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**Making not-for-profit and interest-free microfinance institutions sustainable:  
A case study of Sahulat Microfinance Society**

**Naveen Kumar K  
Nisha Bharti**

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NATIONAL INSTITUTE OF BANK MANAGEMENT  
Pune, Maharashtra, 411048  
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**Making not-for-profit and interest-free microfinance institutions sustainable:  
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**ABSTRACT**

Financial inclusion is essential for a balanced economic growth in any country. Various policy interventions were promoted by the government and non-government organizations to support the agenda of financial inclusion. Microfinance models in India are accused of charging high interest rate. In this context, a group of professionals decided to promote not-for-profit and interest free microfinance institutions. Because of the legal limitation, Sahulat organization was promoted under Cooperative Society Act in 2012. In the last 13 years of operation, the organization grew significantly in terms of its physical and financial performance, reflecting sustainable growth. They are currently serving 3.3 lakhs members through 57 interest-free credit cooperative societies in 13 states. This case study documents their model and the performance of this organization. This will help other organizations working in this area in promoting similar low-cost and affordable microfinance services for low-income households.

**Keywords:** Interest free microfinance, Ethical microfinance, not for profit microfinance etc.

**Naveen Kumar K (*Corresponding Author*)**

naveen@nibmindia.org

**Nisha Bharti**

nisha.bharti@nibmindia.org

# **Making not-for-profit and interest-free microfinance institutions sustainable: A case study of Sahulat Microfinance Society**

## **1. Introduction**

Financial inclusion is one of the key facilitator criteria for several SDGs (No poverty, Gender Equality, Decent work and economic growth, and Reduced Inequality). Hence, financial inclusion has been one of the top policy agendas in India and other developing countries. In India, the evolution of microfinance was in the context of the mainstream banking system's failure to provide access to financial services. The Indian Microfinance is dominated by two models i.e. Self Help Group Linkage Program and Joint Liability group Model. Both these models have contributed to achieving financial inclusion in India. The data suggest that the financial inclusion index was 47 percent in the year 2017 and has improved to 64 percent in the current year.

However, microfinance institutions are accused of charging very high interest rates i.e. 24-30 percent because of high operational cost (Uddin et.al. 2024). The paper discussed the strategies adopted by this organisation. In India, the legal framework did not support the concept of interest-free microfinance. The Non-Banking Financial Companies (NBFCs) are not allowed to take deposits. Hence, they are supposed to borrow money to provide loans to the borrowers. The cost of the loan itself is high, making the total interest charged high for the borrowers. The recent data suggest that NBFC-MFI is one the largest share in the microfinance industry with of 41 percent contribution in the number of loans disbursed and 38% in portfolio outstanding (Equifax and ACESS, 2023). Some countries have promoted the not for profit and interest free microfinance institutions but the scalability and expansion of such model is questioned.

The high interest rate charged by microfinance Institution is a cause of concern. Studies supported the interest free microfinance model as it helps in improving the repayment performance of the borrowers (Wazir and Drumskeya, 2023). Some authors also pointed out that interest free microfinance is being practiced in other countries like South Africa too without any religion specific customer and it has significance for all poor borrowers (Ibrahim 2022). In a study in Kerala MK and Reddy (2019) also highlighted the significance of interest free microfinance In India largely, not for profit and interest free microfinance is practiced under the cooperative credit society model. A case study of an Urban cooperative society in India concluded that the Bait Un Nasr Urban cooperative society is successfully providing interest-free microfinance services (Shaik and Waheed, 2019).

In this context, an organization like Sahulat Microfinance Society is a big relief as it facilitates Interest-free Microfinance through Cooperatives. However, one of the key issues before this organization was how to make their model scalable and sustainable. This case study discusses the challenge this organization faced in making its model sustainable and what strategies they adopted to deal with those challenges.

