

Notes

Dr. Akhter Hameed Khan – The Pioneer of Microcredit

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It's hard to believe that microcredit – which has exploded into the world of finance in recent years – was considered an unfeasible concept at one time. Microcredit provides very small loans to those who have no verifiable credit history or collateral that would be acceptable to a financial institution. Prior to the microcredit methodology, banks served only the privileged and, as a result, perpetuated the gap between the poor and the rich. However, in the 1950s and '60s, Dr. Akhter Hameed Khan, a world-renowned social scientist from Pakistan, initiated the Comilla cooperative program, and proved to the world that it was indeed possible to provide credit to the poor - with great success no less.

In order to gain a greater understanding of why Dr. Khan's cooperative scheme was so successful, one needs to travel back to the 1950s – the early years of the Pakistani nation. Since its founding in 1947, the country as a whole had been plagued by a number of problems, primarily related to administration and infrastructure, lack of industrialization, poor communication, a large population, unemployment, and poverty. The challenges at the national level also translated into individual components of the economy. Problems in the agriculture sector were particularly severe – they included disorganized farming, poor yield (despite favorable conditions), crop damages from floods and pests.¹ Lack of application of modern techniques, no guidance or training, and improper marketing. Furthermore, small farmers' land holdings in the villages (in East Pakistan) ranged from one to five acres

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¹ Akhter Hameed Khan, *Personal Reminiscences of Change*, United Nations Children's Fund (UNICEF), March 1994, p.2.

and they were in a miserable condition.² According to Dr. Khan, Ninety percent of them owned less than five acres.³ Needless to say, the prevailing environment made it very difficult for those who relied on agriculture for their livelihood. But how had these conditions come about? Therein lies perhaps the greatest challenges of all faced by the small farmers: lack of access to a credit facility.

Poor farmers in Pakistan had no creditworthy history or collateral that would be acceptable to banks and other financial institutions. Thus, the financial institutions were unwilling to risk their money by granting loans to the poor farmers. This meant that farmers were at the mercy of private lenders, traders, etc. The lenders leveraged their advantageous position to charge high interest rates and earn profits at the expense of the working poor. According to Dr. Khan, 'They [farmers] were short of capital, and in their distress, borrowed from exorbitant money lenders, and sold to oppressive traders. Small scale agriculture, starved of capital, and skill, damaged by risks, and squeezed by high interest rates and low prices for their output, was in fact going bankrupt.'⁴ Under such conditions, the impoverished were left with no incentive to learn and adopt modern techniques or increase their per acre agricultural yield.

In an attempt to address these problems, the Government of Pakistan established the Pakistan Academy of Rural Development (PARD). In 1958, Dr. Khan was appointed as Director of the newly formed organizations,⁵ and the Academy began functioning in May of 1959.⁶ Upon taking the helm, Dr. Khan was confronted with the serious problems facing the agriculture sector. He traveled from village to village to conduct research, gain a more intimate knowledge of the farmers' troubles, and discussed their issues; his focus was on *listening*, rather than dictating.

Speaking with the villagers, Dr. Khan quickly recognized that ensuring collaboration between the farmers would be key to relieving many of their ailments; he determined that a cooperative system would be the best means to enable this collaboration. Such a system would

² *The Works of Akhter Hameed Khan, Vol. II, Rural Development Approaches and the Comilla Model*, Bangladesh Academy for Rural Development, Kotbari, Comilla, p.219.

³ Akhter Hameed Khan, *op.cit.*, p.2.

⁴ *The Works of Akhter Hameed Khan, Vol II Rural Development Approaches and the Comilla Model*, *op.cit.*, pp.219.

⁵ Akhter Hameed Khan, *op.cit.*, p.1.

⁶ A. Aziz Khan, *Comilla Co-operative Pilot Project (1961-1965)* (Comilla: Pakistan Academy for Rural Development, 1965), p.1.

allow farmers to share information, make joint production decisions, and leverage their collective resources to establish a basis for credit-worthiness, there by reaping mutual benefits. In designing the system, Dr. Khan emphasized the broad principles of ‘savings, educational meetings, joint planning and action.’⁷

But Dr. Khan knew that no cooperation would be possible without the backing of the villagers. Thus, efforts were undertaken to travel to the different villages to espouse the benefits of the system and gain support from the villagers. As a result of Dr. Khan’s efforts, the villagers began to organize and the cooperative experiment at Comilla was underway.

