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The Role of Akhuwat Islamic Microfinance in Fulfillment of Basic Needs, Improving Living Standard and Promoting Self-Employment in Pakistan

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Abstract

This study examined the significant contribution of Akhuwat Islamic Microfinance (AIM) toward resolving the issues with Basic Needs (BN), Living Standards (LS), and Self-Employment (SE) in Pakistan. In this study, the primary data of 250 AIM borrowers were collected using the stratified sampling technique. The population was divided into four groups namely manufacturing concerns, trading worries, services concerns, and non-trading concerns. Additionally, two-stage Structural Equation Modeling (SEM) technique was used for data analysis. The measurement model was used to assess reliability and validity, while the structural model was used to gauge the link between the underlying variables. The study found that AIM has a favorable and significant impact on meeting borrowers' basic requirements, raising their standard of living, and enabling them to become self-employed. Therefore, it was concluded that the lending facility of AIM, coupled with its lending practices, help the borrowers to lower their poverty level. The impact of AIM on poverty by meeting clients' basic needs, raising their standard of living, and enabling them to become self-employed by utilizing Maslow's Hierarchy of Needs theory has not been investigated previously in the context of developing countries, such as Pakistan.

Keywords: Akhuwat Islamic Microfinance (AIM), basic needs, borrowers, living standards, microfinance, Microfinance Institutions (MFIs), self-employment

Introduction

Pakistan's traditional microfinance institutions have been unsuccessful in eradicating poverty in the country. The difficulties that conventional microfinance banks frequently experience make it difficult for them to

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effectively combat poverty in Pakistan or in any other country. Some of the reasons due to which traditional Microfinance Institutions (MFIs) can find it difficult to significantly reduce poverty are discussed here. The first issue is the small number of audience (Shafique & Siddique, [2020](#)). This is due to the fact that it is difficult for conventional microfinance banks to reach most rural and marginalized groups, who frequently have the greatest need for financial services. This might be because of poor infrastructure, lack of awareness, high operational costs, and high interest rate (Mahmood, [2019](#)). Due to the operational costs and hazards involved with lending to individuals from low-income communities, some conventional microfinance banks charge relatively high interest rates. These rates can, nonetheless, make it difficult for borrowers to break the cycle of debt and poverty, even though they may be acceptable given the circumstances (Khan et al., [2021](#)). Then, there is the absence of varied offerings. A multi-dimensional strategy is frequently needed to reduce poverty. Traditional MFIs focus primarily on providing credit services; however, access to social, healthcare, and educational services is also essential to reduce poverty. The full scope of poverty may not be addressed if only financial services are emphasized (Rehman et al., [2020](#)). The sustainability issues that Pakistan's traditional microfinance banks and institutions face are also profound. In order to keep offering their services, traditional microfinance banks frequently need to function sustainably (Shaheen et al., [2018](#)).

In 2001, Dr. Amjad Saqib founded Akhuwat, an Islamic microfinance organization situated in Pakistan. Its history amplifies its dedication toward using interest-free microloans and community support to reduce poverty and advance social and economic justice (Saha & Qin, [2023](#)). It is well-known for taking an original and up-to-date approach toward offering low-income people financial services, while upholding Islamic beliefs and values. The cornerstones of the Islamic microfinance model introduced by 'Akhuwat' are *Qard al-Hasan*, or charitable/ interest-free loan, brotherhood, and communal solidarity (Shahid et al., [2021](#)). Akhuwat's history demonstrates the effectiveness of addressing poverty and advancing economic empowerment by fusing Islamic ideals, social entrepreneurship, and community involvement. The organization continues to expand and evolve as it works to improve the lives of Pakistani communities and individuals living in poverty through interest-free loans (Rashid & Kumar, [2023](#)). In terms of lending practices, Akhuwat Islamic Microfinance (AIM) is a microfinance organization with a unique concept that distinguishes it

from other microfinance banks, Islamic banks, and traditional banks (Saha & Qin, [2023](#)). To conclude, Akhuwat's microfinance strategy is distinct from those of other microfinance banks, Islamic banks, and conventional banks due to its community-based lending approach, high emphasis on social welfare, interest-free lending policies, and dependence on charitable donations and sustainable development (Shafique & Siddique, [2020](#)). In line with Islamic financial principles, Akhuwat's approach prioritizes aiding underprivileged individuals and communities in Pakistan (Shahid et al., [2021](#)).