## 2. Literature review

Islamic microfinance is a concept to provide interest-free microfinance to the underprivileged (Muhammad et al 2023). Islamic microfinance actually practice the concept of interest free microfinance but some authors argued that interest-free microfinance is a global phenomenon and is practiced in countries like Africa without being related with Islam and is helping them (Ibrahim 2022). A case study of Akhuwat Foundation concluded that the different interest-free microcredit products helped achieve financial inclusion (Khana et al 2024). Islamic microfinance institutions are known to support the socio-economic development of the borrowers. A study mentioned that borrowers' income increased by 35% which was statistically significant too (Olev et al, 2024). Interest-free microfinance helped entrepreneurs in Pakistan increase working capital and business profits (Khan and Bedi 2022). Such loans were helpful in making socio economic empowerment of women entrepreneurs in by providing access to income generating opportunities, become more confident, develop network, participate in decision making, experience and reduced domestic violence (Ahmad and Ahmad, 2016). Interest-free and debt-free finance also help business owners in making it feasible (Hagave et.al. 2023). Some studies also argued that even informal associations like ROSCAs in Muslim as well as Non-Muslim countries can help in the promotion of interest-free microfinance (Sadr, 2017). Some of the authors have started talking about blended Islamic microfinance (Munir et al. 2023). There are various factors which affect the repayment performance of interest-free microfinance. A study by Rafay et al (2020) concluded that gender, marital status, numbers of previous loans are positively whereas, religion was are significantly and inversely associated with the loan repayment performance

Given the fact that Islamic microfinance is interest-free and the organisation does not earn any profit from the business, funding such businesses is a challenge. A study on the factors impacting funding of such organisations concluded that the empowerment of women borrowers appeals more to the funders (Darfleitner et al, 2021). Some of the organisations use contributions from borrowers as the source of the funding, and they in turn, pay interest to the borrowers for their savings (Mahmud and Whhaj, 2019). Looking at the advantages of Islamic microfinance Hasan et al. (2020) concluded that interest-free microfinance should be diverted to more sectors and more beneficiaries. However, the financial performance of this interest-free microfinance model is questioned. A study on interest-free microfinance organizations in India concluded that overall, the growth of the organization was fine, but as compared to the industry standards, the financial performance of this organization was not up to the mark (Shaik and Whaeed, 2019). In a study in Pakistan on women borrowers online repayment system was suggested for improving the performance of interest-free microfinance (Rashid and Ejaz, 2019). Alam and Hussain (2010) concluded in their study that a partnership mode between lender and borrower works best for interest-free microfinance because of the joint interest and the lender-borrower joint relationship. There is a lack of studies to document the best practices of such organisations. This will help in promoting the concept of more affordable microfinance services and extending financial inclusion for the poor and disadvantaged sections of society.

### 3. Objectives and Methodology

In the context of a lack of studies on interest-free microfinance in Indian microfinance, this study is designed to explore the operational challenges for such organisations. The study will suggest suitable strategies for making this model scalable and sustainable. This study secondary data for this study. The annual report of this organisation was reviewed. Several published and unpublished documents of this organisation were also referred. The paper also discussed the status of interest-free microfinance services in the literature. The paper analyses the performance of this organisation on several parameters to evaluate the concept of sustainability in their model. The study analysed the performance of Sahulat on various financial performance parameters like total deposits, Gross Loan portfolio, Number of branches, Credit deposit ratio etc.

### 4. Findings

This section discusses the evolution of Sahulat, various products offered by them, and their physical and financial performance.

#### 4.1 Evolution of Sahulat

A group of socially committed individuals from different parts of India, working in different sectors, sat together to find an answer to financial inclusion on the basis of equity and justice, and to participate in the national movement of financial inclusion. They decided on the following criteria to form the institution for promoting financial inclusion;

- ***Legally Recognizable:*** In India, interest-free microfinance is not legally recognised. So, the challenge was to identify suitable model that is legal and will support the agenda of the organisation. It was the prime focus of the committee to identify a model which has a legal standing of a financial institution, goes hand in hand with other laws i.e. direct and indirect tax etc.
- ***Self-sufficient and Self-sustainable:*** Dependence on grants and subsidies will impact the scalability of the organisation. Hence, it was decided that the institutional framework must have the possibility of fund inflow (in the form of deposits) as well as the fund outflow (lending/financing). The institutional framework must have the option to deploy its fund and earn revenue to meet its costs.
- ***Competitive Pricing based on Interest Free:*** The pricing must be on the basis of equity and justice and in the market force. Meaning thereby, it must only charge the actual cost on the demand loan (where no income generation is happening) and it must charge profit from all its financings where asset creation or wealth creation is happening.
- ***Ethically Responsible:*** The foundation of the movement must be on strong ethical values, i.e., mutual cooperation, member centric and empathetic.

