is that the higher helplessness displayed will result in increased aid assistance. Microcredit instead renders the borrowers with the potential to assimilate with the economy rather than them being continually marginalized.

Furthermore, by nature of the revolving loan fund which these organizations operate on, it is not a one dimensional transfer of capital. Instead funds are recycled by this mechanism, so that the aid actually helps a multitude of recipients, time after time. It encourages economic integration, rather than perpetuating the cycle of aid dependency, which has emerged as the main argument against development oriented approaches and is an exception to the general micro-macro paradox (Moyo 41) that characterizes most development initiatives wherein a short-term efficacious intervention may have few discernible, sustainable long-term benefits.

Additionally, due to their grassroots, bottoms up approach, it has the advantage of harnessing endogenous information, based on the needs of the community and the borrowers. This has two important implications for the standard problem traditional aid programs run into:

> First, availability of financial services allows the clients to decide for themselves in important economic matters (e.g., consumption smoothing). Second, the MFI is in a position to evaluate projects ex ante and to monitor their performance, so that resources are allocated more efficiently (Hardy 10).

This has the advantage of having a clearer understanding of ground realities which also helps ascertain that the funds are received by the ones who need it the most, or those that show the most potential to utilize them accordingly, thus largely compensating for the problem of asymmetric information (Hardy 10).

This bottom up approach, which is crucial to a nuanced understanding of the needs of a community with the aim to empower and help the most marginalized, is realized by the provision of microcredit. Furthermore, the potential microcredit institutions have to offer is beyond economic welfare. As per Sen, development needs to be defined through the ability of people to be engaged and lead wholesome lives with opportunities to realize their full potential which is beyond financial outputs and gains as measures of development. Microcredit allows potential for this this through creating a dynamic cycle that keeps providing “positive circular and cumulative causation” (Gabriel 119) and thus creates foundational potential for development initiatives to accomplish their aims of empowerment, meaningfully. The important ingredient is systemic inclusion and integration.

5.2 Limits of Conventional Microfinance

Despite addressing a critical void, and notwithstanding the tremendous transformative power for development as identified, conventional microcredit in practice has demonstrated grave problems. Primarily the general one cited is the potential for exploitation of those most financially vulnerable and thus exacerbating the problem of poverty and dependence. Furthermore, there are several other problems associated with microcredit. One critique is that that it is not a genuine tool for female empowerment; it implicitly adopts western notions of empowerment rather than accounting for the cultural context in which it is distributed. And lastly, the approach is viewed as a tool for encroachment by the neo-liberal agenda rather than being a genuine mechanism for inducing institutional transformation that results in catch-up development. Thus rather than operating as an institutional and preceptoral tool which has earlier been identified as an omitted link for development in a political economy framework, microcredit instead operates as purely a market based tool.

5.2.1 Instrumental Problems and Misaligned Incentives

The most pervasive criticism microcredit is reproached for is the potential for exploitation of a strata most socially defenseless. Mass suicides in Andhra Pradesh India have raised grave questions of not only its effectiveness, but even more about the indebtedness of its “beneficiaries,” which exacerbates the helplessness and alienation of poverty-stricken communities. Profit seeking microcredit initiatives are thus questionable in this regard, for it is in their fundamental underlying incentive to maximize profit. This puts them at odds with the original mission of enabling the beneficiaries to become self-sufficient and independent through microcredit. Furthermore, this inherently shifts the focus on the institution’s financial sustainability as a measure of its success (Chang 8), since it must generate enough profit to stay afloat commercially. This approach shifts the priorities even of NGOs when pushed by donors towards financial sustainability; wherein the true measure for assessment would have been to see how effective it is in its mission of poverty alleviation and the sustainability of the community it supports rather than the organization’s own sustainability at the expense of the community.

5.2.2 Context-Specific Implementation of Microcredit

In terms of the question of female empowerment, microcredit has been endorsed on the grounds that women exhibit more responsibility in the management of funds and that this also gives them more say in household decision making. This is a simplistic assumption about empowerment and misses the notion of context, relativism and cultural specificity when analyzing from a feminist viewpoint.

Some feminists suggest a context specific analysis; otherwise interventions are at risk of being amiss and are, even if well intentioned, in danger of being fundamentally misguided. They are misguided because they can inherently lean towards maintaining post-colonial power dynamics; "… a very specific power in defining, coding and maintaining existing first/third world connections" (Mohanty 352) of the West "rescuing" the East in the name of liberation. Mohanty further elaborates:

> …concepts like reproduction, the sexual division of labor, the family, marriage, household, patriarchy etc, are often used without their specification in local cultural and historical contexts. These concepts are used by feminists in providing explanations for women's subordination, apparently assuming their universal applicability. For instance, how is it possible to refer to "the" sexual division of labor when the content of this division changes radically from one environment to the next, and from one historical juncture to another? At its most abstract level, it is the fact of the differential assignation of tasks according to sex that is significant; however, this is quite different from the meaning of value that the content of this sexual division of labor assumes in different contexts" (347).

The take away from this is caution when approaching the sensitivities and complex notions of cultural relativism, since it can be at risk of reinforcing ignorant, irresponsible assumptions of empowerment. These in turn reinforce embedded hegemonic hierarchies, which prove to be more damaging rather than constructive. In the context of microcredit this applies to shifting focus from top down, but rather a bottoms-up, organic approach to addressing issues of empowerment. Provision of microcredit in theory indicates greater mobility, agency in the household, a more prominent communal role, and opportunities to be engaged and aware socio-politically, thus inherently encouraging confidence and human development. However, in the context of inherently systemic, culturally relative, patriarchal power dynamics, there is diminutive scope for these suppositions to be generalized, and thus there is very little scope for them to be genuinely realized either.