By May of 1960, ten local cooperatives had been organized. According to author Arthur F. Raper in his book *Rural Development in Action: The Comprehensive Experiment at Comilla, East Pakistan*, these ten cooperatives comprised ‘seven village-based agricultural societies, a vegetable growers’ society, a women’s cooperative, and a weavers’ cooperative.’⁸ Raper further states that by 1961 ‘17 village societies had...secured 25 loans totaling Rs. 108,000. The largest amount borrowed by any village society [cooperative] was Rs. 15,000 and the smallest Rs. 2,500. These loans were arranged through either the Comilla Cooperative Bank or the Agricultural Bank at Comilla.’⁹

As the Comilla experiment matured, there was recognition that a central association was needed to support the local cooperatives (also known as primary cooperatives). So, in January of 1962, the Kotwali Thana Central Cooperative Association (KTCCA) was registered, with Dr. Khan as Chairman of its managing committee.¹⁰ Thus, a two-tier system – comprising cooperatives of small farmers at the local village level and a centralized supporting association at the thana level – emerged.¹¹

Here it is important to explain the respective roles of the primary cooperative and the central association in the two-tier system. The primary cooperative consisted of a group of farmers from a given village (or sometimes multiple villages). In order to participate in the

⁷ Arthur F. Raper, *Rural Development in Action: The Comprehensive Experiment at Comilla, East Pakistan* New York, Cornell University Press, p.47.

⁸ *Ibid.*, p.50.

⁹ *Ibid.*, p.69.

¹⁰ *Ibid.*, p.59.

¹¹ Akhter Hameed Khan, *op.cit.*, p.2.

Academy's cooperative program, they had to meet certain requirements, including:

- Holding regular meetings with mandatory attendance by all member villagers.¹²
- Electing a representative/manager.¹³ Each representative manager was required to connect with the central association weekly, not only to obtain training but to deliver any messages back and forth. The manager communicated on all issues, including credit. His responsibilities also included holding training classes in his respective village and disseminating knowledge which was imparted to him by the central association.
- Collecting regular savings deposits from its members. The manager of the primary cooperative then deposited the savings with the central association.¹⁴ It is important to note that these deposits were a key tenet of the cooperative system, as they would help to build savings in the local communities, and also provide capital for subsequent loans.

As aforementioned, the central association provided support to the primary cooperatives. In the case of the KTCCA, its services included:¹⁵

- Training and education
- A Service Center to procure, rent and repair farming machinery
- Banking (capital accumulation, credit, commercial marketing)
- Teaching scientific methods

The KTCCA derived its funds from private as well as public sources, including the Government, the Ford Foundation, and the primary cooperatives. Using these funds, It was able to offer loans to the primary cooperatives, who in turn provided credit to their members. In essence, the Comilla Cooperative had established its own banking system, which for the first time, allowed small farmers to obtain loans at low interest rates.¹⁶ Furthermore, it enabled farmers to learn and adopt

¹² A.Aziz Khan, *op.cit.*, p.4.

¹³ *Ibid.*

¹⁴ Qazi Azhar Ali, *Comilla Approach To Rural Development* (Comilla: Pakistan Academy for Rural Development, 1966), p.9.

¹⁵ *The Works of Akhter Hameed Khan, Rural Works and the Comilla Cooperative*, Vol. III (Comilla: Bangladesh Academy for Rural Development, Kotbari, Comilla), p.144.

¹⁶ Arthur F. Raper, *op.cit.*, p.76.

modern techniques. As a result both the individual household and the country, benefited.¹⁷

Indeed the Comilla Cooperative had proven to be a tremendous success; the movement started by Dr. Khan was no less than a revolution! The system worked because (according to A. Aziz, Khan in *Comilla Co-operative Pilot Project [1961-1965]*) ‘on the one hand. They [village societies] have the strength of proximity, homogeneity, mutuality of knowledge and vigilance among their members and on the other they have the necessary support from the Central Association.’¹⁸ Perhaps Dr. Khan himself best summarized the reasons behind the success of the Comilla program:

The Comilla project proposed a way out of the dilemma of the small village cooperative being economically weak, and the multi-village cooperative lacking in social and psychological cohesion, by establishing a large number of primary groups based on single villages, and federating them into a powerful central association. Each strengthens and sustains the other. Each performs well defined task and function. In combination, the primary village groups and their federation, from the nucleus of a new economic order for rural areas.¹⁹

In the years subsequent to the founding of the Comilla Cooperative, a number of other initiatives were launched to replicate the success seen at Comilla. Nonagricultural societies-modeled after the Comila Cooperatives-were formed in East Pakistan (now Bangladesh) and operated under the Special Cooperative Societies Federation (SCSF).²⁰

These societies represented such divers occupations as rickshaw pullers, merchants, butchers, weavers, village doctors, blacksmiths, factory workers, motor drivers, etc.²¹ by the middle of 1968, there were 261 agricultural societies and 78 societies in the Special Cooperative Societies Federation.²² Meanwhile, in Bangladesh, Professor Muhammad Yunus was closely observing the success of micro credit at the Comila cooperative, and in 1983 started Grameen Bank; he won the 2006 Noble Peace Prize for his application of micro credit there. In 1989, the Orangi Pilot Project – Orangi Charitable Trust (OPP-OCT) was established in

¹⁷ Added benefit of the Comilla Cooperatives was that it encouraged and empowered women to become productive participants in the economy.