Microfinance loans have been used by Pakistani borrowers to start their own businesses, meet their fundamental requirements, and raise their standard of living (Rohman et al., [2021](#)). A sizeable portion of Pakistan's population finds it difficult to fulfil its basic needs, such as food, clothing, shelter, healthcare, and education (Saha & Qin, [2023](#)). Hence, it is imperative to determine how AI M may efficiently assist its clients to meet their basic needs, particularly those residing in areas plagued by poverty (Mohamed & Elgammal, [2023](#)). Additionally, all poor people and families in Pakistan live in appalling conditions due to a lack of access to sanitary facilities, transportation options, power sources, and household electric gadgets (Rashid & Kumar, [2023](#)). In this regard, this study seeks to determine whether AI M programs improve the beneficiaries' overall quality of life by significantly boosting living standards. Finally, the lack of employment prospects in Pakistan presents a serious obstacle to the country's economic progress. Hence, this research aims to determine whether AIM plays a significant role in promoting self-employment, entrepreneurship, and job creation, particularly in underserved and marginalized communities through its support and lending programs by providing capital to start new business, extend existing businesses, social and collateral support, operational assistance, and training regarding business education and business skills.

Recent years have witnessed a renewed interest in research on Islamic microfinance, poverty alleviation, and microfinance in general. For instance, in Sudan, the effect of welfare indicators (income and expenditure) on poverty reduction was demonstrated in the setting of Sudanese MFIs (Mosley, [2001](#)). Similarly, a study was carried out in Pakistan to analyze the effect of the ideal loan size on the performance of women entrepreneurs and the decrease in poverty (Mahmood et al., [2014](#)). Moreover, the original

study was used to perform a similar study in the context of Punjab, Pakistan. Through the mediating function of client-business performance and its subsequent impact on poverty alleviation, this study noted the impact of social capital and loan credit terms (Iqbal & Rao, [2022](#)). It also found that Islamic microfinance is limited by the lack of expertise, professionalism, and knowledge of the supporting staff. Despite this, Islamic bankers demonstrate a strong agreement that Islamic banks should provide Islamic microfinance products and instruments to address the needs of the underprivileged for poverty alleviation (Rashid & Kumar, [2023](#)). The above cited study examined the impact of receipt size and age on the decrease in poverty in the settings of MFIs in Pakistan. The size and age of MFIs were used as independent variables and their effects on reducing poverty were noted (Blanco-Oliver et al., [2023](#)).

The issue of whether AIM significantly affects the fulfilment of basic needs, the improvement of living standards, and the promotion of self-employment in Pakistan, a country dealing with widespread poverty and economic disparities, remains crucial. A sizable section of the population still struggles with issues connected to poverty, subpar housing, and constrained economic prospects, despite the development of MFIs. The effectiveness of AIM and its capacity to spark real change in the lives of its recipients are thus called into doubt (Ahmad & Bashir, [2017](#)). In comparison to traditional microfinance banks, AIM, a well-known MFI in Pakistan, has seen noteworthy success (Rashid & Ejaz, [2019](#)). Iqbal and Rao ([2022](#)) concluded that the success of AIM in Pakistan may be attributed to its adherence to Islamic principles, interest-free lending, community-based strategy, non-profit status, extensive support services, and a strong commitment to social welfare. According to Hassan and Saleem ([2017](#)), these elements have made it possible for AIM to effectively meet the financial requirements of low-income people and communities, while promoting trust and financial inclusion.

The study's remaining sections are organized as follows: Section 2 presents a review of the relevant literature, theory, and the hypothesis employed to support this inquiry. Research methodology is described in Section 3. Section 4 presents the findings and their discussion in relation to literature and theory. Finally, Section 5 offers discussion, conclusion, limitations, implications, and future directions.

Literature Review

Theoretical Background

Abraham Maslow's Hierarchy of Needs theory is used in this study. The Hierarchy of Wants theory by Abraham Maslow is a psychological framework that explains human motivation and describes the hierarchy of wants that people try to satisfy. According to the theory, people have varying levels of requirements that can be arranged hierarchically (Kafu et al., [2020](#)). Similarly, AIM meets the demands of its consumers progressively and in a hierarchical manner. Firstly, the clients of Akhuwat fulfill their basic needs (food, clothing, shelter, education, health and medication) using the borrowed money. Then, they improve their living standard (livestock resources, transportation facility, provision of power resources, household electric appliances, and improvement in sanitation system). Finally, they become self-employed (provision of capital, social and collateral support, provision of operational assistance and training on business education and business skills) (Tavanti, [2023](#); Warby, [2014](#); Zhou et al., [2023](#)).

Definition of Underpinning Variables

In this study four variables are used, including one independent variable and three dependent variables. AIM is construed as an independent variable, whereas Basic Needs (BS), Living Standard (LS), and Self-Employment (SE) are construed as independent variables. The details of each construct are given below.

