

6. SOCIAL MOBILIZATION AND ENHANCING LIVELIHOODS

Numerous government and non-government programs and approaches have been used to promote rural development and poverty alleviation. Among these have been initiatives designed to build rural infrastructure, mobilize communities, enhance access to rural finance, and provide a social safety net. This chapter provides an overview of the major programs in Pakistan and underscores the importance of social mobilization in creating effective demand for public services at the local level. Other direct interventions aimed at improving welfare of the poor are also examined, including micro-credit programs, safety nets and programs targeted at disadvantaged groups, particularly heavily indebted laborers.

MAJOR RURAL DEVELOPMENT PROGRAMS IN PAKISTAN

Pakistan has a long history of major rural development programs involving various approaches, but most have had only limited success. Early programs were characterized by a top-down planning process with little input from the rural communities. Over time, these programs have come to involve increased participation by rural communities and NGOs in planning and implementation. The devolution process begun in 2001 institutionalized efforts toward greater involvement by local governments and communities in development programs and public service delivery (Box 6.1).

Spending on agricultural and rural development, including both government current and development expenditures on agriculture and irrigation, and major non-government programs, totaled Rs 59 billion in 2004-05, or about 0.9 percent of Pakistan's GDP. Government expenditure on agriculture and irrigation, both current and development, accounted for 71 percent of this total: government expenditures on irrigation alone accounted for 40 percent of total spending (both government and non-government) on rural programs (Table 6.1 and Figure 6.1).

Nonetheless, several ad hoc development programs are ongoing, although these function outside the main Annual Development Programme framework and established government department budgets at the provincial or local government levels. These programs, such as *Khushal Pakistan-I*, while potentially more responsive to local needs (to the extent that local groups have access to high level elected government officials), may result in projects that are inconsistent or incompatible with overall development strategies or priorities (Box 6.2).

Box 6.1: Rural Development Programs in Pakistan

Numerous rural development programs involving various approaches, donors and government administrations have been implemented in Pakistan, but generally with only limited success. The first major program, the **Village Agricultural and Industrial Development Programme (V-AID)**, from 1953-1962, was designed to increase agricultural production, establish rural small-scale industries and provide social and physical infrastructure through village councils, youth clubs, cooperatives and social centers. Subsequently, the **Rural Works Programme** was launched in West Pakistan in 1963, after initial success in East Pakistan (current-day Bangladesh) the previous year. Although this program made an impressive contribution to the development of local infrastructure, recourse to local resources for repairs and maintenance reduced the long-term impact of the investments. In 1972, the initiative was renamed **the Peoples Works Programme** and placed under the Federal Ministry of Finance and Planning, where it remained until 1983. Projects under the Peoples Works Programme, which was concurrent with the Integrated Rural Development Programme (1972-80), included road construction, school buildings, small irrigation dams, drinking water facilities and other physical infrastructure, although in many cases, other necessary inputs and services were not provided.*

Numerous broadly similar short-lived initiatives were launched in the mid-1980s. The **Five-Point Special Development Programme** (1985-88) was later integrated into other existing development programs: the **Peoples Programme** (1989-90) and subsequently the **Tameer-e-Watan Program/People's Programme** (1991-99). These programs generally included a broad range of rural development activities, among these education, health, roads, electrification, water supply and sanitation.

The **Social Action Programmes (SAP) I (1992-93 to 1995-96) and II (1998-99 to 2003-04)** were designed to expand access to basic services for the poor, particularly education and health for women and girls, and improve service quality; these were intended to include involvement of NGOs, the private sector and community participation to build political consensus and ensure bureaucratic support. Delays in funding and other implementation problems hampered SAP-I, particularly federal programs for population welfare and health.¹ SAP-II had a greater focus on technical and vocational education and on improvements in the quality of service delivery. Implementation of SAP was decentralized to the provincial and district levels for the majority of relevant expenditures, consistent with the government's devolution policies formally adopted in 2001.

The **Khushal Pakistan Program** (Pakistan Welfare Program, January 2000 to June 2002) provided Rs 36 billion during this period for small-scale public works schemes (Rs. 0.05 million to Rs. 5 million per scheme in rural areas and Rs. 0.05 million to Rs. 8 million per scheme in urban areas). The **Tameer-e-Pakistan programme (TPP)**, a federal program begun in February 2003 which was later renamed the **Khushal Pakistan Programme-I (KPP-1)**, initially provided Rs 5 million in 2003-04 to each Member of the National Assembly (MNA) for local development schemes. The amount per MNA has increased over time, and the total budget equaled Rs 4.42 billion in 2005-2006.

* An assessment by Nadeem (2003) points out a problem encountered in many top-down development efforts: "...the programme was riddled with irregularities in the choice of projects, determination of priorities and locations by politically influential people with little regard for the needs of the community, overwhelming reliance on contractors rather than on project committees, and preference for large projects as well as widespread corruption and misuse of public funds."

Table 6.1: Major Government and Non-Government Rural Programs in Pakistan, 2004-05

	Amount (Rs million)	Share (percent)
Federal Government	10,307	18.8
Agriculture	1,843	3.4
Current	1,233	2.3
Development	610	1.1
Irrigation	8,464	15.5
Current	101	0.2
Development	8,363	15.3
Federal Special Programmes	7,840	14.3
Khushal Pakistan Programme I	5,340	9.8
Khushal Pakistan Programme II	2,500	4.6
Provinces	31,521	57.6
Agriculture	16,414	30.0
Current	11,137	20.3
Development	5,277	9.6
Irrigation	15,107	27.6
Current	7,780	14.2
Development	7,327	13.4
Rural Support Programmes	1,000	1.8
Cost of Public Infrastructure Schemes^a	1,000	1.8
PPAF	4,063	7.4
Micro-credit	3,106	5.7
Community Physical Infrastructure	575	1.1
Capacity Building Assistance	382	0.7
Total Rural Expenditures	54,731	100.0
Current (Government)	20,251	37.0
Development (including RSPs, PPAF)	23,534	43.0
PPAF Micro-Credit	3,106	5.7
Government Special Programmes	7,840	14.3

Source: Government of Pakistan, Ministry of Finance and Provincial Departments of Finance data; RSP website; Pakistan Poverty Alleviation Fund (PPAF) website .