- **Microfinance:** the model must address the low-income group, above the subsistence level, and involved in income-generating activity.

Thus, the committee resolved to adopt the legal structure of cooperative societies and decided that Interest-free microfinance credit cooperative societies shall be formed under Central Act as well as the state act. It was also decided that there will be two limbs in this model of Interest-free microfinance for financial inclusion.

- i. Interest free cooperative credit societies (IFCCS) for providing financial services on the ground.
- ii. Sahulat Microfinance Society, as a Cooperative Development Organization to support the formation, capacity building, research, and development support to IFCCS, and as a Self-Regulatory Organization to monitor and regulate certain aspects of the IFCCS and for conducting advocacy for the sector.

Hence, Sahulat Microfinance Society was established in December 2010 as a part of a larger movement of financial inclusion in India. Initially, one cooperative name AlKhair Cooperative Credit Society (having 7 branches and 4500 members) was affiliated to Sahulat.

## 4.2 The Journey of Cooperative Formation:

In its initial days, Sahulat was striving to form IFCCS under Multi-State Cooperative Societies Act. Three applications were filed covering 9 states. However, only one application was successful, namely, 'Sanaghamam Multi-state Cooperative Credit Society' with an operational area of Kerala, Tamil Nadu, and Pondicherry. During the process, it was observed that the central registrar was reluctant in giving registrations to the cooperatives having its discretionary powers and reservations about the viability of such cooperatives not mentioning Interest as their source of income. Later in 2012, Sahulat shifted its focus on state act for registration of cooperatives and did consistent efforts and advocacy for IFCCS formation. Gradually, the states started giving registration for district-level and taluka-level cooperatives. The first breakthrough was in Telangana, the second in Gujarat, and subsequently in Maharashtra. Currently, Sahulat has affiliated IFCCS working in 13 states.

## 4.3 Structure of the Organisation:

In India, Interest free microfinance can run as a cooperative society under different State cooperative society Acts or multistate cooperative society Acts. In India 26 such legal entities are working in 12 states and have 63. Sahulat Microfinance is an organisation "A voluntary, non-political, non-profit making social service organization established to provide Interest-free microfinance options for removing socio-economic disparity and to achieve justice and equity for educationally and financially backward sections of the public at large". For improving the status of financial inclusion, Sahulat chose to provide interest-free microfinance. Their definition of interest-free microfinance is "A Cooperative Credit Society formed by its members for pooling their funds and creating loanable funds therefrom for addressing their loan demands from time to time, mutually sharing the operational cost and owning the benefit and risk of operations". Sahulat provides various financial services through its cooperative societies. They offer

various financial services like savings services, personal loans, and finance for the improvement and development of means of business. The savings mobilised by members are further used for loans. The members are paid some interest on their contribution, too. This way, they reduce the cost of funds. The financial cooperative's mission also focuses on members' tutoring and financial education to assist the beneficiaries with the required knowledge and skills critical to economic empowerment.

All the IFCCSs operating under the Indian State Cooperative Acts and the Multi-State Cooperative Societies Act of 2002 function in an undisguised, honest manner. At present the organisation has 55 interest-free credit cooperative societies at the District level or Taluka level across 13 different states. The 15 affiliated IFCCS are multi branch cooperatives and 42 IFCCS are single branch cooperatives. Currently, Sahulat is serving 3.3 Lakhs beneficiaries through a network of 57 affiliated IFCCS and 111 branches. MoC will come to life as these legal bodies become mutual participants with Sahulat and apply ethical principles to keep the financial inclusion practice. Sahulat is, over time, growing its business reach and impact. Sahulat still insists on serving poor community members and fostering sustainable social economic development in Indian villages. The operational characteristics of Sahulat is presented in fig 1.