While it may allow women greater "access" (Karnani 2007) to credit, it does not necessarily result in any real "control" (Karnani) over credit by them. Research has indicated that control over the credit is still maintained by men and not necessarily employed for the uses they are taken for; with the women usually caught in a difficult situation with no means for repayment (Goetz and Sengupta 1996: 6). While in theory it represents potential, it does not necessarily alter the structural makeup to create true opportunities for women in their communities. Furthermore, it is argued that patriarchal issues are normally interlinked with other social issues; such as class and cultural norms and so any progression would entail a capacious structural makeover of social and household systems and the interactions they beget which can result from structural change and overall upward mobility of a stratum (Parmer 2003). It is argued that it cannot be stimulated by external mechanisms and is rather an internally learned process, again a case for a value driven preceptoral mechanism which results from changes in the social structure resulting in fundamental upward mobility.

Additionally, beyond just being an ineffective tool and lacking relative context it is also further argued that microcredit under the guise of female empowerment premises and capitalizes itself on the women's lack of communal mobility as compared to men, because they are easier to trace for repayment purposes:

> The decision to focus on women has some obvious advantages. The lower mobility of women may be a plus where ex post moral hazard is a problem (i.e., where there is a fear that clients will "take the money and run"). Also, where women have fewer alternative borrowing possibilities than men, dynamic incentives will be heightened. Thus, ironically, the financial success of many programs with a focus on women may spring partly from the lack of economic access of women, while, at the same time, promotion of economic access is a principal social objective (Murdoch 1584).

This is fundamentally counterintuitive to it being promoted as a means for enabling empowerment on the surface, and instead institutionalizes the problem of inequality more rather than grappling with its foundations and rethinking established normative structures. Additionally, microcredit's hasty spotlight on women has come with serious disruptions in the social fabric, which have been known to affect women adversely, reduce their status, and create discord as opposed to harness community. This is the case with repayment mechanisms based on peer pressure, which convert transaction costs into social costs. These are accompanied by harassment strategies to recover loans, and are thus a source of social disharmony. According to Parmer, microcredit theorizes community building and solidarity in the form of peer groups, but instead strains inter-group dynamics by holding one another responsible for individual choices and increases stress and conflict (4).

Furthermore, it drags in culturally relative concepts of “honor” (Karim 198) and “shame,” (Karim 198) and is a patronizing system of reducing transaction costs at the expense of interlinked reciprocal social costs. The harassment techniques, as a form of “social control” (Karim 84), employed by microcredit institutions for recovery of loans have led to adverse implications for women’s status communally and within the household by straining ties and furthering overall discord. Public shame is accompanied by castigation within the household:

> If they failed to recover, their husbands would get angry with their inability to bring them new loans, on which they depended…At the exhortation of NGO officials, the group of borrowers publicly shamed these defaulting women and men in order to recover the money. In these strife-ridden conflicts over loan repayments, I did not come across any instance of loans that were forgiven by the NGOs (Karim 85).

Additionally, studies indicate that access to credit puts women under more burdens of supporting the household rather than empowering them. Barsoum (2006) found women in fact called on for the extension of provision of services to men, showing the need for a context-specific approach to microcredit and therefore demonstrating a need for a shift in approach towards empowering the household collectively in order to increase solidarity.

5.2.3 Genuine Tool for Development?

Critics argue that the microcredit approach to the problem of exclusion does not structurally address the underlying causes of poverty and thus cannot be a broad based answer towards eliminating it. In fact, it is argued that it reinforces existing hierarchies of power and class. This is partly because it breaks down community solidarity by incentivizing the individual to further his own interests, thus institutionalizing greed. Greed is understood to be pervasive in the upper echelons of corporate structures but now, through microcredit, it is also being institutionalized in the lowest rung on the social ladder. More so, it proves to be a detractor from addressing institutional problems and thus derails from the discourse that it should be focusing on fundamental institutional transformation that has actual scope for economic catch-up.

5.2.3.1 Weakens Community Solidarity

Karim notes that "…the introduction of microfinance into private life has led to the loss of social solidarity. The insertion of finance loans into private lives has begun to dissolve the private-public distinctions that organized rural life, and it has weakened the powers of the community to forestall market penetration" (Karim 200). It undermines household ties, unity, and camaraderie of "shared experience" (Chang 20) that characterizes these tight-knit communities. Chang argues that because of this commercialization through microcredit there is "a reduction in local solidarity, interpersonal communication, volunteerism, trust-based interaction and goodwill (21). Karim argues that it picks away at solidarity that exemplifies these united communities and reorganizes them as agents of the market (201) in line with notion that microcredit institutions themselves are ardent to develop into corporations (Chang 14). Chang notes:

> The conscious injection of Wall Street values and methods into 'new wave' microfinance in recent years, has inevitably validated similar forms of unethical behavior, greed and opportunism on the part of those working in MFIs…leads on to the de facto 'capture' of an MFI by its own officials and close friends, and its subsequent conversion into a financial vehicle primarily designed to satisfy a private enrichment agenda. An MFI then generally ends up destroying much, if not all, of the valuable reserves of local solidarity it might have initially existed in the local community (Chang 22).

He further notes the example of Mexico's Compartamosbanco, whereby upper management transformed themselves into multimillionaires in a short period of time at the expense of its clients who were charged exorbitant interest rates nearing 100% (Chang 22) and is thus dangerous in its regard for not just exploitation but inherent shift in cultural make-up and values; which as we identified through the preceptoral mechanism have an important part to play for genuine development.