Notes: ^a Estimated based on cumulative figures and information from annual reports. Note that RSP figures do not include credit disbursed.

In addition, several large NGO programs supported by international donors have undertaken major rural development efforts in Pakistan in parallel with government programs. The most notable of these are the Aga Khan Rural Support Program (AKRSP), the National Rural Support Programme (NRSP) and various regional Rural Support Programmes (RSPs). These programs have achieved substantial success in organizing rural communities, building local community infrastructure and delivering basic health services. For the most part RSPs, like the special programs outside the ADP framework, operate largely in parallel with local government.

Box 6.2: Khushal Pakistan Programs I and II

The federal government finances two parallel programs for the development of municipal services in the country, the Khushal Pakistan Programs, KPP-I and KPP-II. The Khushal Pakistan Program was formerly called the Tameer-e-Pakistan program under the Nawaz Sharif government.

KPP-I is managed by the federal department of Local Government and Rural Development (LGRD). Under KPP-I, each of the 342 members of the National Assembly (the lower house) and each of the 100 members of the Senate (the upper house) receive Rs. 5 million per year to carry out minor development projects in their constituencies.

Each MNA and Senator identifies two to three development schemes in his or her constituency each year and submits these schemes to the federal LGRD department. Each MNA and Senator must also identify the agency through which he or she wishes to execute a project, whether at the federal, provincial, district or *tehsil* level. The relevant district or *tehsil* governments do not have any control over the identification and execution of these projects.

KPP-I covers multiple sectors like health, education, sanitation, roads, electrification of villages, gas, and telephones, although most projects involve improvements to small roads and drains.

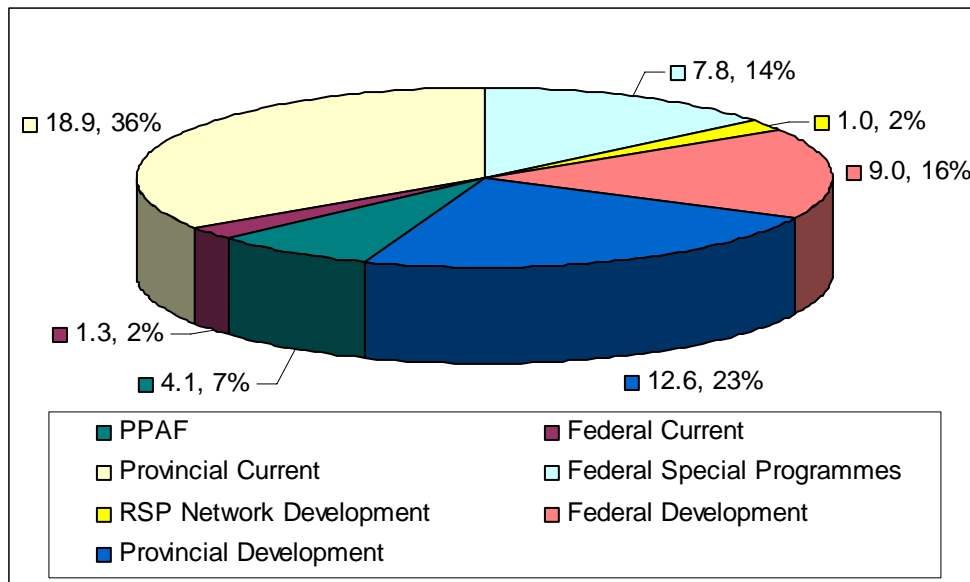
KPP-II, also called the Roshan Pakistan program, is managed by the Prime Minister-Secretariat in Islamabad and deals primarily with the development work carried out under the Prime Minister's directive. Most of these directives are issued as political instruments during public meetings held by the Prime Minister or the President during their visits to various parts of the country.

Source: Stone et al. 2006., *Assessment Report: Pakistan Devolution Support Project, prepared for USAID.* Washington, D.C.: The Urban Institute (unpublished report).

SOCIAL MOBILIZATION AND RURAL LIVELIHOODS DEVELOPMENT

A major reason for the limited success of rural development efforts in Pakistan and many other countries is a lack of effective participation and influence by rural poor households in development programs and rural society in general. Too often, a top-down approach is implemented—one that treats the rural poor simply as beneficiaries of public programs supplied by the government. Instead, the development paradigm should be one that puts the household and its community at the center of development initiatives. Empowering the rural poor to take on this role, however, requires collective action and social mobilization, central features of Pakistan's Rural Support Programmes (RSPs), (Box 6.3). Not only do strong institutions help to create effective demand for public services and hold governments more accountable to their constituencies, these institutions can increase market power and enhance business opportunities for the poor.

Figure 6.1: Major Government and Non-Government Rural Programs in Pakistan, 2004-05



Source: Government of Pakistan, Ministry of Finance and Provincial Departments of Finance data; RSP website; PPAF website.

Social mobilization, along with economic empowerment and graduation, should be at the heart of the rural livelihood development strategy. The benefits of broad economic growth trickle down very slowly when the poor have little access to key physical, social and financial endowments. To overcome highly unequal distribution of these endowments and achieve rapid pro-poor growth, poor people need new opportunities to organize, to generate business and to link with mainstream development activities. Social mobilization, as a way to develop institutions *of* the poor as opposed to institutions *for* the poor, is a central component of effective rural livelihood development. Mobilizing poor people provides them with the “voice” and the scale required to more effectively engage with the range of institutions and individuals providing public and private services. A second component, economic empowerment, through micro-credit, grants or skills training, facilitates access to assets, increases income, and demonstrates creditworthiness of individuals and groups. Ultimately these self-help groups may graduate to form other federative and associative movements involved in income-earning activities including public-private partnerships, various types of franchising and contract farming arrangements.