[Figure 1]

Sahulat started as two wings in this model of Interest-free microfinance for financial inclusion;

Hence, Sahulat Microfinance Society was established in December 2010. Mohsin et al (2019) discussed a case study of the Akhuwat organisation, which was involved in profit-interest-free microfinance. They mentioned that this organisation relied on charity and donations than bank loan for meeting their lending base and for covering operational expenses. The results of this also concluded that Sahulat also largely focussed on charity and donations for meeting their operational expenses. To meet the cost of lending, they take deposit from their members. The total deposit mobilisation was \$174.3 Million. They have disbursed a loan of \$75 million in 2023-24 alone. The organisation also has a policy of differential interest rate for production and consumption loans as well (Annual Report, Sahulat microfinance society, 2023-24).

Creating a cooperative by Sahulat follows a holistic and systematic path in order to generate socio-economic advancement for those within communities. It begins with a Promoter Group that is selected from among the social activists, managers of civil communities, and other people from grassroots movements who have a common goal of societal uplift. The next step mentioned is strengthening the knowledge regarding cooperative legislations in their state and clarifying fundamental operational issues of the self-sufficient credit societies and joint management.

Proceeding with establishing the Promoter Group, Sahulat does away with many huddles by making registration easy. This will be done by way of legal assistance with the setting up of bylaws, paper work and registering the society, together with the first meeting of promoters convened. Sahulat also helps in preparing documents like registration applications and business forecast documents which are necessary for compliance with regulatory as the might be required at some stage of your application. Training process is in essence the starting point of Sahulat programs. The Board and

Execution Team of the cooperative begins their radical training right after signing up. These programs discuss multiple important issues: membership formation initially, then various types of deposit accounts and products, the planned lending, Shariah compliance, business plan, financial matters, technology integration, and SOP. These skills allow the cooperatives leadership and its employees to master the art of operations management. The various support provided by the Sahulat to these cooperative Societies are given in figure 2.

[Figure 2]

A cornerstone has been laid, with the preliminary step being the inception of the cooperative's business operations, which are supervised by Sahulat. In this regard, the beginning of the institution's path towards promoting financial inclusion and community development is sign-posted. Sahulat and the cooperative operate together throughout the cooperative's initial operations. Sahulat is still providing support for scaling up the business and guidance. This adoption entails strategies such as enrolment growth, promoting the amount of cash deposited, and expanding the loan portfolios alongside gaining revenue.

Assistance with all facets of the financial process is continually made available by Sahulat to ensure stability and responsibility. By doing this we will create the proper environment for the people to be incentivized through the help of financial tools, performance benchmarks, technology integration, standard operating procedures, training manuals, and capacity-building programs. Sahulat devises the activities to be able to ensure that societies they are supervising are well prepared to cope-up with the changing requirements of their members and communities while making sure their businesses follow the regulations and ethics.

#### 4.3 Loans disbursement over the years

The cooperatives attached to Sahulat have made a great contribution in enlarging the capital base for their members, and the total lending has reached an immense volume of Indian rupee 438. 00 crores (nearly 52 million US dollars) this financial year. Likewise, the IFCCS has as its core operation the loaning out of three types of loans; personal, business, and livelihood.

- **Cash Loan for Personal Needs:** Members can borrow money which ranges from ₹2,000 to ₹50,000, and sometimes up to ₹100,000, which comes from the specified amount for their financial problems. A cash loan scheme is designed to give way for those people and for the various objectives and this guarantees accessibility and swiftness. To illustrate, for example, in the last fiscal year 2022-23, the average loan amount under this scheme was ₹78,000; this is likely to reflect a positive trend and increase in demand and usage.
- **Cost Plus Financing:** In this type of funding members can purchase various items, for personal use or business and pay them back in instalments based on the service cost. The members can afford the resources that they need thanks to the wide transparency of information about the prices given by IFCCS. This plan assists individuals to access these assets on credit while she/he is assured of fairness and affordability as a member.