Furthermore, Karim argues that this creates "routes" for commercialism, and segues for multinational corporations through which their products "enter local markets, find buyers of these commodities, and export their revenues" (Karim 201). According to her, the provision of a loan converts beneficiaries into consumers; an untapped source of revenue (202). By highlighting this reorganization process Karim establishes that "these systems (microfinance) intrinsically strengthen existing power relations that 'condemn the large majority to a lowly subservient state of living'—in fact, power relations that create and recreate poverty" (Karim 202).

5.2.3.2 Weakens Institutions and Absolves State as an Actor

Additionally, Chang notes that microcredit enables the informal sector to broaden which in turn leads to undermining of the importance of law, disregard for taxes, and in general promotes a laid-back attitude towards any system of policy. As a result of this "solidarity is inevitably destroyed as the distorted business ethics and morals that inevitably emerge under such Hobbesian conditions gradually percolate into other enterprise structures (i.e., SMEs), institutions (i.e., government) and across all levels of society" (Chang 21).

Furthermore, it is argued that reliance on private entities encourages the state to shift its own responsibilities onto the individual (Chang 25). Thus through microcredit the borrower is inadvertently responsible through their own financial attainment for welfare needs that are in fact responsibilities of the state:

> The IFI mantra in the 1980s, particularly within the World Bank, was for public provision of social services to be privatised and/or to support their existence on the basis of 'full cost recovery'. In many areas, however, the imposition of privatisation and/or user fees resulted in a catastrophic decline in the 'client' base (education and healthcare were two of the areas most affected). More recently, experiments where user fees have been abandoned have produced very positive direct results in terms of the take-up of important services, leading even mainstream critics to increasingly question the donor driven paradigm of 'making markets work for the poor' (Chang 26).

Chang also notes the market oriented delineation of the nonprofit sector, as a result of the over emphasis on market-based solutions, mandating self-sufficiency on part of civil society organization, carries with it baggage of "global financial liberalization and commercialization" (Chang 27). He notes that the emphasis on recovering costs on part of these organizations, and especially microcredit organizations, represent institutionally misguided examples to the state of the importance of "efficient, subsidy-free, financial institutions." (Chang 28)

5.2.3.3 Detractor from Movement for Systemic Reforms

As an extension of the argument against the state absolving its responsibility, Chang argues that microcredit is an effective detractor in its efforts to mum and prevent mobilization of the socially oppressed to demand systemic reforms to address their suffering. This might "…circumscribe the power and freedom of established elites. To the extent that micro-entrepreneurship backed up by microfinance becomes universally embedded as a major legitimate exit route out of poverty for both the individual and the community" (Chang 24) thus sidetracking their demands for progressive legislation from regulating bodies, potentially involving "constructive state intervention, land ownership reform, robust social welfare programs, quality public services accessible to all, income and wealth redistribution, and all forms of state, collective and cooperative ownership" (Chang 24).

Thus, these critiques raise several questions for not just the effectiveness of microcredit but also its intentional drivers and whether they are intrinsically flawed. In the ensuing section we will see how Akhuwat addresses some of these problems through its unconventional approach to microcredit.

CHAPTER 6

CASE STUDY: AKHUWAT

After discussing the specific critiques raised against microcredit, in this chapter we will examine how Akhuwat addresses them in its approach to microcredit coupled with borrower perceptions and field observations. We will discern how by means of operating through a value system, the organization adopts an institutional switch (pure market to preceptoral) in its approach towards harnessing community and thus altruism. This institutional switch renders the capacity of the organization to address the problem of poverty and integration of agents; thus challenging shortcomings of the market driven approach to microcredit.

6.1 Akhuwat's Innovations and the Preceptoral Mechanism

Though Akhuwat is functionally defined on the principles of microcredit, it has reshaped some of the core features of microcredit and in the process provided an important alternative approach. Through its example it highlights the importance of economic inclusion and injection of altruism as an important constituent of the local economy. Murdoch identified the need for innovation and alternatives in the microcredit paradigm wherein "The enduring lesson of microfinance is that mechanisms matter: the full promise of microfinance can only be realized by returning to the early commitments to experimentation, innovation, and evaluation" (1572).

In this section we explore Akhuwats' experimentation and innovation in direct response to criticisms raised in the previous chapter, especially in the context of the organization's use of the preceptoral mechanism. This institutional change in approach has resulted in the formalization of some important innovations conventional microcredit would do well to learn from. We will be exploring these specific innovations in this section.

6.1.1 Redefining Sustainability; Interest-Free Loans & Graduation

The first innovation pertains to the organizations use of implementing completely interest free loans. We earlier argued that Akhuwat's use of the preceptoral mechanism to harness a sense of community, meaningful charitable giving, morals and a code of ethics derived from religion is an important innovation. Akhuwat's donor base is charitable giving which forms a revolving loan fund. Beneficiaries often become donors adding to the loanable fund. Thus, there is a concerted shift towards poverty alleviation as the objective at the expense of profit. The organization (premised on preceptoral, derived from Islam) levies no interest on its loans. Additionally, it forgives loans if recovery is burdensome. Karim (2011) noted that she never came across any microcredit facility which did so.