Table 1

Definitions and Sources of Constructs

| Name of Constructs | Definition of Constructs | Sources |
|------------------------------------|--|--|
| Akhuwat Islamic Microfinance (AIM) | Giving unbanked, impoverished people access to loans with no interest or processing fees but with insurance and educational options. | (Afonso & Khan, 2019 ; Shafique & Shahid et al., 2021 ; Siddique, 2020) |
| Basic Needs (BN) | A circumstance where someone is unable to provide for their fundamental requirements, such as food, clothing, shelter, education, health and medication. | (Benfica & Nin-Pratt, 2023) |

| Name of Constructs | Definition of Constructs | Sources |
|----------------------|---|--|
| Living Standard (LS) | A situation where someone is unable to improve their living standard in terms of livestock resources, transportation facility, provision of power resources, household electric appliances, and improvement in sanitation system. | (Benfica & Nin-Pratt, 2023 ; Saha & Qin, 2023 ; Westover, 2008) |
| Self-Employment (SE) | Improvement in general well-being through the provision of capital, social, and collateral support, provision of operational assistance and training on business education and business skills | (Anwar & Siddiqui, 2005 ; Jetin, 2019 ; Luo et al., 2022) |

Akhuwat Islamic Microfinance (AIM) and Basic Needs (BN)

As an Islamic microfinance organization, Akhuwat seeks to reduce poverty and enhance the quality of life for those who are marginalized (Shafique & Siddique, [2020](#)). Previous studies demonstrated that Akhuwat's microfinance programs have aided borrowers in enhancing their food security. Receivers who have access to microloans are able to participate in income generating ventures, such as agriculture or setting up of small companies, which can improve income and enable them to buy a more varied and healthy diet (Shahid et al., [2021](#)). Additionally, while microfinance primarily focuses on generating money, the extra revenue brought on by microloans might tangentially improve the quality and quantity of clothing for borrower households (Rohman et al., [2021](#)). Moreover, Islamic microfinance may indirectly improve housing through raising household income. In order to make repairs or improvements to their homes, borrowers can set aside a portion of their increased income (Rashid & Ejaz, [2019](#)). Increased income brought on by microfinance can also result in easier access to healthcare. According to Maulana et al. ([2018](#)), borrowers can more easily pay for medical costs, prescription drugs, and health insurance. Similarly, by raising household income, Akhuwat microfinance can indirectly support schooling. In order to pay for tuition, supplies, and tutoring, families might set aside money (Afonso & Khan, [2019](#)). In the same vein, AIM helps its clients to meet their fundamental needs. Although the main goal of microfinance is to generate revenue, the

users of microloans are given enhanced financial stability and resources they need to better meet their fundamental needs (Saha & Qin, [2023](#)). Finally, qualitative findings from case studies and interviews can provide a deeper understanding of how these advancements impact the lives of borrowers and their families (Iqbal & Rao, [2022](#)). It's important to keep in mind, nevertheless, that the actual impact may vary across borrowers, between geographic locations, and in various economic settings (Shafique & Siddique, [2020](#)). In light of the theoretical framework and the review of the relevant literature, the following research hypothesis is proposed.

H₁: AIM has a significant impact on the fulfillment of the Basic Needs (BN) of borrowers in Pakistan.

Akhuwat Islamic Microfinance (AIM) and Living Standard (LS)

By enabling access to interest-free microloans, AIM significantly raises the living standards of its recipients. It may affect many aspects of the living standards, such as the availability of sewage system, electric appliances, transportation infrastructure, and animal resources (Maulana et al., [2018](#)). Additionally, Akhuwat microloans occasionally allow borrowers to invest in livestock farming, such as dairy or poultry. These sources of revenue may result in the purchase of cattle and the growth of current animal husbandry enterprises (Zitouni & Jedidia, [2022](#)). Higher microfinance income may also enable borrowers to upgrade their quality of life by buying electric items including refrigerators, washing machines, and television sets (Salem & Abdelkader, [2023](#)). Likewise, microloans can help people to buy transportation equipment such as bicycles or motorcycles, which increase mobility and access to opportunities (Shafique & Siddique, [2020](#)). By raising household income, microfinance can indirectly support the improvement in electricity resources. To maintain a steady supply of electricity, borrowers may purchase solar panels or generators (Saha & Qin, [2023](#)). Similarly, increased income from microloans may enable borrowers to invest in sanitation facilities, such as improved toilets or wastewater management systems (Shahid et al., [2021](#)). According to Iqbal and Rao ([2022](#)), AIM has a favourable effect on a number of factors affecting the living standards, including livestock resources, electric appliances, transportation infrastructure, electricity resources, and sanitary systems. In the same vein, Akhuwat encourages its beneficiaries to participate in these sectors by giving them access to interest-free capital, which improves their living conditions, income, and general quality of life (Zitouni & Jedidia,

[2022](#)). Qualitative findings from borrower interviews can provide a more in-depth comprehension of how these advancements result in real advantages for people and their families. It's crucial to understand that each borrower's experience with these enhancements differs, since it depends on their unique situation and how they use their loans (Lawhaishy & Othman, [2023](#)). The following hypothesis is offered in light of the theoretical framework and the review of the literature.