- **Business Finance:** At our world-wide IFCCS branches, we provide business finance for members to help them successfully promote entrepreneurial skills and improve their standard of living. In the financial year of 2022-23, about 23,000 livelihoods became brighter through business financing ventures, which was noted as an emblematic factor that this initiative contributed to economic empowerment and livelihood sustainability among the communities.

The expanding set of credit schemes shows sharp increments of social and financial services demanded by the populace of Sahulat, being operated by their cooperatives. While the cooperatives are spreading their reach over a more comprehensive section of the population day by day, credit becomes the most vital tool that helps them augment and sustain socioeconomic development and usher in new entrepreneurs in their communities so that the workers and their families can enjoy a better living environment.

#### 4.4 Deposits over the years

The IFCCS branches are where members submit their savings to the IFCCS and these branch offices will then offer varied deposit products that will take into account the different needs and preferences. Understanding that 70% of members are preoccupied with daily income-generating activities, IFCCS has crafted its deposit solutions in line with this busy annual calendar.

- **Daily Deposit Product:** This is made for those who work daily and want to save money, this thing makes it possible for members to save money every day. IFCCS enables accepting deposits via door-to-door cash collections to increase access to the system and facilitate usage by members. The digital platform is used to issue each receipt by Deposit, thereby ensuring transparency and providing accountability. Unlike a regular investment, funds in a revolving credit line can be withdrawn at any time. On to this, IFCCS has doorstep withdrawal services extended up to ₹5000.00 This aspect is another way of ensuring convenience and accessibility for the depositors.
- **Savings Deposit:** It targets consumers who like to set aside money regularly, no matter whether they prefer weekly, fortnightly, or monthly ways to do this. People can make deposits whenever needed, and one can withdraw funds too, immediately but/ so there's no time limit on how long the money you put in the bank should be kept there. The Savings Deposit account provides the ability and liquidity for members to create their savings for the long haul, yet without constraint to utilize funds when their need arises.
- **Recurring FD:** Here, customers, as members, hold this account to close the gap that might occur because of an unexpected future outlay. These deposits present approximately 2%-3% of total bank account deposits. Following this risk-based approach has promoted financial stability, as the probability of overall credit portfolio failure has reduced. Member would have to specify the frequency of deposits and duration of withdrawal in advance before the start of the loan.

In addition, IFCCS tries to achieve its financial inclusion goal, motivate people to save money regularly, and meet different needs at version via providing deposit services. IFCCS fosters inclusive, sustainable, and ethical deposits, which are a core part of our mandate to lift people out of economic challenges through interest-free finance. Various products and services offered by Sahulat is given in fig 3.

[Figure 3]

## **5. Physical and Financial Performance in the Last 10 Years**

### **5.1 Growth in Entities and Branches:**

Sahulat's network has expanded significantly, from 3 entities in 2012-13 to 57 in 2023-24. The number of branches has also increased from 11 to 111 over the same period. This growth highlights Sahulat's strategic efforts to enhance accessibility and service delivery across 13 states in India. The analysis of growth also reflected a continuous growth in these segments (Figure 4).

[Figure 4]

### **5.2 Members**

The total number of members also increased from 37,000 in 2015-16 to 3.31 lakhs in 2023-24. The growth in number of members also helps the organisation increase their deposit base and further increase their loan disbursement.

[Figure 5]

### **5.3 Deposits and Loan Disbursed:**

Deposits have increased significantly from ₹19.5 million USD in 2019-20 to 39.6 million USD in 2023-24. This growth underscores Sahulat's ability to mobilise savings from a broad member base, enhancing its financial stability and lending capacity. In a time span of 5 years it has increased twice. The loan disbursed also increased substantially from 29.65 million USD in 2019-20 to 72.72 million USD in 2023-24. The loan disbursement has increased about 2.45 times in last five years. This 40% annual growth in the loan portfolio demonstrates Sahulat's expanding role in providing financial services to its members.

[Figure 6]

### **5.4 Credit Deposit Ratio**

The credit to deposit ratio has always being more than one i.e. credit disbursement is higher than deposit. The CD ratio has reached upto 1.86 in the year 2028-19 (pre covid).