The work of the AKRSP, which was established in 1982 by the Aga Khan Foundation to work in remote northern regions of Pakistan, exemplifies this approach (Box 6.4). The AKRSP’s program comprises seven major components: institutional development and social organization; women and development; mountain infrastructure and engineering services; natural resource management; human resource development; credit and savings; and enterprise development. With the active involvement of communities, the program has constructed irrigation channels, introduced new crop varieties, and essentially operated an extension service for poor farmers, contributing to a more than doubling of per capita income in program villages in northern areas and Chitral. Moreover, the community organizations created are increasingly recognized as partners of NGOs and government departments in the planning and implementation of government programs.

Box 6.3: Social Mobilization and the RSPs

Social mobilization, which can be defined as the enhancement of a community's capacity for undertaking collective action for its own betterment, is a central pillar of the Government's Mid-Term Development Framework (2005-10). The MDTF explicitly recognizes the need to reach each poor household through a concentrated process of social mobilization: "Pro-poor policies cannot be effective without creating strong outreach mechanisms in each village through which people can interact with government."

Social mobilization is the primary means by which a community's capacity for collective action is harnessed and strengthened—creating the basis for sustainable welfare impacts as well as broader social and political empowerment. Effective mobilization has been able to achieve this by reducing information problems (eliciting development priorities directly from communities and allowing communities to identify projects and eligible recipients of private benefits), expanding the resources available to the poor through credit, capacity building, and occupational training, and strengthening the civic capacities of communities by nurturing the organizations that represent them.

Mobilization of economically, socially or politically marginalized groups has been an integral part of Pakistan's Rural Support Programs (RSPs), non-governmental organizations registered as "not for profit" joint stock companies with the securities and exchange commission of Pakistan. All RSPs have independent and autonomous boards of directors that work in a voluntary capacity and a team of highly qualified professionals. All RSPs share a common objective to reduce poverty and improve the quality of life of the rural poor. However, given the diverse socio-cultural milieu in Pakistan, their strategies are context specific and this is one reason why they replicate rather than expand. Since creation of the AKRSP in 1982, the number of RSPs in Pakistan has now reached 10.

The RSPs see their main strategic focus as the "provision of social guidance for community mobilization and organization leading to community empowerment". A second strategic goal is to increase communities' income-earning potential through micro-credit, grant funding of community physical infrastructure, capacity building and training for employment. A third strategic goal is to enhance community access to available public services.

All interventions are identified in partnership with organized communities. Support extended by RSPs to communities is typically in the form of technical and financial support for building physical village infrastructure, provision of micro-credit, support in the natural-resource sectors and small-enterprise development and support to poor communities in the social sectors. RSPs also act as facilitators among government, other development organizations and organized communities to improve service delivery to the grassroots.

An evaluation of the RSP program by the World Bank in conjunction with the Pakistan Poverty Alleviation Fund is currently underway. The evaluation covers four main areas: (a) the returns to social mobilization—focusing in particular on the *quality* of the institutions created by the program as demonstrated by their internal structure and dynamics, their ability to engage in collective action, and their ability to link with local government and ensure more effective and equitable delivery of public services and program benefits; (b) performance of community infrastructure schemes carried out by the RSPs relative to similar schemes delivered by the more traditional 'top-down' delivery mechanisms of the government; (c) mechanisms that are likely to enhance the sustainability of the program and its impact on poverty; (d) how the quality of facilitation carried out by field staff can be optimized in a context of rapid expansion and scale up.

Box 6.4: Aga Khan Rural Support Programme (AKRSP)

The Aga Khan Rural Support Programme (AKRSP) was launched in 1982 for the purpose of implementing a rural development program in the Northern Areas of Pakistan. The essential elements of the AKRSP are the establishment of effective Village Organizations (VOs). Each VO starts its operation with one grant-assisted productive physical infrastructure project. Women's VOs focus on various aspects of raising women's productivity and welfare. Examples of the activities in which these organizations are engaged are: (i) introduction and dissemination of improved varieties and cultivation techniques for crops; (ii) improved livestock husbandry practices; and (iii) new productivity-raising technology for apricot-drying tents, nut-cracking machines, and butter-churners. AKRSP assists village organizations to obtain access to institutional credit by acting as a loan guarantor through the promotion of savings by members, which serve both as a form of loan collateral for credit and to provide supportive marketing services for different products.

The savings and credit scheme of the AKRSP is based on a system of collective savings and borrowings. Each member deposits his or her savings with the manager of the village organization. The VO's collective savings are deposited in a single account held at a commercial bank. Credit facilities are extended in a similar manner. The VO will then take out a single collective loan and disburse sub-loans to members according to individual's credit need. This system minimizes the transaction costs for borrowers in both savings and borrowings. Due to peer-group pressure, the transparent nature of the credit operations, and the group guarantees for loans, loan repayment rates are almost 100 percent.

Based on substantial positive results from the social mobilization, group-based savings and credit programs and other activities of the AKRSP, a National Rural Support Programme (NRSP) was begun in 1991 and expanded in 1992 with a grant from the Government of Pakistan. NRSP is building a network of grassroots organizations that will plan and undertake their own development. It uses a development strategy that mobilizes communities and maximizes the use of local resources, similar to that of AKRSP and the Orangi Pilot Project (OPP). Evaluations of the AKRSP and OPP show that the projects are financially sustainable and that they have yielded significant benefits for the poor.

Source: World Bank 2004b; Malik, Sohail J. 2003.