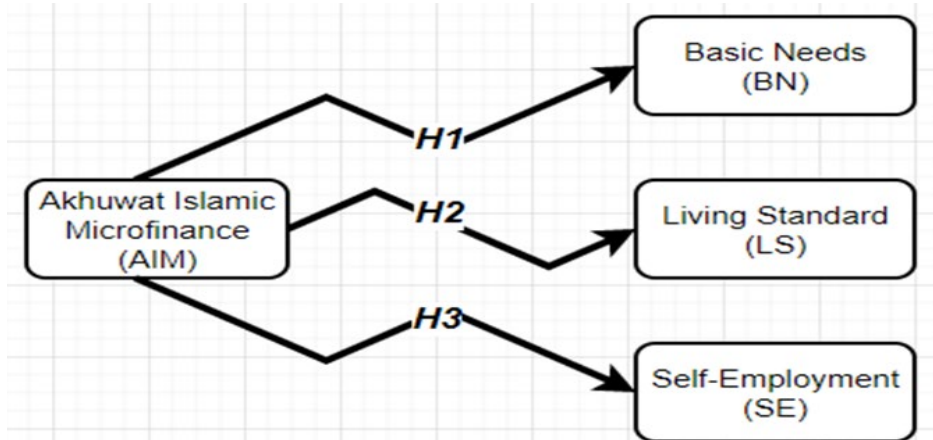
H₂: AIM has a significant impact in improving the Living Standard (LS) of borrowers in Pakistan.

Akhuwat Islamic Microfinance (AIM) and Self-Employment (SE)

The beneficiaries of AIM benefit greatly from self-employment and entrepreneurship which promote economic empowerment (Mohamed & Elgammal, [2023](#)). Indeed, Akhuwat's main objective is to give people interest-free microloans, so they may launch new enterprises or grow the current ones. These loans act as important sources of finance that support entrepreneurship (Rashid & Kumar, [2023](#)). Whereas, microfinance generally focuses on giving cash, Akhuwat indirectly provides operational assistance through services for business development and financial literacy training (Mahmood, [2019](#)). Similarly, Akhuwat frequently integrates training activities into its microfinance operations. According to Elsafi et al. ([2020](#)), these programs provide borrowers with crucial entrepreneurial knowledge, financial literacy, and business skills. The concept of social collateral is incorporated into Akhuwat's strategy, whereby debtors are gathered together and their collective responsibility secures repayment. By using this strategy, communities' social capital is increased (Mohamed & Elgammal, [2023](#)). Finally, AIM significantly influences self-employment and entrepreneurship by facilitating access to funds, offering support and training, and enhancing social capital among communities (Alkhan & Hassan, [2021](#)). To start and run their own enterprises successfully, people need a combination of financial resources, business education, and social networks (Gupta & Sharma, [2023](#)). Indeed, qualitative insights from borrowers' perspectives can capture the transformative effects of Akhuwat's interventions on self-employment, illustrating how access to capital and knowledge leads to economic self-reliance and empowerment within communities (Shahid et al., [2021](#)). In view of the data provided, the following hypothesis is suggested.

H₃: AIM significantly contributes to generating Self-Employment (SE) among Pakistani borrowers.

Figure 1
Theoretical Framework



Research Methods

Study Sample and Data Collection

The core objective of this study is to measure the impact of AIM on Basic Needs (BN), Living Standard (LS), and Self-Employment (SE) of borrowers in Pakistan. A structural questionnaire was employed for data collection. Stratified sampling technique was used to select 250 respondents by dividing the target population into four meaningful groups including clients pertaining to manufacturing concerns, trading concerns, services concerns, and non-trading concerns (Iqbal & Rao, [2022](#)).

Table 2 reveals that 62% of respondents were male and 38% were female, whereas no transgender respondents participated in this study. Moreover, with regard to age, 34% of respondents were in the age group of 18-29 years, 30% were in the age group of 30-39 years, 14% were in the age group of 40-49 years, 16% were in the age group of 50-59 years, and only 06% of respondents were above 60 years of age. With respect to their marital status, 42% of respondents were single, 43% were married, and 15% were divorced. With respect to their qualification, 24% of respondents were under-matric, 28% were matriculate, 24% had intermediate-level education, 14% were graduates, and only 10% had higher qualifications (MPhil and PhD). With respect to loan frequency, 44% of respondents had taken loan

one time, 32% had borrowed twice, 14% had borrowed thrice, whereas only 10% of respondents had borrowed more than three-times. With respect to their profession, 16% of respondents were involved in the business of manufacturing, 32% belonged to trading concerns, 52% worked in the services concerns, whereas no one involved in non-trading concerns participated in this study. Finally, with respect to the amount of loan/credit limit, it was observed that 28% of participants borrowed Rs. 50000 to 100000, 26% borrowed Rs. 100001 to 200000, 22% borrowed Rs. 200001 to 300000, 16% borrowed Rs. 300001 to 400000, whereas only 8% borrowed more than Rs. 400000.