[Figure 7]

## 5.5 Cost Recovery

The current performance of interest-free cooperative credit societies, as reflected in the 2019-20 data analyzed through Sahulat-Pearls ratios, unveils varying degrees of success in cost recovery. While some cooperatives are adept at recovering approximately 80% of the actual costs incurred, others lag, with only 50% or less of the costs being recuperated. Moreover, a few cooperatives surpass the target by recovering more than the actual costs. In Maharashtra, most cooperatives, except three, solely operate on service charges, raising concerns over cost recovery sustainability.

To address these challenges and achieve optimal cost recovery, interest-free cooperatives adhere to a structured approach consisting of distinct components:

- a. **Loan Processing Cost:** This is charged at the beginning of the process of loan sanctioning. This covers the various administrative cost of documentation, etc.
- b. **Monthly Charge:** The organization charges a monthly charge on the outstanding loan to meet the cost of mobilizing the funds and the follow-up of the loan.
- c. **Loan Closure charge:** This is charged at the time of repayment of the final installment.

The physical and financial performance of Sahulat reflected a continuous growth in the number of branches, its membership, deposits, and loan disbursement. Even during Covid, the growth of the organization did not stop. This reflects a sustainable strategy to promote microfinance in a more ethical way. ‘

## 6. Conclusion and Implications

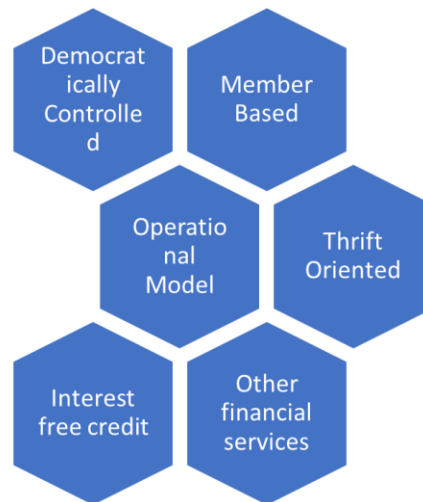
The need for financial services is recognised across the world and concept of financial inclusion gained significance across. Sahulat was started to support low-income households by providing affordable financial services. The organisation adopted the model of a cooperative society for promoting interest-free microfinance. They mobilise different deposits from their member and utilise that deposit for providing the loan services to their members. They also take donations from individual members for supporting their financial services. The model is completely dependent on the fund generated through its own sources and they do not receive any grants and subsidies. In the last 13 years of its existence, the organisation has shown continuous growth in various physical and financial performance parameters. This reflects that the organisation’s model is sustainable and has been able to positively impact the agenda of financial inclusion. The documentation of best practices and successful cases in the areas of interest-free microfinance will help motivate practitioners to come up with such models and help them in establishing more such models for the promotion of financial inclusion. The sustainability of such models encourages even non muslim countries to adopt such models and go for adopting such models for provision of interest free microfinance. Particularly in India too, some legal forms should permit not for profit microfinance activities to support the agenda of financial inclusion. It will also help policymakers support such models for increasing the depth of financial inclusion.