Instead, the emphasis is on instilling a community outlook; wherein not only are individual donors made to understand the significance of their contribution, but rather the “pervasive spirit” (Harper 4) of looking after one another has resulted in borrowers feeling compelled enough to give back to the organization without any explicit or implicit compulsion to do so. We refer to this as an institutional switch:

> The answer lies in the name; Akhuwat, brotherhood, looking out for those who are less fortunate than yourself. Even before Akhuwat abandoned the five percent charge, some clients had made voluntary contributions to its costs; in gratitude for their assistance…he felt that it was only right to contribute something to allow Akhuwat to do the same for others. This system has now been formalized…there is no compulsion, moral or otherwise and clients who have made donations are treated no differently from those who have not when decisions are being made about new loans (Harper 5).

This interest in giving back had been formally institutionalized as another innovation of the organization; wherein we see behavior at complete odds with self-interest. Even though the preceptoral mechanism provides no guarantee of future income and is hence “the antithesis of sustainability” (Harper 7), in a conventional sense, the organization continued growth attests nevertheless to its sustainability.

Based on this, in terms of Chang’s critique of absolving state as an actor, Akhuwat sets itself apart by ideologically premising itself as a preceptoral mechanism rather than solely as a market mechanism. Furthermore, its existence does not pardon the state for its responsibility. It is when the state has no institutional capacity that the space for alternative delivery opens up perhaps owing to the systemic dearth on the importance of finding basis on value-driven foundations, as identified as the absent link. This mandates the private sector to meet these needs in some capacity. Furthermore, Akhuwat's growth and subsequent impact has been heavily reliant on donor support and state subsidies[2], the latter of which indicates state responsibility. Also it does not recover its cost through its operation, even though recovery is an important part of its narrative. The recovery is emphasized so that it is also a means for others to benefit cyclically and maintain the revolving loan fund; not for the organization to recover its own cost (Zaidi 11).

This shift in approach from sustainability to institutionalizing altruism also counters Chang's critique of microcredit being a detractor from movement for systemic reforms. Its institutional change in approach establishes it as an example for reform beyond just another revised microcredit initiative. Chang had argued that microcredit limits attention on calling for progressive legislation that addresses issues of "constructive state intervention, land ownership reform, robust social welfare programs, quality public services accessible to all, income and wealth redistribution, and all forms of state, collective and cooperative ownership" (Chang 24). If this institutional switch were to be hypothetically embraced across all entities and agents, it would intrinsically mandate itself to raise discourses on

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[2] The Government of the Punjab allocated 1 Billion PKR for provision of interest-free micro-lending to Punjab Small Industries Corporation (PSIC) through 2011-12 for subsequent release to Service Provider Organization (SPO). "The PSIC Board was pleased to approve **M/s Akhuwat (NGO)** as SPO and **M/s Akhuwat** is fully responsible to receive applications of loan, sanction of loan, disbursement of loan and recovery of loan." ("PSIC Akhuwat Collaboration")

all the issues Chang points out that are potentially being omitted as a result of the over-emphasis on microcredit.

Likewise, the redefinition of sustainability enables the conceptualization of a second innovation. It encourages beneficiaries to graduate out of their reliance on the organization. As a consequence of the emphasis on harnessing and empowering the community and looking out for one another, beneficiaries are expected to empower themselves enough so that they are no longer reliant on the organization, unlike conventional for-profit microcredit:

> …businesses do not like to lose their best customers or to discourage them from buying more of what the business sells, and to keep buying it. Hence, MFIs encourage their clients to move up on the 'loan ladder' to borrow larger sums, and to keep on borrowing. Some MFIs even expel customers who repay a loan and then do not take another within a set period…they have to get back into debt, or get out. This is sensible business practice, because non-borrowing clients are unprofitable (Harper 7).

Akhuwat encourages its borrowers to become self-sufficient enough to climb out of poverty, and perhaps be enabled enough to access more formalized credit if need be. Again we see Akhuwat shift from convention, in a move that is difficult to justify from a commercial stand point but is consistent with Akhuwat's goal of creating self-reliance. Thus we see Akhuwat address the exploitation problem by premising its mission of poverty alleviation on the principles of mutual support and social justice. It has subordinated its own financial sustainability to its social priorities of addressing the problems of systemic poverty rather than pre-occupying itself with on-paper financial validation. It defines its sustainability through the sustainability of the projects of its beneficiaries. The strength of this approach is evident through its impact along with the unlikely growth of the organization overtime (Sarwar 2011: 10). It has maintained operational efficiency, much higher than industry rates (Zaidi 12), despite the fact that according to convention it does not have a sustainable model.

Furthermore, by adopting a community oriented approach it is a source of support for its borrowers. Instead of repayment harassment as many microcredit firms have been accused of, which drive borrowers to adverse extremes, it instead fosters positivity. Thus borrowers are motivated to pay back their loans not out of fear of the consequences of harassment but rather because they are made to realize their self-worth and self confidence in their own capacities to engage as involved citizenry of their communities. They realize the importance of employing the loan to its intended purpose and understand that by engaging in this process by the prescribed method they are not only serving their interests but allowing for the process to benefit their brethren. Sermons prior to loan disbursements in religious centers have proved to be a vital mechanism for this, as we will explore in an ensuing section. Akhuwat cultivates a spirit which encourages its borrowers to increase their income not through “competition,” but through a sense of “community solidarity” which is the exact reverse of for profit conventional microcredit (Karim 199) and a compelling example of the preceptoral mechanism in practice.