Table 2*Demographic and Socioeconomic Characteristics of Akhwat Clients*

| Variables | Category | Frequency | Percent | Cumulative Percent |
|---------------------------|----------------------|-----------|---------|--------------------|
| Gender | Male | 155 | 62 | 62 |
| | Female | 95 | 38 | 38 |
| | Transgender | 0 | 0 | 0 |
| | Total | 250 | 100 | |
| Age | 18-29 | 85 | 34 | 34 |
| | 30-39 | 75 | 30 | 64 |
| | 40-49 | 35 | 14 | 78 |
| | 50-59 | 40 | 16 | 94 |
| | 60-Above | 15 | 6 | 100 |
| | Total | 250 | 100 | |
| Marital Status | Single | 105 | 42 | 42 |
| | Married | 108 | 43 | 85 |
| | Divorced | 37 | 15 | 100 |
| | Total | 250 | 100 | |
| Qualification | Under Metric | 60 | 24 | 30 |
| | Metric | 70 | 28 | 56 |
| | Intermediate | 60 | 24 | 76 |
| | Graduation | 35 | 14 | 97 |
| | Master/M.Phil | 25 | 10 | 100 |
| | Total | 250 | 100 | |
| No. of Time Loan Obtained | First-Time | 110 | 44 | 44 |
| | Second-Time | 80 | 32 | 76 |
| | Third-Time | 35 | 14 | 90 |
| | More Than Third-Time | 25 | 10 | 100 |
| | Total | 250 | 100 | |

| Variables | Category | Frequency | Percent | Cumulative Percent |
|---------------|--------------------------|-----------|---------|--------------------|
| Profession | Manufacturing Concern | 40 | 16 | 16 |
| | Trading Concern | 80 | 32 | 48 |
| | Services Concern | 130 | 52 | 100 |
| | Non-Trading Concern | 0 | 0 | 100 |
| | Total | 250 | 100 | |
| Credit Limit. | Rs. 50000 To Rs. 100000 | 70 | 28 | 28 |
| | Rs. 100001 To Rs. 200000 | 65 | 26 | 54 |
| | Rs. 200001 To Rs. 300000 | 55 | 22 | 76 |
| | Rs. 300001 To Rs. 400000 | 40 | 16 | 92 |
| | Rs. 400000 to above | 20 | 8 | 100 |
| | Total | 250 | 100 | |

Survey Instrument

In this study, Basic Needs (BN), Living Standard (LS), and Self-Employment (SE) were dependent variables, whereas Akhuwat Islamic Microfinance (AIM) was the independent variable. To measure the four variables, a total of 20 items were included in the survey instrument (Akhuwat Islamic Microfinance = 05, Basic Needs = 05, Living Standard = 05, and Self-Employment = 05). Table 5 presents the details of all the items of each construct adopted for assessment from the previous studies.

Data Analysis Technique

Two-stage Structural Equation Modeling (SEM) approach was used for data analysis. Measuring model (outer model) and structural model (inner model) are two separate methodologies used in this strategy. A measurement model is employed to determine the questionnaire's reliability and validity. Contrarily, structural model is used to evaluate the relationship between the underlying factors and productive powers, as well as the percentage of variation in dependent variables (in this case BN, LS, and SE)

due to the independent variable (in this case AIM) (Hair et al., [2019](#); Henseler et al., [2014](#)). Table 3 and Table 4 provide the assessment criteria and thresholds for both the measurement model (reliability and validity) and the structural model (intensity of association between the dependent and independent variables), respectively.

Table 3
Assessment Criteria for Measurement Model

| Sr.# | Measure | Threshold | Sources |
|------|----------------------------------|---|---|
| 1 | Indicator Readability | The minimum criteria or threshold for factor loading is (>0.6). | (Hair et al., Jr., 2021 ; Oke et al., 2022) |
| 2 | Internal Consistency Reliability | The threshold value of Cronbach’s Alpha is equal to or greater than 0.7, and Composite Reliability is equal to or greater than 0.7. | (Burns & Burns, 2000 ; Hair et al., Jr., 2021 ; Iqbal & Rao, 2022 ; Lai, 2021 ; Kline, 2016 ; Oke et al., 2022). |
| 3 | Convergent Validity | The threshold value for Average Variance Extracted (AVE) is equal to or greater than 0.50 | (Hair et al., Jr., 2021 ; Iqbal & Rao, 2022). |
| 4 | Discriminant Validity | Discriminant Validity: Threshold values for Fomell-Larcker, Cross-loadings, and Hetrotrait-Monotrait Ratio (HTMT Ratio) are < 1. | (Iqbal & Rao, 2022 ; Kumar et al., 2021 ; Oke et al., 2022) |
| 5 | Multicollinearity | Collinearity b/w indicators: No. Multicollinearity if the value of *VIF < 10. Severe Multicollinearity if the value of VIF < 10 and > 5.” | (Ahmed & Ishtiaq, 2021 ; Iqbal & Rao, 2022). |