¹⁸ A. Aziz Khan, *op.cit.*, p.3.

¹⁹ *The Works of Akhter Hameed Khan, Rural Works and the Comilla Cooperative*, Vol. III, *op.cit.*, p.144.

²⁰ A. Aziz Khan, *op.cit.*, p.9.

²¹ Arthur F. Raper, *op.cit.*, p.64.

²² *Ibid.*, pp.64-65.

Karachi, Pakistan by Dr. Khan as an independent institution to provide micro credit in urban and rural areas. In yet another example, in August of 2000, Khushali Bank was formed in Pakistan to provide microcredit. Today, the concept of microcredit is being applied in many countries around the world, thanks in large part to Dr. Khan's efforts at Comilla.

Thus, through his pioneering work at the Comilla Cooperative, Dr. Akhter Hameed Khan brought the idea of microcredit to the world stage. Dr. Khan's work has opened doors for the impoverished, while simultaneously erasing misconceptions and stereotypes. He has proven to the world that the poor can be effective participants in the economy if given the opportunity. Dr. Khan's contributions to rural development, poverty alleviation, and the microcredit scheme will surely live on forever.

II

Many experts and learned men, including the President and Prime Minister of Pakistan, have acknowledged Dr. Khan's incredible accomplishments. Below are a few excerpts:

General Pervez Musharraf, former President of Pakistan (during an interview):

...he [Dr. Khan] introduced health, poverty alleviation, education projects which were so welcomed, and he did it by being with the people, living with them. I think he was one of the great figures of the region of South Asia...He was a man for the people, and we need such personalities as Akhter Hameed Khan...²³

Shaukat Aziz, former Prime Minister of Pakistan (then Federal Minister of Finance, Pakistan), speaking at an Aga Khan Rural Support Programme [AKRSP] conference:

Ladies and Gentlemen! We are proud that the AKRSP model is totally 'home-grown'. It is an iteration of the ideas and experiments of the great visionary and teacher, Dr. Akhter Hameed Khan.²⁴

Professor Muhammad Yunus, 2006 Nobel Peace Prize winner and admirer of Dr. Khan, in his letter sent on the occasion of a symposium on the Life and Times of Dr. Khan, held in Islamabad from March 02-05-2000:

He [Dr. Khan] was one of the greatest human beings of the past century. He was so much ahead of everybody else that he was seen more as a 'misfit' than appreciated for his greatness. Dr.

²³ <http://www.irm.edu.pk/Movies/Musharraf.wmv>

²⁴ <http://www.akrsplssons.org/speeches.php?goto=shaukat>

Khan needs to be rediscovered in the light of the realities and of the emerging century. We have a lot to discover and a whole lot to learn from him.²⁵

Shoaib Sultan Khan, Chairman of the National Rural Support Programme (NRSP):

He was my mentor not only in name but in reality, Every time I met him, I learnt something new...

He never failed me in showing the light when I would be desperate and have the feeling of being caught in a cul de sac or faced with an insurmountable wall, He would explain every issue—social, economic, temporal or metaphysical—with the ease of a person having full command on the subject. His explanation of the religions of the world especially of Islam used to have a depth and breath which left even the most ignorant deeply moved.²⁶

W. Klatt, St. Antony's College, University of Oxford (in a book review of *Rural Development in Action: The Comprehensive Experiment in Comilla, East Pakistan* by Arthur F. Raper):

The man responsible for this [women's participation and development] and other changes in attitude is Akhter Hameed Khan, at one time a member of the I.C.S., after 1959 the Academy's director, and recently appointed Vice Chairman Academy would not be worth writing about...

The experiment's main success lies in the village co-operatives, the public works programme and the women's share in changing life in the village.²⁷

David E. Bell, Vice President, The Ford Foundation:

The Comilla story centers in a more important sense around a man – a remarkable man – Akhter Hameed Khan...[who] is the prime cause of its [the Academy's] success...