6.1.2 Empowering Households

The third innovation, as identified earlier, is Akhuwat's emphasis on strengthening the household. In terms of whom accesses microcredit, the discourse that is usually presented is that women are more likely to re-pay loans and thus it is a tool for female empowerment by giving them the loan to manage. However, as mentioned previously, this approach has been known to backfire and has some seriously adverse implications. Instead Akhuwat has chosen to focus on the household as the nucleus for empowerment, whereby loans are co-signed, hence, strengthening familial ties. In this process, the emphasis on equality is not lost, while at the same time it addresses the problems conventional microcredit is increasingly running into by disregarding the household as a unit. The organization's emphasis on equality is also evident in its loan disbursals, where women are allowed to be present and are seated in groups next to men.

Akhuwat addresses the problem of context-specificity and cultural relativism by adopting a bottoms-up approach and offers systemic, internally transformative answers by shifting the focus on empowering the household, which intrinsically imagines greater female empowerment as part of collective upward mobility of all members. By this approach it enables potential for inherent, internal change. This notion is also complimented by the finding that there are genuine processes of improvement, where the emphasis is on the household, since family cooperative dynamics mandate a complimentary interaction of men and women, resulting from vertical mobility of all members of the household (Kabeer 2001).

Furthermore, in addition to being ineffective and disruptive, as we noted earlier, microcredit in fact institutionalizes asymmetric gender relations by focusing on women as recipients of loans and capitalizing on their lack of mobility as a repayment mechanism. This problem is also addressed through Akhuwat's approach to empower the household, because it fits better with addressing inherent problems of inequality through overall transformation of social conditions, rather than using systemic conditions as platforms and disguising them as empowerment. Akhuwat has developed alternatives to the practice of group loans that do not discriminate between sexes for the provision of its services. Because of the heavy social costs associated with peer-groups, it has forgone the advantage of keeping recovery costs low by the group lending method, and as a result has a higher loan officer to borrower rate than usual in the industry to facilitate the alternatives processes (Sarwar 10). Even though studies in Pakistan indicate a higher loan-officer to borrower rate (Haq 17) in general compared to other countries, this is despite heavily utilizing the conventional group mechanism. Akhuwat has a different explanation for its own higher rate.

This might bring into question the role of the loan officers in terms of the potential for harassment on their part. The key point to note here is the institutional switch of operating from a value-driven standpoint that Akhuwat has adopted; forgoing what is logically in its own financial interests for what fits better with its mission. It is this institutional change in approach that is also perhaps the reason for the organization's high operational efficiency and has also instilled this approach in its loan officers so that they serve as mentors rather than representatives of the organization mandated to recover loans. They play largely an advisory role to be helpful for community members rather than assert authority.

Additionally, Akhuwat has no active recovery mechanism in place; again premised and relying on the ethics prescribed by its use of the preceptoral mechanism whereby borrowers are most of all accountable to themselves and their self-determined role through religion. Loans are forgiven if borrowers default, however a high recovery rate[3] indicates that defaults are infrequent and demonstrates the effectiveness of the preceptoral tool as adopted by the organization. Akhuwat follows no coercive measures or shaming tactics for repayment. As a precaution against risk of default, loans are approved selectively (~60% of applicants) to borrowers but this is also an institutional change in approach from providing free access to loans and trapping inept borrowers in debt because more loans in circulation means potentially more profits. The community is involved in the appraisal process, but that is also an important mechanism for community building and a supportive society the organization is trying to create. And likewise, its emphasis is on the shared goals of the household, and the community at large, whereby borrowers are made to understand their role in the process and their importance in harnessing community support overall. This has

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[3] 99.83% (refer to Appendix)

contributed to the organization's success. Additionally, it has employed other innovations, such as its use of religious places to keep costs low, as examined next.

6.1.3 Use of Religion; Building Community and Solidarity

The fourth important innovation is the use of religious spaces which re-establishes them as community centers. While using mosques for loan disbursals not only minimizes operational costs, it is also represents an implicit channel to transmit a code of conduct drawn from religion that applies to agents—borrowers, donors, and employees. This minimizes risk of mismanagement across the board and emphasizes high operational efficiency. Furthermore, by congregating in mosques and other places of worship, Akhuwat is in some ways restoring them for their original purpose; which is as community centers (Zaheer 76) rather than hotbeds for extremism as they are increasingly becoming.

This emphasis on utilizing mosques as community centers coupled with interest-free loans, borrowers to donors program and volunteerism; allows for an organic approach to strengthening communities and cultivating values. Earlier we had noted that Chang and Karim both argued that microcredit weakens community and solidarity by injecting individual driven market values. Wherein, Karim's critique hinted at a Marxist standpoint of the intrinsically exploitative nature of capitalism. The key to point out here is that beyond the profit-oriented, and perhaps even more so beyond the non-profit approach to microcredit, Akhuwat through these innovations stays true to its stated goal of poverty alleviation and social justice. The use of mosques instills values that promote community outlook as opposed to solely furthering individual interests through its loans.

Furthermore, upper management functions on an "honorary" basis and is drawn from volunteers (Zaidi 3). The organization emphasizes solidarity on all levels; borrowers, donors, staff and volunteers. Its borrowers-to-donor campaign instills a sense of camaraderie and hones notions of self-worth, confidence, trust and faith in oneself as custodians of community. Through the preceptoral mechanism it operates as a reminder for the individual's responsibility to the collective and thus harnessing solidarity through a non-commercial, and wholly organic process.

Instead of expanding to other "commercial" services like insurance and savings accounts as conventional microcredit organizations have done, Akhuwat has adopted projects that focus on harnessing community and inclusion of marginalized groups. These include efforts towards inclusion and subsequent empowerment of the transgender community (perhaps the most marginalized segment in Pakistan) through its Khwaja Sira Program, Make-a-Dream (granting wishes for terminally ill children in hospitals and thus fostering goodwill) and Rabtt. Rabtt is an organic grassroots educational effort to build critical thinking skills in children and addressing class barriers through the process. Akhuwat's support for projects like the latter demonstrates its commitment to human potential being qualitatively realized, as per Sen, rather than accessorial skill development for the sole purpose of integration as economic agents. It also reemphasizes its commitment to structural reforms of imagining a just society by addressing issues of class that are institutionally divisive as a result of unfettered market culture promoting a systemic culture of exclusion.