Table 4
Assessment Criteria for Structural Model

| Sr.# | Measure | Threshold | Sources |
|------|---|--|---|
| 1 | Coefficient of Determination (R) ² | R ² values are between 0 and 1. R ² value of 0.75 is considered good, 0.50 considered normal, and 0.25 considered weak. | (Hair et al., 2019 ; Hair et al., Jr., 2021 ; Iqbal & Rao, 2022) |
| 2 | Path Coefficient (β): | Path Coefficient (β): Size and Significance of Path Coefficient (β):, t-Values = ≥ 1.96, and p-Values (p<0.01) at (α)= 10% significance level” | (Hair et al., 2017 ; Hair et al., 2019 ; Iqbal & Rao, 2022) |

Results and Discussion

Test of Reliability

In this study, indicator reliability was established because factor loadings of all the items mentioned in Table 5 are higher than the minimum value of 0.6, as recommended by Hair et al. (2021). Moreover, internal consistency and reliability were also established because the value of Cronbach's alpha and composite reliability of all the constructs (*BN*, *LS*, *SE*, and *AIM*) given in Table 5 are higher than the minimum threshold value of 0.7, as proposed by Kline (2016), Hair et al. (2021), Burns and Bursn (2000), and Lai (2021).

Test for Validity

The constructs of reliability and validity are intertwined and reliability alone is not helpful until the validity of the instrument is established (Ahmed & Ishtiaq, 2021; Kumar et al., 2021). In this study, two types of validity were assessed. The first was convergent validity assessed through the Average Variance Extracted (AVE). Whereas, the second was discriminant validity assessed through the Hetrotrait-Monotrait Ratio (*HTMT Ratio*). Convergent validity was established because the AVE values of all the constructs (*BN*, *LS*, *SE*, and *AIM*) indicated in Table 5 are higher than the threshold value of 0.50, as recommended by Hair et al. (2021), and Iqbal and Rao (2022). The study also used HTMT for robustness because it consistently outperformed the Fornell-Larcker criterion in various contexts. Table 6 displays the HTMT ratio values. The values are less than the cutoff values of 0.85/0.90, indicating that the goal of discriminant validity was achieved (Hair et al., 2019).

Table 5
Reliability, Validity, and Multicollinearity

| Items | Descriptions of Items | Factors Loading | VIF |
|--|--|-----------------|-------|
| <i>Basic Needs (Cronbach's Alpha = 0.826 , CR = 0.878 , AVE = 0.591)</i> | | | |
| BN-1 | Akhuwat's loan enables the purchase of healthier meals. | 0.683 | 1.502 |
| BN-2 | The loan from Akhuwat facilitates the buying of better clothing. | 0.792 | 1.854 |
| BN-3 | Akhuwat's loan aids in enhancing living conditions. | 0.832 | 2.003 |

| Items | Descriptions of Items | Factors Loading | VIF |
|---|---|-----------------|-------|
| BN-4 | Loan from Akhuwat assists with funding schooling costs. | 0.729 | 1.552 |
| BN-5 | A loan from Akhuwat assists in covering medical costs. | 0.801 | 1.806 |
| <i>Living Standards (Cronbach's Alpha = 0.785 , CR = 0.854 , AVE = 0.542)</i> | | | |
| LS-1 | The loan from Akhuwat allows for the purchase of animal resources. | 0.779 | 1.7 |
| LS-2 | The loan from Akhuwat makes it possible to purchase a vehicle for travel. | 0.731 | 1.474 |
| LS-3 | The loan from Akhuwat helps with electricity and gas bill payments. | 0.856 | 2.148 |
| LS-4 | The loan from Akhuwat assists with the purchasing of electrical appliances | 0.697 | 1.436 |
| LS-6 | A loan from Akhuwat contributes to improving the sanitary system. | 0.592 | 1.271 |
| <i>Akhuwat Islamic Microfinance (Cronbach's Alpha = 0.675 , CR = 0.791 , AVE = 0.538)</i> | | | |
| AIM-1 | Akhuwat provide small loans to the unbanked people | 0.774 | 1.359 |
| AIM-2 | Akhuwat provide small loans to the poor people with collateral or securities | 0.737 | 1.337 |
| AIM-3 | Akhuwat provide interest free loan to the poor and destitute people | 0.601 | 1.27 |
| AIM-4 | Akhuwat provide did not charge application and processing charges for loan | 0.68 | 1.369 |
| AIM-5 | Akhuwat provide free insurance and write-off loan in case of death | 0.745 | 1.119 |
| <i>Self-Employment (Cronbach's Alpha = 0.817 , CR = 0.873 , AVE = 0.582)</i> | | | |
| SE-1 | The loan from Akhuwat provides enough money to launch a new business. | 0.624 | 1.418 |
| SE-2 | The Akhuwat loan provides enough money to expand existing business. | 0.776 | 1.786 |
| SE-3 | Akhuwat's social capital and collateral support contribute to client business. | 0.874 | 2.332 |
| SE-4 | The Akhuwat offer their clients adequate operational support. | 0.723 | 1.562 |
| SE-5 | The Akhuwat give their customers the necessary business training and abilities. | 0.795 | 1.798 |