Given the AKRSP's success, other Rural Support Programs now operate across Pakistan, with a total cumulative rural investment (including the AKRSP) of Rs 15.0 billion. Much of this total (Rs 11.8 bn) derives from earlier investment by the AKRSP. Estimated total public and public-private partnership investments by the network in 2004-05 were about Rs 1.0 billion, (four percent of total public investments for rural development by federal and provincial governments, RSPs and PPAF⁸⁸). The largest of these, the National Rural Support Programme (NRSP), begun in 1992, was set up with federal government funding to work in all provinces and Azad Jammu and Kashmir. The NRSP is also the largest RSP in terms of funding, with cumulative projects of Rs 1.3 billion. NRSP activities are similar to those of the other RSPs and include programmes in human-resource development, rural credit and enterprise development, natural-resource management, physical infrastructure, and social-sector services. All the RSPs are linked through the Rural Support Programme Network (RSPN), funded by DfID, which provides a forum for the RSPs to share lessons of experience and to undertake strategic planning.

⁸⁸ The total includes Rs 957 million invested by the Pakistan Poverty Alleviation Fund in its physical infrastructure development program in 2004-05.

Another example of successful social mobilization and livelihoods development is the Andhra Pradesh Rural Poverty Reduction Project in India. Operating in a state with a rapidly growing economy and generally good infrastructure, the project focuses on creating women's self-help groups (SHGs). Group formation relies entirely on members' self-initiative and on their willingness to mobilize savings and inter-loan mechanisms conducive to establishing strong trust and discipline among the group members. While focusing on capacity building and social mobilization, the project also provides a financing facility for accessing productive assets, income generating activities and for starting micro-businesses. The investment facility is provided as a grant at the village level, which represents the first-tier federation of the SHGs, and is recycled by the community itself into a revolving fund extending loans to its own members according to agreed procedures and terms. Loans are revolved so that over a period of about five years all member households get access to a loan.

The SHGs and VOs also use their savings to leverage credit from commercial banks. As the SHGs movement continues to expand, the federative movement has been able to add two more tiers at the "block" and district level. The scale reached and the level of organization is such that the poor have over time become an extremely credit-worthy and attractive market for banks, micro-finance institutions, agro-business, traders and insurance companies. As a result, total credit and investments from the financial institutions and private sector have increased substantially. Households have also invested in education, health care, housing and further multiplied their assets as a result of additional income. Finally, because of their 'voice' and 'scale' they have become more effective in influencing the responsiveness and quality of service delivery by the public sector (Box 6.5).

Project Design and Sustainability

Components of social mobilization have been incorporated into various rural-development projects and programs, often in conjunction with micro-credit and public investment under the broad rubric of community-driven development (CDD). In principle, governments may be best suited for delivery of public goods and services (and the investments required to support these) and the private sector and NGOs best suited for delivery of private goods and services (including micro-credit, and skills training). However, the best institutional pathway to promote the active participation of communities and their linkages with both the public and private sectors is debatable, and depends on the particular characteristics of communities, government institutions and development constraints.

In areas where local government institutions remain unable to effectively deliver public services, direct interventions through community organizations and NGOs are needed. These programs work best where strong community groups exist; rural micro-level infrastructure and public health are especially important in isolated areas. To ensure long-term sustainability, however, it is important that these efforts do not undermine devolution initiatives intended to strengthen local-government institutions.

Box 6.5: Social Mobilization in Andhra Pradesh, India

Social mobilization through the creation of self-help groups (SHGs) has been a centerpiece of efforts by the government and NGOs in Andhra Pradesh, India. Following a successful pilot project covering 66,000 households begun in 1996, the Government of Andhra Pradesh incorporated the social-mobilization approach into its major poverty-reduction project, *Velugu*, which was subsequently renamed *Indira Kranti Patham* (IKP). The first phase, the Andhra Pradesh District Poverty Initiatives Project (APDPIP), was implemented between 2000 and 2006, covered 930,000 rural poor families in the state's six poorest districts. The second phase, the Andhra Pradesh Rural Poverty Reduction Project (APRPRP), is designed to cover two million rural poor families at a cost of 15 billion rupees (nearly \$300 million) over five years (2003-2008).

The projects were built on the existing women's self-help thrift movement that had begun 15 years earlier, and added capital, federation of institutions and technical support. Under the projects, groups of 12-15 poor and "poorest of the poor" women form an SHG; 150-200 SHGs make up a Village Organization (VO), 4,000-6,000 VOs federate to form a *Mahila Mandal Samakhya* (MMS) (Women's Group Confederation). This process is initiated by community resource persons (CRPs) or community coordinators, which are selected, remunerated, and evaluated by the community and based in the village for a period of at least three months. Typically, a CRP team consists of two women members, one Senior Bookkeeper and one Activist. This team meets with village officials, provides assistance in establishing group management and financial norms to existing SHGs, and helps form new SHGs. The larger VOs and MMS' are designed to have the critical mass to address social, economic and political issues that the smaller affinity groups cannot through the power of a combined voice and by pooling their supplies and demands of marketed goods and services.

In addition to group mobilization, the programs focus on expanding the assets of the poor and creating economic opportunities connected to household livelihoods. To reduce, mitigate and manage risk IKP also supports the Community Investment Fund, which promotes investments in sub-projects for the poor, as well as the Comprehensive Insurance Package, which seeks to develop community-based delivery of life and health insurance services.

Source: Reducing Poverty on a Global Scale (World Bank 2005c). "Case study on Andhra Pradesh"; Project documents.

Financing rural development for poor households and local groups at the local level: credit versus grants. International best practice suggests that, generally, loans should be the principal financing instrument for 'private goods.' For the poorest households, for which there is almost no institutional credit available however, grants or matching grants may be a more appropriate tool to facilitate access to productive assets. Yet providing matching grants through NGOs or government agents involves inherent risks related to supply-driven bias. Thus, the establishment of revolving funds at the community level for administering internal lending mechanisms has proven to be more reliable and effective.

Ideally, it is preferable to avoid mixing credit and grant financing in the same vehicle. Rather, separate programs should be developed. A program for livelihoods development of poor communities should include social mobilization, matching grants (or revolving funds) for asset creation and the development of market linkages. A separate effort to develop micro-finance

services should be run as a business with appropriate linkages to financial-sector requirements and private sector-oriented client-selection methods.