We had noted earlier Chang's argument that conventional microcredit inherently weakens institutions. His argument may have held for value-less market driven initiatives that do not address the missing links pertaining to institutional altruism; the hallmark of the mutual trust model that characterizes institutions and interaction between entities in developed economies. Basu has identified the need for altruism in order to address the institutional problems which Chang identified microcredit to be devoid of. Akhuwat offers an alternative. With Akhuwat's approach we see a shift away from purely market oriented leanings. Institutionalizing altruism along with ethics and a supportive culture through the value-driven perceptoral mechanism allows Akhuwat to address the missing ingredients of microcredit alluded to above.

Akhuwat is not against the market per se but perhaps with how it is used (the loans it provides support market activity). The outlook of support, and altruism adopted has actually resulted in the exact opposite result for Akhuwat to what Chang suggests to be true for microcredit. By Akhuwat's example we see that good governance cultivates altruism institutionally be it in actors of civil society organizations, corporations, or state thus addressing problems of mistrust in the formal or the informal sector.

Based on the identified innovations we see how Akhuwat ideologically stands for more than just another microcredit program and has demonstrated potential in addressing some of the critiques of microcredit by adopting an institutional switch premised on the preceptoral mechanism conceptualized earlier. The organization understands its role as a provisional support mechanism and envisions beneficiaries who will in due course become self-sufficient; unlike how most nonprofits have promulgated into an industry and have an incentive to keep beneficiaries dependent.

6.2 Gauging Success: Field Report

To support Akhuwat's ideological answers to conventional practices, the next step procedurally is to gauge impact. In this section I focus on qualitative assessment. The time I spent with Akhuwat as an intern was limited. Thus the empirics are not comprehensive in strict research method terms but they allow me to qualitatively evaluate the impact of the organization first-hand through the response of some of the beneficiaries. This section will thus be structured as a field report based on my observations.

It will open with my interactions with the borrowers, the views they conveyed about the organization and the impact it has had on them and will then be followed by some of my observations of the functioning of the organization in terms of community dynamics. I will focus on the interactive structure between the religious center, the affiliated branch and the surrounding community as actors. Lastly, I will list some concluding observations.

My time mainly revolved around multiple field visits to Shah Jamal Mazaar and Mian Mir Shrine, their associated Akhuwat branches and the communities surrounding them. This entailed visiting and interacting with beneficiaries on foot in their community enterprises. These were accompanied with discussions about the motivations of the organization as a precursor. Additionally, it involved field visits to the Khwaja Sirra Rehabilitation Program (Empowering Transgenders), Rabtt (Grassroots Effort to Instill Critical Thinking Skills) and Make-a-Dream. These were periodically complimented with witnessing loan disbursements and meetings with the founder of the organization to discuss observations.

6.2.1 Borrower Testimonials

The viewpoints of beneficiaries are important determinants of whether the service provision has actually resulted in improvement for them and utmost consideration needs to be given to their own judgment based on their needs. Approaches bereft from these concerns can be misguided rather than genuinely informative. Furthermore, this allows us to qualitatively assess whether the value-systems the organization premises itself on genuinely shapes the outlook and understanding of beneficiaries in terms of “instilling altruism, solidarity, trust, justice and ethics” as the stated outcome of the preceptoral mechanism. The responses gathered below are from testimonies that address issues raised in the conceptual discussion in Chapter 1.

Shah Jamal

Shabbir Ahmed is a 26-year old man, responsible for the care of his parents and his sister's wedding. He has taken out loans from Akhuwat twice. He first took a loan of PKR 10,000 in 2010[4] to set up his own tea hotel, and another of PKR15, 000 in 2011 to expand and install juice machines. He noted: "After taking a loan to establish my tea hotel from Akhuwat, God put so much *barkat* (spiritual prosperity) that we are now able to cover all household expenses. The roof of our house was falling and I was also able to fix our house. Akhuwat 'brothers' gave us a *gulla* (donation box) which I have set at my restaurant. Whichever 'brother' comes in puts in 5 or 10 Rupees. And my own contributions amount to approximately Rs. 400, 450 or 500 monthly and we give it to our Akhuwat 'brothers' so that it may help other 'brothers'. People come begging, but instead I put my contributions towards Akhuwat because there is *barkat* in this process." When asked about what should others take away from his experience of Akhuwat he said "My message to others is to establish *bhaichara* (solidarity) within themselves...the same way Akhuwat has done *ehsaas* (empathy) for us. They did this and that's how *bhaichara* was born within us. We can help each

[4] 1 USD = 85.464 PKR (2010). Pakistan's Ministry of Finance uses the World Bank's definition of poverty, which is any person earning less than $1.25 per day in its 2010-11 Economic Survey (Siddique 168). In Pakistan, that figure amounts to any person living on less than Rs. 3,204.9 per month in 2010.

other by helping those in trouble, through our enterprises, through our profits, and then through Akhuwat"

Muhammad Anwar is a 45 year old physically disabled man and cannot walk. He is responsible for his elderly mother and took a loan of PKR 15,000 to establish a candy store in the Shah Jamal community. He noted "They wanted to give me *zakat*, but I said no because I trusted my capabilities and knew that I did not need charity. I had that dignity. Akhuwat's loan was a better fit for me" and as a result, he said "I am not dependent on anyone, I am a slave to no one, I am happy" and that "everything is relative to *neeyat* (intentions), that I am disabled and they showed confidence in me."