Test for Multicollinearity

In this study, no correlation between the dependent and independent variables was found. This is because the Variance Inflation Factor (VIF) values mentioned in Table 5 are less than the recommended value (5), as recommended by Hair (2019), and Iqbal and Rao (2022).

Table 6
HTMT Ratio

| Constructs | (1) | (2) | (3) | (4) |
|--|-------|-------|-------|-----|
| (1) Basic Needs (BN) | - | | | |
| (2) Living Standard (LS) | 0.967 | - | | |
| (3) Akhuwat Islamic Microfinance (AIM) | 0.898 | 0.909 | - | |
| (4) Self-Employment (SE) | 0.990 | 0.956 | 0.921 | - |

Predictive Power of the Model

Table 7 indicates the overall predictive power of the model used in the current study. According to the findings, 49% variation in Basic Needs (BN), 47.7% change in Living Standards (LS), and 51.1% variation in Self-Employment (SE) occurred due to Akhuwat Islamic Microfinance (AIM) (Hair et al., 2017; Hair et al., 2019; Iqbal & Rao, 2022).

Table 7
Coefficient of Determination (R^2)

| Constructs | R Square | Adjusted R Square |
|----------------------|------------|---------------------|
| Basic Needs (BS) | 0.490 | 0.488 |
| Living Standard (LS) | 0.477 | 0.475 |
| Self-Employment (SE) | 0.511 | 0.509 |

Test for Hypothesis

Structural Equation Modeling or SEM (inner model) technique was applied to test the hypotheses. The results presented in Table 8 affirmed the significant impact of AIM on the fulfillment of the BNs of the borrowers ($\beta = 0.700$; $t = 18.071$; $p < 0.000$), validating the acceptance of (H_1). It shows that AIM offers loans to the destitute people without interest, charging no processing fee, provides insurance services, and also provides educational services. Therefore, its borrowers are able to successfully fulfil their BNs

(food, clothing, shelter, education, and health and medication). This result is consistent with the findings of prior research (Afonso & Khan, [2019](#); Benfica & Nin-Pratt, [2023](#); Maulana et al., [2018](#); Rashid & Ejaz, [2019](#); Rohman et al., [2021](#); Shafique & Shahid et al., [2021](#); Siddique, [2020](#)).

Subsequently, a positive and significant effect of AIM was observed on LS ($\beta = 0.696$; $t = 18.619$; $p < 0.000$), validating the acceptance of (H_2). It shows that borrowers who borrowed from AIM were able to improve their LS by enhancing their livestock resources, improving transportation facility, purchasing electric appliances for their houses, improving the sanitation system, and smoothly paying electric and gas bills. These findings are also consistent with the findings of prior research (Benfica & Nin-Pratt, [2023](#); Jetin, [2019](#); Lawhaishy & Othman, [2023](#); Luo et al., [2022](#); Maulana et al., [2018](#), Saha & Qin, [2023](#); Salem & Abdelkader, [2023](#); Shahid et al., [2021](#); Shafique & Siddique, [2020](#); Zitouni & Jedidia, [2022](#)).

(H_3) proposes the positive and significant impact of AIM on SE ($\beta = 0.714$; $t = 18.592$; $p < 0.000$). It indicates that the borrowers were able to enhance their income by making themselves self-employed after borrowing from Akhuwat. They did so because Akhuwat provided them loan without any interest and without any processing charges. Moreover, Akhuwat provides operational services in terms of business education and business training to its clients. Besides, Akhuwat also provides free insurance services to the clients and in case of any sudden events, their loan is written off. These findings are also supported by various previous studies (Alkhan & Hassan, [2021](#); Elsaifi et al., [2020](#); Gupta & Sharma, [2023](#); Hassan et al., [2021](#); Mohamed & Elgammal, [2023](#); Mahmood, [2019](#); Rashid & Kumar, [2023](#); Shafique & Siddique, [2020](#); Shahid et al., [2021](#)).