Incorporating Social Mobilization in Development Projects

A social mobilization approach involving greater community involvement can enhance the effectiveness of development efforts across a wide range of rural sub-sectors, including forest management, watershed development, irrigation or agriculture. By building institutions of natural resource users, communities are better placed to pursue collective action and exercise management authority over the sustainable use of the resources.

In forestry, international experience suggests that a purely conservationist approach to forest management is infeasible given that this ignores the livelihoods needs of poor forest-dependent people. Rather, devolution of responsibilities to local communities for the sustainable use of natural resources must be a priority, as this will promote gains in productivity and increase communities' income, without compromising forest sustainability. As with all natural 'common pool' resources (CPR), multiple benefit streams flow to multiple stakeholders, and multiple service deliverers and decision makers are engaged in overseeing access to and management of these benefits.

Projects in watershed development can also serve as a point of entry for the mobilization of poor communities and establishment of an institutional base for planning and implementing multi-sector activities to improve livelihoods. Watershed development projects typically have the multiple objectives of improving agricultural activity levels, sustaining and improving management of the natural-resource base, and increasing income levels among beneficiaries within the watershed areas. In addition to introduction of watershed protection and treatment technologies, projects also support community-based institutional development for collective decision-making and management. This is intended to promote participation of the local population in the sustainable management of watershed areas (common productive assets) and in activities that promote savings and income (individual productive assets). As with forests, management of watershed areas involves critical externalities; gains to one individual may entail costs to another (upstream/downstream trade-offs). For this reason, watershed management should not rest entirely in the hands of one set of stakeholders. Instead, incentives and institutional frameworks that promote cooperation and participation of watershed community groups, line agencies and local governments must be supported.

Community participation through Water Users Associations (WUA) can improve maintenance and efficiency of surface irrigation. Confronted with the failure of traditional top-down irrigation bureaucracies in delivering services and ensuring proper function of the systems, WUAs can provide farmers with greater control over operation and maintenance of the watercourse system in their locality. WUAs can also serve as a mechanism for confronting governance and transparency issues in the delivery of water, thereby creating an environment of greater accountability in terms of public service delivery. WUA formation and capacity building are typically addressed through irrigation projects rather than livelihoods projects although the same principles apply. In addition, studying organized water users as the core element of irrigation projects, is instructive in articulating critical linkages with agriculture services and markets, which have typically been a weakness of irrigation projects.

Farmers' organizations (FOs) can also serve as a mechanism for achieving the required scale and scope needed to increase farmers' influence of and access to markets, traders and public services. These associations are typically organized along commodity lines and are typically driven by market opportunities rather than management of a public asset. As these associations gain confidence and capacity, they are likely to evolve into more sophisticated organizations such as cooperatives and be in a much better position to intermeditate with markets forces and provide services to their members. The demise of the cooperative movement in many countries around the world is mostly the result of excessive government influence in the decision making process of these institutions as well as the lack of a clearly established mutual approach driven by genuine ground up principles based on member needs and social cohesion. Where successful, for instance in Western Europe, the cooperative structure has evolved outside direct government intervention and was also able to cater to farmers' financial needs through a savings and loan approach.

MICROFINANCE INTERVENTIONS

In Pakistan, microfinance has been slow to scale up, and outreach to women has been limited. It is estimated that only about 8 percent of poor households receive credit from formal sources. Microfinance lending is concentrated. The top five microfinance programs, one bank and four NGOs, had between them 84 percent of the total market. In the past, much microfinance has been delivered through integrated development projects with credit components. There have been historically interest rate caps and subsidies but this has changed in recent years. However, most microfinance institutions still receive below market cost funds in various forms. The PPAF currently funds 29 NGOs providing microfinance but half have fewer than a thousand clients. Savings services are encouraged by RSPs but they are not permitted to take deposits directly so these are held and invested by community organizations and deposited with banks.

Following recent legislation, Pakistan's microfinance policy environment now appears to be quite conducive to efficient delivery of microfinance to poor households. The challenge now is for the various actors to seek out efficiency and scale. Moreover, there continues to be significant subsidies in various forms in Pakistan microfinance, which warrants examination for efficiency. The subsidies have largely been related to low interest rates on loans, but microfinance projects generally have failed to lead to longer term institutional development.

Experience with microfinance in Indonesia, Egypt, India, Vietnam and Pakistan (the Kashf Foundation project) suggests the existence of a few enabling public actions that can enhance program effectiveness (Table 6.2).

The Pursuit of Efficiency and Public Policy Options. The overarching aim of most microfinance institutions and country systems is the pursuit of efficiency in the delivery of rural financial services (above and beyond credit) to poor households in a sustainable manner. The quite broad country experience and the wider literature suggest the following priority public policy areas that may be of relevance to Pakistan: (i) supporting institutional innovation through policy research aimed at better understanding the efficiency of comparative microfinance experiences; (ii) supporting capacity building in institutions and communities; (iii) supporting the provision and sharing of information; (iv) avoiding subsidized lending whenever possible but analyzing the comparative poverty impact of current subsidies; (v) supporting savings; (vi) avoiding add-on credit components; (vii) meeting the product needs of the poor; and (viii) improving communications (Nelson 2006).

Supporting Institutional Innovation. Although there are no global best practice cases, arguably the most important area of public policy support for microfinance in Pakistan is in the area of knowledge. While individual microfinance experiences globally are well documented, there are still no country studies that compare the cost effectiveness and impact of alternative approaches to service delivery of rural finance. Available evidence from multi-country studies suggest some several contributing factors for the profitability of microfinance organizations. Government could strengthen microfinance development by supporting research on comparative efficiency and impact across the available range of alternative approaches, perhaps through some competitive grant funding associated with the Microfinance Network, an international associating of leading microfinance institutions. It is critical to not overlook the impact and cost effectiveness of the many informal savings and credit networks and relationships. These provide competition to formal microfinance institutions and offer more-tailored products at quite competitive costs.