Jameela Bibi is a 36 year old Christian woman, who runs a corner store in the Shah Jamal community with her husband for which they took a loan of PKR 20,000 together. She previously worked as a caretaker. She noted "through the loan we are now earning regularly" and "…bills are rising but salaries are at a standstill. Need more institutions like these (Akhuwat) and need (access to) money services."

Riffat Bibi is a 31 year old widow living with her brother who took a loan of PKR 10,000 to start her own stitching business. She is responsible for three young sons. She was in a particularly difficult situation when her husband died and her in-laws refused to keep her or her sons in the house anymore. She took a loan to start her own means of earning to pay for their expenses and education. She noted "By God's grace, ways have opened up" When asked about Akhuwat's provision she said “Akhuwat institution is standing on trust and this we realize” and that “installments are helpful” to divide up repayment.

Mian Mir

Khalid Mehmood is an elderly man who took an initial loan of PKR 20,000 to expand his stitching enterprise and as a result has been able to obtain three sewing machines overtime that have enabled his daughter to start her own outlet. His wife is also as a result teaching girls stitching and embroidering. Khalid Mehmood’s example is noteworthy because we were enthusiastically approached by him inside the Mian Mir Mazaar when he realized our group represented volunteers from Akhuwat, unlike other examples where we actively visited borrowers in their communities. He did so just to convey the amount of impact Akhuwat had had on his family and to express his gratitude. He said “this institution is different” and was especially happy that “it was in line with the tenets of Islam and *paak* (pure) by charging no interest” and that “me and my family owe it everything we are today, because without it we had reached a condition where we saw no ways to escape from poverty and monthly expenses were not being met.” He also noted that “we try to contribute Rs 200 to 250 to Akhuwat every month”

Naseem Bano is a 34 year old woman who took a loan of PKR 10,000 to buy a sewing machine to expand her own sewing enterprise, and holds a diploma in stitching. She is responsible for six children including a diabetic four year old daughter who needs periodic insulin shots. As a result, she experienced two years of difficulty when she did not have enough money to support an ailing child since her husband was also unemployed. She noted “our state was very bad.” She bought an additional sewing machine with her loan so that both her and her older daughters can sew together and save time, since frequent power cuts also negatively impact their capacity. As a result, she has been able to expand her business by exporting garments to the UK. She said she is “grateful to Akhuwat to have placed trust” in her and that she tries to donate back as much as she can.

6.2.2 Impact and Community Dynamics

What is imperative to note through Shabbir Ahmed’s example is that he refers to his customers as brothers, and refers to Akhuwat staff as brothers as well. This is an important example of community support and harnessing solidarity in response to the critique against microcredit as way of injecting individualistic notions we noted earlier. His example also highlights the organization’s role as an organic support system rather than a formalized, impersonal organization. His emphasis on *barkat* shows the success of the religious-value oriented preceptoral mechanism as a tool. Furthermore Shabbir Ahmed’s and others’ eagerness to give back is demonstrative of the institutionalization of altruism Akhuwat is harnessing not just within the organization, but also horizontally and vertically (through all rungs of the social ladder).

Furthermore, Khalid Mehmood’s example which compelled him to approach a team of volunteers and just express his sincere gratitude is indicative of the positive impact Akhuwat is having in these communities towards enabling these beneficiaries to climb out of poverty. We see how Akhuwat's approach is culturally sensitive through its operation of interest-free loans in addition to being a preceptoral mechanism.

Also we see that without compromising on community solidarity, Akhuwat has instilled a sense of self-worth and confidence in its beneficiaries, by placing trust in their capacity to repay and by encouraging them to instead become donors from borrowers to help the cause of empowering their fellow community members, thus turning them into engaged citizenry. Additionally, we see that beneficiaries understand and associate notions of trust, solidarity, intentions, empathy with the organization which shows that it is succeeding in its employment of the preceptoral mechanism. This demonstrates that altruistic values can indeed be taught and cultivated institutionally, with more accentuated results by tapping the socio-cultural value-systems already in place.

The procedure by which this mechanism functions as we noted earlier, lies in the important use of religious spaces, beyond just a tool to reduce operational costs for loan disbursements. To discern exactly how these values are promulgated invites a nuanced description of a first-hand account of a loan disbursement witnessed and transcribed at the Shah Jamal Shrine.

Loan Disbursement

Prior to having observed one, the loan disbursement was ceremoniously described and emphasized by affiliates of the organization. Nearly three hundred beneficiaries were gathered; roughly equal numbers of men and women, along with employees from the Shah Jamal branch, employees from the head office and most of the upper management. Borrowers of both genders were sitting in separate groups in the same room and were positioned next to each other rather than men sitting ahead of women as would have been the usual mandated custom.

Dr. Amjad Saqib, the founder of the organization, addressed the gathering. He started by talking about *Muakhat-e-Medina*, the migration of Prophet Muhammad's tribe to Medina and "how do we go about repeating the self-less beauty of migration" in our society today. He emphasized that as a society "we have a poverty of materials, not character" and that "we have been taught the concept of sacrifice through our religion" and to "clean your houses, but also clean your streets."