The choice [of Dr. Khan] could not have been wiser, for it was he who brought to the Academy its central concept...²⁸

Harvey M. Choldin, Michigan State University:

There is no denying that Akhter Hameed Khan the first director of the academy, has been the centrally important figure within

²⁵ *The Life and Times of Dr. Akhter Hameed Khan*, Symposium Report March 4-5, 2000 (Islamabad: Journalism Resource Centre Publications, 2000).

²⁶ http://www.irm.edu.pk/ahkre/ahk_archives.htm

²⁷ Book Reviews by W. Klatt, *Pacific Affairs*, 44:1 (Spring, 1971), University of British Columbia, pp.137-38.

²⁸ Arthur F. Raper, *op.cit.*, pp.vii.

the programs there... He has developed a reputation for concern for East Pakistani problems over a period of decades, as a high civil servant working in that area and as the head of a local college. Within the government, he has access to high civil servants, some of whom were colleagues of his in the Indian Civil Service before independence... His style combines combine erudition with humility and simplicity. He works long hours, with, at times, a great deal of contact with village people, often through the medium of long walking tours through the villages.²⁹

Harvey M. Choldin (in article)

Many observers consider these projects [at Comilla] to be among the most successful rural development efforts in underdeveloped areas. The projects offer an opportunity for social scientists to observe and analyze modernization process...³⁰

Harry W. Blair (in *Pacific Affairs* journal):

The Pakistan Academy for Rural Development at Comilla, East Pakistan, has been widely considered as an outstanding example of a successful community development program. Under the leadership of its director, Akhter Hameed Khan, the Academy has had an especially impressive record of achievement in its major activity of establishing cooperative development projects. Its program revolves primarily around three spheres of activity: agricultural credit, the provision of training and supplies, and research.³¹

Dr. Ishrat Hussain (while he was at the World Bank):

...Today micro-credit has become a buzzword in the lexicon of development practitioners for poverty alleviation throughout the world but 35 years ago this idea was pioneered in Comilla.'³²

Dr. Norman Uphoff, Cornell University:

Sadly, such towering figures and lofty intellects as Akhter Hameed's are quite uncommon. Only a few emerge in any

²⁹ Harvey M. Choldin, 'An organizational Analysis of Rural Development Projects at Comilla, East Pakistan', *Economy Development and Cultural Change*, 20:4 (July 1969), p.483.

³⁰ Harvey M. Choldin, 'The Development Project as Natural Experiment: The Comilla, Pakistan Projects', *Economy Development and Cultural Change*, 17:4 (July 1969), p.483.

³¹ Harry W. Blair, 'The Green Revolution and 'Economy Man': Some Lessons for Community Development in South Asia, *Pacific Affairs*, 44:3 (Autumn, 1971), pp.361-62.

³² <http://www.syberwurx.com/jrc/dialogues/October5.html>

generation. His lifetime spanned an era of incredible change, with remarkable advances in certain political and economic respects, and lamentable failing in these same realms.³³

Professor Rehman Sobhan, Chairman, Centre for Policy Dialogue, Dhaka, Bangladesh (as part of a lecture on ‘Democratizing Development in South Asia: Responding to the Challenge of Globalization,’ which he was delivering upon the invitation of the Akhter Hameed Khan Resources Centre in association with the Rural Support Programmes Network):

Akhter Hameed Kahn was an inspiration to my generation. I had the privilege of learning of him when I was a young teacher of economics at Dhaka University in the early 1960s. His model of rural development was then making its impact in Comilla Thana and its headquarters in the Abhoy Ashram in Comilla had already become a place of pilgrimage for those at home and from abroad seeking inspiration for resolving the problems of poverty in an increasingly unequal society. What lent credibility to Akhter Hameed Sabib’s endeavors was his own human personality and willingness to realign his career choices to conform to his belief. The simplicity of his manner, the austerity of his life style, the wry, self-deprecating humour with which he dealt with people of all classes, age groups and background served as a testament to his commitment and integrity as a human being...

The ultimate tribute to Akhter Hameed’s contribution to changing the lives of the less privileged are to be found in the role models he inspired. In Bangladesh people such as Mohammad Yunus, founder of Grameen Bank and our most recent Nobel Laureate, targeted the landless group as the principal beneficiary of collateral free micro-credit.³⁴

Professor Emeritus George H. Axinn, Michigan State University:

In my mind and heart, the greatest professional and human contribution to rural development in the second half of the 20th Century was made by Akhter Hameed Khan.³⁵

³³ Nasim Yousaf, *Allama Mashriqi & Dr. Akhter Hameed Khan: Two Legends of Pakistan*, New York, 2003, p.414.

³⁴ http://www.irm.edu.pk/Lecture_Rehman_Sobhan.asp

³⁵ Nasim Yousaf, *op.cit.*, pp.414.