Supporting Capacity Building. The use of public funds could justifiably be spent to improve national microfinance skills at both institutional and community level.

Support for Information. The cost of information about individuals or groups in scattered rural communities is high. This is one of the main reasons for the high cost of rural lending. This can be reduced by a widely adopted group approach that passes on a share of these costs and responsibilities to the group itself. While the government's role keeping records on groups has privacy risks, in India, at least one project supporting groups now provides lending institutions with ratings on group performance, which greatly aids lending decisions. This is a local variation of the publicly available credit ratings often available to microfinance institutions.

Risks of Subsidized Lending and the Analysis of Subsidy Impact. The existing case studies and global experience do not support an argument for broad subsidized lending, although they also do not provide strong enough evidence against utilization of a judicious initial subsidy to enable microfinance institutions to reach a sufficient scale for profitability. The history of global rural finance is dotted with failures due to large-scale subsidized lending, among these examples is the pre-reform period of Indonesia's now profitable Bank Rakyat Indonesia (BRI). However, the Vietnam Bank for Agriculture and Rural Development (VBARD) and its new offshoot the Vietnam Bank for Social Policies (VBSP), have, in fact, reached large numbers of poor people through directed subsidized lending. Still, this is likely a unique case in an unusual country with a strong pre-existing network of communes. Moreover, it is too early to predict what the outcome of the VBSP initiative will be. Nevertheless, the global experience suggests that with any new microfinance operation, there will likely be a need for initial subsidy in the early years. The evidence shows few if any such cases that have truly reached the poor on a large scale and been profitable from the outset.

In Pakistan there is still a substantial array of below-market rate funds going towards microfinance through both direct and indirect routes. The cost and impact warrant close study. Much appears to have gone to keeping interest rates down instead of building sustainable institutions. However, there has been little if any analysis of just what the cost and impact has been. It is important to know for the future what course of action would ensure the best impact and what pattern of support would offer the fewest distortions of the market.

Encouraging Savings. There may be some role for governments in encouraging savings services, including post office savings. Literature and some country case studies suggest that savings may be more important for the very poor for consumption smoothing and small

investment than credit, as well as offering lower risk⁸⁹. Savings services have often been limited partly due to regulations that control operation of institutions offering savings accounts. Managing very small individual savings accounts is costly, as the new Pakistan First Microfinance Bank is discovering. But demand may grow rapidly. In Indonesia, BRI's savers (averaging about \$100) are about 10 times the number of active borrowers (averaging about \$500) (Table 6.2).

Avoiding the Error of the Add-on Credit Component. The evidence shows that microfinance needs a financially sound and sustainable institutional home to enable effective management. It should not simply be added as a component to a CDD project. There are many examples of failed add-on, often subsidized, credit components. For example, the World Bank's Independent Evaluation Group (IEG) concluded recently that in the Indonesia Kecamatan Development Program (KDP) committed an error offering credit in addition to its grant program outside the framework of a sound microfinance institution. The poor repayment performance of that component could have been anticipated. For increased poverty impact, the same funds could have been used for a larger volume of targeted infrastructure. Add-on credit components have been a feature of some Pakistan CDDs. There are some partial successes such as AKRSP's credit component but this did not reach profitability despite the institution having substantial skills.

Meeting the Product Needs of the Poor. Country experience suggests that both lending- and saving-product flexibility and diversity are critical for the poor. While this is predominantly a private-sector role, governments may be able to help by creating an enabling environment for innovation and supporting research, again perhaps through some research-grant arrangements. Market research is important. The poor often need to transact loans over very short time frames. In Vietnam, for example, one NGO has a daily, weekly, and monthly loan product. VBSP is unable to compete with this. Institutions that have done well, such as Grameen Bank in Bangladesh, SEWA and others, offer products geared closely to demand. They are agile institutions. Diversity of institutions may help; however there is some trade-off between the number of institutions and efficiency as, with a given demand, volume, which aids efficiency, is reduced by a multitude of small institutions. Ultimately, in Pakistan, the efficient can be expected to thrive as the less efficient will be forced to close.

Improving Communications. New lending technologies linked to products are being vigorously pursued in case countries. There is increasing use of ATM-card technology (one example is India's Kisan (farmer) bank cards, which enable flexible borrowing). Computerized systems are lowering costs and enabling greater focus on efficiency. But Pakistan lags the other case countries in terms of communications and technology. This would be a key area for public investment in support of microfinance.

Policies and Practices of Microfinance Institutions. Global experience suggests that, other things being equal, poverty and sustainable scale probably have a better chance of success if an institution: (i) lends to women initially; (ii) starts off in more densely populated urban areas to keep initial costs down; (iii) charges full costs; (iv) builds to scale rapidly; (v) uses groups and supports internal group lending; (vi) listens and develops highly tailored saving and loan products for the poor; (vii) benefits (in some cases) from some cross-subsidy flowing from higher profit clients to lower profit clients; (viii) gives priority to capacity building for both itself and clients;

⁸⁹ However, this calls for some qualification. It has been suggested that demand for savings in Pakistan may be somewhat less than it is in some other countries due to a preference in Pakistan rural areas to keep livestock or fixed assets. But, even if true, this is likely to change.

(ix) is generally fairly unyielding about repayment, but (in some cases) attempts to offer insurance cover; (x) has tight management with an administration pyramid very narrow at the waist with strong focus on keeping down local/branch level costs including use of simple procedures and records; (xi) adopts new technologies when and where available; (xii) piggy-backs on already available client knowledge; (xiii) initially spreads costs across other program activities beyond credit; (xiv) benefits from some start-up subsidy but spends that wisely to enhance future efficiency and reach; and (xv) is flexible and agile. The institution also must operate within a reasonably conducive enabling environment, which it may or may not be able to influence.