He noted that "we are in a place of worship and that this is a gathering of purity...and thus caution must be kept alive against wrong deeds and unnecessary mistakes. We at Akhuwat request, and not demand, that you recognize your potential and your self-importance and strive to become givers to your community, not takers" and encouraged them to endeavor to become donors from borrowers. He provided an anecdote that "the sisters (women) tend to give back more. There is more passion there" and that "your enterprises are not just enterprises; but a form of worship. If you do not return your installments today, you will be destroying someone else's means of a livelihood tomorrow" and closed on the note that "Pakistan is also yours as much as it is of the rich man's. You have a responsibility to it and you have the right to demand and voice where it has failed to look after you."

This was followed by a *du'a* (prayer), and then the loan officers began the distribution of checks. The disbursement represented a community bonding ceremony, and a refresher of values on the part of all affiliates of the organization; beneficiaries, employees, upper management and volunteers. The use of the religious center in this regard was instrumental to establishing principles of "transparency, accountability, participation and rule of law."

As we can discern, all the notions of the preceptoral mechanism: whereby values are taught to create institutional change are inculcated through the loan disbursement. The emphasis on values right before the loan disbursement establishes that the borrower should remember the moral values attached with the loan. Beyond just acting as a pre-emptive measure for conscientious repayment, this serves to be an important tool for instilling values for any socio-economic interaction the borrower has henceforth and is suggestive of the use of the preceptoral mechanism.

6.2.3 Additional Observations

Additional observations in terms of community dynamics between the religious center, the branch and the community include the role of the loan officer. The borrowers can only apply to the branch that is affiliated with their community and thus the loan officer has an important role in this matter. The loan officer was described "as an agent of change" and "a companion of 300 families and is responsible for linkages." From personal observations in the Shah Jamal community, this seemed to hold because the loan officer knew nearly everyone we went by and would greet and joke with a number of community members. Furthermore, he seemed to have a very comfortable non-threatening presence with the borrowers when we approached them. There was no sense of intimidation or power hierarchy in my observation from either loan officers' interactions with the borrowers in neither the Shah Jamal community nor the Mian Mir locale. This is in contrast with conventional microcredit practices, especially the likes of Grameen where the loan officers are known to be coercive and intimidating in order to extract timely repayment and are referred to as "sir" (Karim 198).

Additionally, in the branches there was a heavy emphasis on keeping operational costs low so that most of the resources could be directed to the cause. The branches were usually very tiny, and were an extension of the religious center or were located in its shadow. An important observation to note here is that they had no chairs, a testament in my opinion to its commitment to keeping costs low. Most of the interaction happened seated on the floor and this, in my viewpoint maintained an important element of an organic, personal feel to all the processes carried out. As an extension of this notion; volunteer visits to the shrines were an important precursor as part of the internship program to visiting the branch or the community for it also harnessed this organic, community oriented approach. Additionally, the *gulla* (donation box) was an important emblem, and held significance for most affiliates of the organization and seemed to be a fitting metaphor for the spirit of the organization.

The organization's side projects were also very important in terms of its institutional approach. For instance, in addition to reaching out to the transgender community to enable them by means of loans, the organization holds a monthly lunch and entertainment program whereby affiliates of the organization mingle and socialize with the transgender community as a means of social inclusion beyond economic inclusion; another example of its commitment to an institutional switch in terms of looking out for others.

Thus by gauging from these observations and interactions we can holistically establish the preceptoral motivations of the organization and how it is an exemplary shift away from convention with not just important lessons for microcredit, but the general role and outlook of institutions that facilitate economic interactions for development. Zaidi found a positive empirical impact, however the organization was still in its infancy and most of its beneficiaries were in their first cycle of loans (2007, 20). The growth of the organization since then, leaves potential for the quantitative impact of the organization to be empirically explored, as a follow up to the positive results from the qualitative assessment of its impact through the beneficiaries' responses that have been noted above.

CHAPTER 7

CONCLUSION

Through Sen's notion of commitment, and Basu's notion of altruism, and Becker's Rotten Kid Theorem we developed a conceptual framework for Akhuwat embedded in the use of a preceptoral mechanism in a political-economy framework. This is as an important step away from authoritarian Islamic social code and the free-market orientation of the NGO sector. The objective identified, drawing on Islamic social and economic philosophy, is attaining social justice through the adoption of a value-driven approach.

We noted the potential of this institutional approach by examining Akhuwat's example as a faith inspired organization, which has lessons for organizations to utilize culturally established value systems as an important tool for development. In addition to this, Akhuwat's institutional approach in terms of inducing development through the preceptoral mechanism has allowed it to introduce important innovations that set it distinctively apart and establish it as a lesson for conventional microcredit practices that has run into several problems. These include exploitation and reinforcing hegemonic post-colonial and neo-liberal hierarchies.

We lastly reconciled these conceptual notions with the on ground perceptions of beneficiaries who all noted that Akhuwat had indeed made a significant positive difference in their lives and in terms of shaping their outlook towards solidarity. This allowed us to qualitatively assess impact of the organization.

To conclude, this thesis demonstrated lessons in twofold: firstly, how conventional microcredit institutions can effectively attain their stated goals of social justice through various innovations; and secondly, the institutional importance of inculcating altruism by means of utilizing existing value-systems for this purpose.

APPENDIX

PROGRESS REPORT (up to Feb 28, 2012)

PROGRESS INDICATOR	TOTAL
Total Benefiting Families	268,466
Amount Disbursed	PKR 3,949,286,342
Percentage Recovery	99.83%
Active Loans	132,961
Outstanding Loan Portfolio	PKR 1,447,003,843
Number of Branches	159
Number of Cities and Towns	110

Source: Akhuwat Website (“Progress Report 2012”)

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