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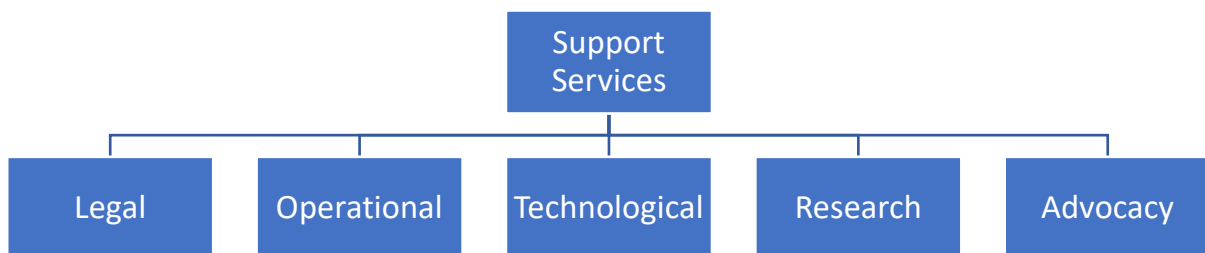
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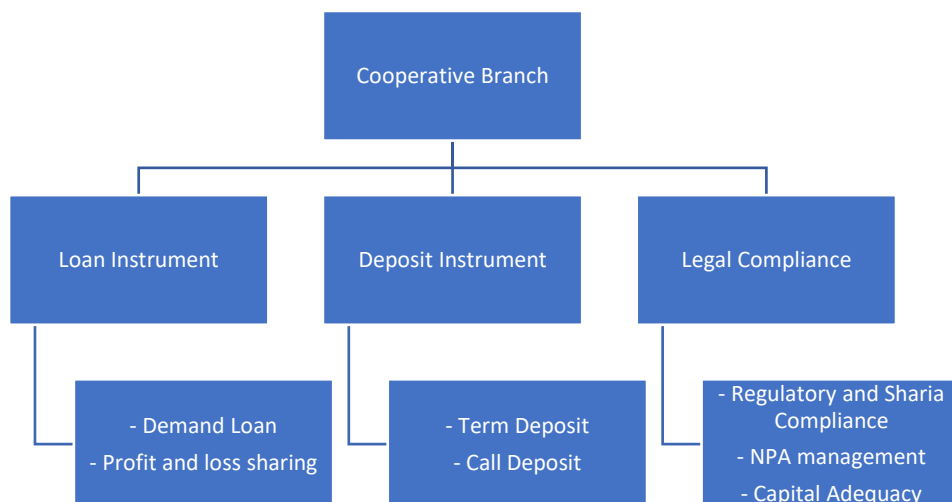
**Figure 1**  
**Operational Characteristics of Sahulat**



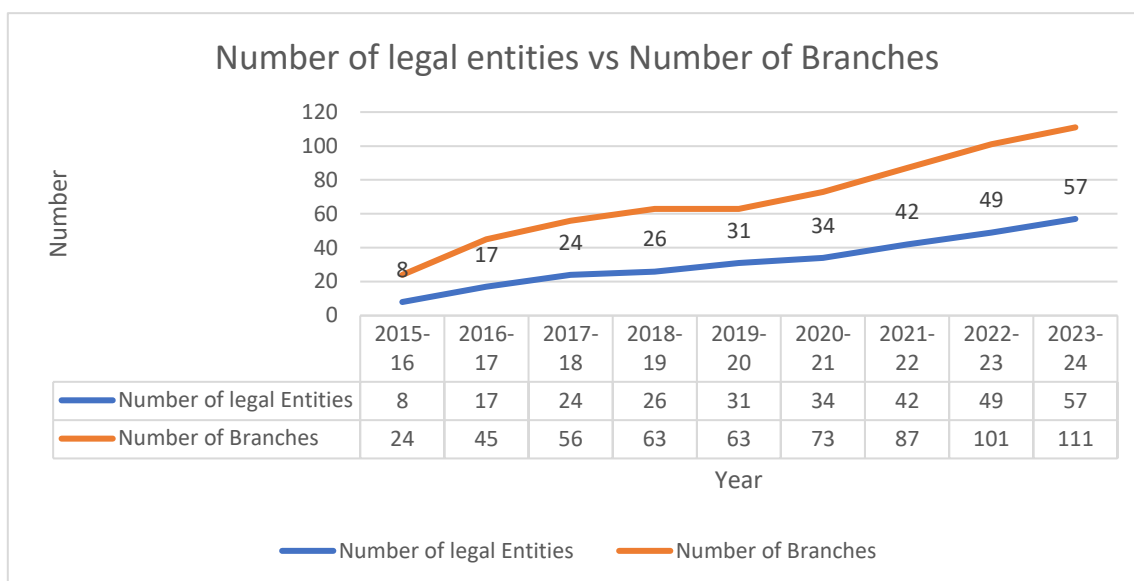
**Figure 2**  
**Support Services provided to the cooperative societies**