SOCIAL PROTECTION

Social protection programs to supplement or stabilize incomes of the poorest households remain very limited in Pakistan, particularly in rural areas. Social security payments, made almost exclusively to former government and formal sector workers in urban areas, account for about two-thirds of the estimated Rs 52 billion in expenditures on social protection (Table 6.3). The wheat subsidy, which costs Rs 8 billion or about 15 percent of total expenditures on social protection, is untargeted and is likely to provide little benefit to poor rural households, except to the extent that net wheat sales from public sector imports and drawdown of government stocks reduce market prices.

Safety net programs targeted to the poor account for less than 18 percent of total social protection expenditures. The largest targeted program, *Zakat*, is financed through a voluntary levy of 2.5 percent of the value of financial assets deducted once a year and covers 1.7 million beneficiaries at a cost of Rs 5.9 billion. The *Pakistan Bait-ul-Mal* is a Federal government agency delivering vertical social welfare programs financed from general revenues, including the Food Support Program, which in 2003/04 delivered Rs 2.5 billion cash transfers to 1.25 million beneficiaries. Including the Tawana Pakistan program that provides midday meals to 530, 000 girls in government rural primary schools at a cost of Rs 0.70 billion annually, these safety nets total less than Rs 10 billion, or 0.17 percent of GDP.

Zakat, the largest targeted safety net program, has only a limited impact on poverty and inequality. A major problem with *Zakat* is its targeting, which features significant leakage to the non-poor, especially in rural areas (Table 6.3). Moreover, benefits are small and delivered infrequently. For example, *Zakat's guzara* transfers and rehabilitation grants (its main components) represents 14 and 23 percent of average recipient household income, respectively. These figures are higher among ultra poor households (25 and 42 percent respectively) and lower among poor and non-poor households (around 6 to 8 percent for each program modality). By comparison conditional cash transfer programs in Mexico and Nicaragua provide approximately 21 percent of average household expenditures. Given the relatively small size of *Zakat's* program benefits, it is not surprising that poverty and inequality decline only slightly as a consequence of these transfers. Moreover, irregularities in benefit payments also limit *Zakat's* impact on poverty. It is common for beneficiary households to receive fewer than the stipulated number of transfers; survey results indicate that the total amount received by the average household from *guzara* was equal to only about half of the full entitlement of Rs. 6,000 per year. *Bait-ul-Mal*, by contrast, delivers better targeted (albeit even smaller) benefits.

Table 6.2: Characteristics of and Lessons Learned from Microfinance (MF) Programs

<i>Country/program</i>	<i>Indonesia BRI</i>	<i>Egypt NBD</i>	<i>India Spandana</i>	<i>Vietnam VBSP</i>	<i>Pakistan Kashf</i>
Type of Program	Unsubsidized credit; loans up to \$5,000; savings accounts	Unsubsidized credit to poor (but not the poorest) households	Unsubsidized credit; women only; initially only urban	Subsidized publicly owned bank with social objectives	Credit and savings for poor women; small loans; training and insurance
Beneficiaries	3 million borrowers (about 20% agriculture); 25 million savers	25,000 borrowers (most non agriculture)	120,000 borrowers in 2004	8.5 million borrowers	65,000 borrowers
Institutional Factors	Large, mainly publicly owned bank with many branches; Strong focus on costs; offers some separate subsidized programs	Profitable micro-finance department in larger bank; small portfolio.	Low costs; retails funds from wholesale banks such as ICICI.	Established to ring-fence subsidized credit for social reasons; very large volumes.	NGO with low unit costs; focus is on enterprise development; Profitable (but not yet on an adjusted basis)
Sustainability	Sustainable, with high profits (perhaps mainly from larger loans); about 6% return on assets; dominance and policies means limited competition	Sustainable; microfinance is most profitable part of business; challenge is to maintain sustainability at a greater scale	Profitable and sustainable; 8.3% return on assets; scaling up of SHGs may entail high facilitation costs	Sustainability is uncertain as it operates with subsidies	Slightly profitable and thus probably sustainable; relatively safe portfolio
Lessons and Observations	<ul style="list-style-type: none"> * Safeguarding autonomy is key to turning around a failing public bank * Self-reliant fund mobilization helps * Ring-fence subsidies if they are politically unavoidable * Focus on savings and branch efficiency 	<ul style="list-style-type: none"> * Being selective helps profitability yet hinders reach and poverty impact * An efficient organization can make MF profitable 	<ul style="list-style-type: none"> * Start with lower cost loans in urban areas and focusing on women * Focus on loans with high value per staff cost * Pursue group savings first before lending * Reduce interest for proven borrowers * Offer insurance 	<ul style="list-style-type: none"> * Public credit <i>can</i> reach scale and depth. 	<ul style="list-style-type: none"> * Lending to women and starting in urban areas can enable a quick and profitable start-up * Scale up fast to achieve volume and profitability, but avoid excessive risk

Source: Adapted from Nelson 2006.

Table 6.3: Distribution of households in the major safety net programs in Pakistan, 2004-05

	Ultra-poor		Poor		Non-poor		Total
	% of beneficiary households ¹	% of program funds	% of beneficiary households ¹	% of program funds	% of beneficiary households ¹	% of program funds	
<i>Zakat guzara</i>	39	33	33	35	27	32	100
<i>Zakat Rehabilitation</i>	44	23	19	32	37	45	100
<i>Bait-ul-Mal</i>	46	45	30	32	23	23	100
All sample households	38		35		27		100

Source: Staff estimates based on Phase II of Pakistan Safety Net Survey.

Notes: Before forming the income groups, expenditures have been adjusted to counterfactual pre-program levels by subtracting half of the average monthly program receipt over the last 12 months from the total expenditure.