Table 8

Hypothesis Testing (Bootstrapping @5000subsamples)

| Hypothesis | Coefficient (β) | SD | t-Stat | p-Values | Decision |
|---|-------------------------|-------|--------|----------|----------|
| Direct Effects | | | | | |
| H1: Akhuwat Islamic Microfinance -> Basic Needs | 0.700 | 0.039 | 18.071 | 0.000 | Accept |
| H2: Akhuwat Islamic Microfinance -> Living Standard | 0.696 | 0.037 | 18.619 | 0.000 | Accept |

| Hypothesis | Coefficient (β) | SD | <i>t</i> -Stat | <i>p</i> - Values | Decision |
|---|----------------------------|-------|----------------|----------------------|----------|
| H3: Akhuwat Islamic Microfinance -> Self-Employment | 0.714 | 0.038 | 18.592 | 0.000 | Accept |

Conclusion

Both scholars and practitioners have focused on various loan programs under the umbrella of microfinance initiatives during the past few decades. In this regard, this study aimed to examine the effects of Akhuwat Islamic Microfinance (AIM) on Basic Needs (BN), Living Standards (LS), and Self-Employment (SE) of borrowers in the context of Pakistan. It is crucial to address these challenges in order to comprehend the effectiveness of AIM, as well as to guide future strategies and policies aimed at reducing poverty, enhancing living conditions, and fostering economic independence in Pakistan.

The emphasize of the current study was on the significance of ongoing assistance and innovation in microfinance to meet basic needs (food, clothing, shelter, health, and education), improve living standards (improving livestock resources, electric appliances, raising transportation standards, generating income for paying electricity and gas bills, and improving the household sanitation system), and encourage self-employment (providing capital for starting businesses and growing existing businesses). Therefore, all of the hypotheses that suggested that AIM assists its clients to meet their basic needs, thus raising their standard of life and provides them with work prospects were accepted.

Managerial Implications

The findings provide insights into the effectiveness of the Akhuwat model for reducing poverty and informing policymakers and practitioners about the potential of Islamic microfinance models to address its various dimensions (fulfilling basic needs, improving standard of living, and being self-employed).

The study's findings may be applied and generalized to other developing countries, such as Bangladesh, Indonesia, India, and other Asian and African countries. This is mainly because, Microfinance Institutions (MFIs) in India, Pakistan, and other developing nations share certain traits and lending practices, such as lending to low-income borrowers, lending small

amounts of money, lending for brief periods of time, not requiring collateral or securities as security, and typically repaying loans more frequently. Likewise, MFI borrowers in various developing nations such as India, Pakistan, and others also share common traits, such as inadequate access to basic necessities, low standard of living, joblessness, and susceptibility to financial instability.

Theoretical Implications

According to Maslow's hypothesis, the most fundamental human wants are physiological in nature and include food, shelter, and medical care. These needs can be satisfied by Akhuwat's microfinance role in Pakistan (Kafu et al., [2020](#)). Furthermore, Maslow's hierarchy of requirements places the needs for safety and security—including financial security—at the top. Akhuwat helps borrowers to achieve financial security, to shield themselves from unforeseen financial shocks, and offers a safety net for their families by giving them access to loans and financial services.

Maslow's theory also highlights the significance of social connection and belonging. While participating in Akhuwat's microfinance programs, borrowers frequently organize into collectives or groups. These groups provide a sense of community and social support (Tavanti, [2023](#)). Additional elements of esteem requirements include self-worth, recognition, and feelings of accomplishment. The promotion of self-employment and entrepreneurship by Akhuwat enhances the borrowers' sense of value and self-esteem (Warby, [2014](#)). As long as they obtain economic stability and empowerment, people can work towards self-actualization (Kafu et al., [2020](#)). Finally, the theoretical ramifications of Maslow's Hierarchy of Wants theory in this context demonstrate how AIM can be crucial in meeting these essential human wants, ranging from physiological needs at the base of the body to needs related to self-actualization and self-esteem at higher levels. By encouraging self-employment, raising living standards, and giving people access to financial resources, Akhuwat helps people in Pakistan to live better, more empowered lives (Zhou et al., [2023](#)).

Limitations and Future Avenues

Although the study has many significant ramifications, it still has some limitations. In order to track changes in behavior over time, follow-up interviews were not conducted; instead, data were solely gathered from

customers via questionnaires. Only potential borrowers' feedback was taken into account in this study. The input of Akhuwat employees was not taken into consideration at all. Future research may also take into account the opinions of both stakeholders, namely borrowers and employees. Moreover, this study did not take into account the possibility that some debtors inherited their assets or businesses. Additionally, one may also consider the mediating function of the clients' business success between the study's underlying factors. Further research may also keep in view the moderating influence of a client's personal traits, such as business training and experience. Furthermore, a comparison of Akhuwat with other commercial MFIs is advised.

Conflict of Interest

The authors of the manuscript have no financial or non-financial conflict of interest in the subject matter or materials discussed in this manuscript.

Data Availability Statement

The data associated with this study will be provided by the corresponding author upon request.

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