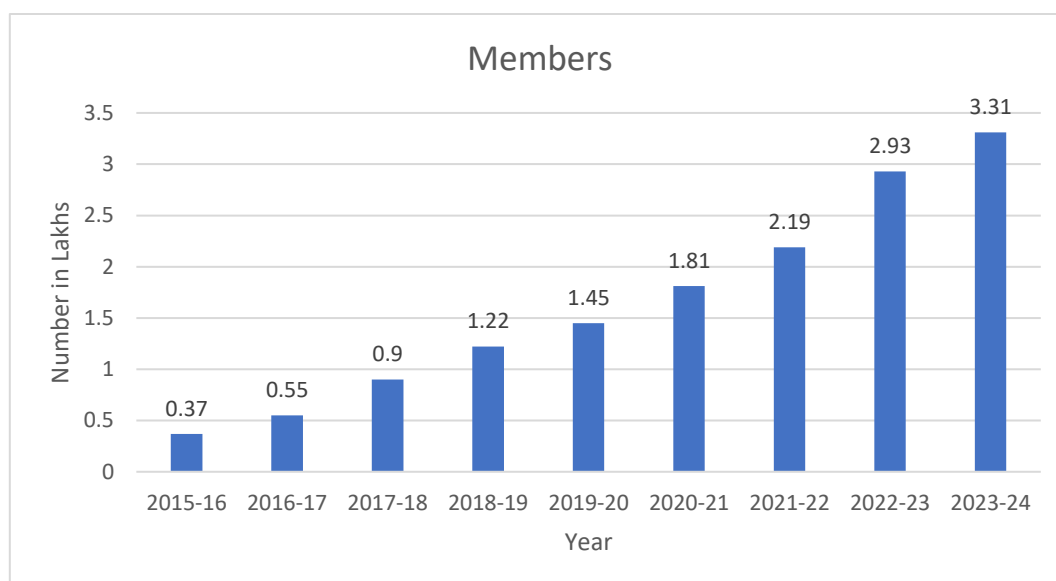
**Figure 3**  
**Various products offered by Sahulat**



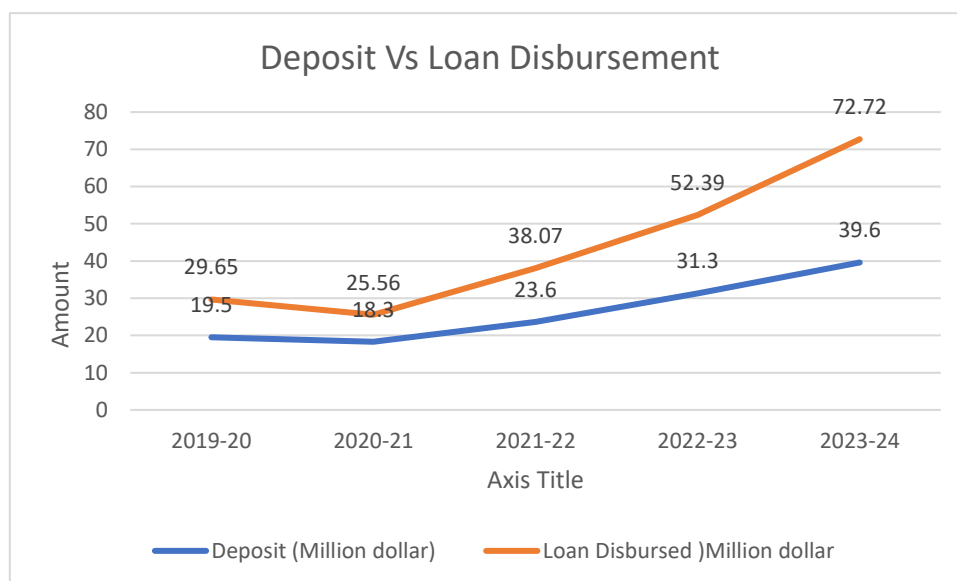
**Figure 4**  
**Number of Entities and number of Branches over the years**



**Figure 5**  
**Number of members**



**Figure 6**  
**Deposit Vs Loan disbursement**



**Figure 7**  
**Credit deposit Ratio**