Safety nets for both the rural and urban poor should be made more efficient and scaled up so as to cover a major share of the chronic poor and some of the transitory poor as well (largely through the expanded use of conditional cash transfers). The wheat subsidy program could be replaced by a targeted program based on either food or cash. Cash transfer programs such as the Food Support Program could be scaled up and the scope of these programs expanded to encourage long-term human capital investments among the poor, for example based on the model of the pilot Child Support Program, a conditional cash transfer (Box 6.6). Likewise the Tawana Pakistan school feeding program could be redesigned and scaled up. Nutritional interventions aimed at improving health and nutrition of women and infants ought to be piloted and scaled up. The government may also consider piloting a major rural workfare program in order to provide temporary employment to vulnerable households.

Box 6.6: The Child Support Program (CSP) — A Conditional Cash Transfer

Pakistan will soon begin to implement a new Child Support Program (CSP). CSP is a conditional cash transfer for education targeted to existing beneficiaries of the Food Support Program (FSP). CSP will provide an additional benefit to FSP beneficiaries provided their children of school-going age regularly attend school.

Under CSP, a family with one child aged 5-12 years will receive an additional Rs. 200 per month, while a family with two or more children aged 5-12 years will receive an additional Rs. 350 for as long as they keep all their children 5-12 enrolled in school and attending at least 85 percent of the time. Families with no children of school-going age or whose children do not attend school will continue to receive the regular FSP benefits and will therefore not lose out as a result of this new program.

CSP was launched as a pilot in three districts in late 2006. A rigorous scientific impact evaluation, based on comparisons of outcomes with a control group of FSP beneficiaries not receiving the CSP transfers, is planned and scheduled to be completed by October 2007. Depending on the outcome of this evaluation, the FSP pilot could later be scaled up to cover the entire country.

Table 6.4: Safety Nets in Pakistan

Name of program	Type of benefit	Target group	Source of funds	Annual Expenditures (Rs bn)	Number of Beneficiaries
Zakat (cash transfers and other)	Cash	The destitute	Special levy on bank balances	5.86	1,733,000 ^a
Bait-ul-Mal (Food Support and other)	Cash (and some schools)	The destitute	Federal budget	4.5	1,250,000 ^a
Tawana Pakistan	Midday meals	Girls in government rural primary schools	Federal budget	0.7	530,000 ^a
Wheat subsidy		All wheat consumers (untargeted)	Federal and provincial budgets	8	n.a.
<i>Total, social assistance</i>				19.06	n.a.
<i>Social security</i>					
Employees Old Age Benefits (EOBI)	Old-age pension (cash)	Formal-sector workers	Employers	1.74	850,000 ^b
Workers Welfare Fund (WWF)	Housing, schools, health facilities	Formal-sector workers earning less than Rs 5,000 per month	Employers	2.6	n.a.
Employees' Social Security Institutions (ESSI)	Insurance against death, disability, maternity (cash); medical care in own hospitals (in-kind benefits)	Formal-sector workers earning less than Rs 5,000 per month	Employers	2.08	464,000 ^b
<i>Total, social security</i>				6.42	n.a.
Total, social assistance and social security				25.48	n.a.
Total, as share of GNI				0.47%	n.a.

Source: World Bank Pakistan Safety Nets report (forthcoming).

Notes: ^a Number of beneficiaries of recurrent benefits; ^b Number of workers covered by insurance scheme.

Heavily-indebted Laborers

Social protection programs are also needed to address the problems of heavily-indebted laborers subject to forced labor of various types. This practice is particularly persistent among landless sharecroppers in rural southern Punjab and northern Sindh. Measures to assist households trapped in unfair labor and credit arrangements would have a major impact on some of the poorest rural households in Pakistan. One option, implemented by the government of Nepal in 2000, was to issue a decree freeing such laborers from ancestral debts and imposing harsh penalties on employers. An alternative to manumission by decree would be some sort of debt buyout implemented through local governments or NGOs. Whatever means is used to eliminate or ease the debt burden of these laborers, these efforts should be complemented by other assistance such as skills development, access to credit, and perhaps even land grants, in order to enable laborers to develop alternative sources of income not linked to erstwhile employers-cum-creditors. Given the political sensitivities involved and the need to test the modalities for reduction/elimination of debts and income-generation programs, pilot projects may be needed before full scale reform is attempted.

Box 6.7: Problems of Heavily-Indebted Laborers in Pakistan

Laborers subject to unfair labor and credit arrangements work in various sectors and industries in Pakistan, e.g. agriculture, carpet weaving, brick-kilns, stone quarrying, hotels and restaurants and construction. Debt bondage is the worst form of these unfair practices, in which workers are bound to employers by debts owed to the latter as well as through formal or informal labor contracts. Because of their lack of assets, extremely low incomes and lack of funds, poor laborers may become dependent on the landlord or employer for credit with high implicit interest rates that must be repaid in the form of free labor to their creditor. This type of labor bondage often continues over generations as when adults grow old or are disabled, their children become liable for the debt. Similarly, when husbands die, wives must assist in the repayment of these debts. In its worst form, laborers are not allowed to work at other places without the permission of the landlord/employer. In some cases, women and children must remain resident on the farm to vouchsafe good behavior.

Religion, ethnicity and caste play major roles in determining the burden of these labor practices. According to a report carried out by Australian consultants for the Government of Sindh and the Asian Development Bank under the *Sindh Rural Development Project*, “There are some 1.7 million landless agricultural workers (*haris*) and sharecroppers in five districts of Sindh Province (Thatta, Dadu, Badin, Mirpurkhas and Umerkot). Most of these people are in debt bondage. While bonded labor exists throughout Sindh, the majority of those bonded in northern Sindh belong to the Muslim majority, while most of the bonded agricultural laborers in southern Sindh belong to *dalit* (untouchable) and to tribal communities who have migrated from the drought-prone area of Tharparkar desert. Poverty and starvation have forced these communities to accept cash advances from landlords, and to submit to work for them from dawn until dusk. Bonded laborers may be detained or guarded to stop them escaping and in these situations of total ownership rape of women is not uncommon” (Agrodev 2000).

Though the number of workers subject to these extremes may be only a small share of *haris* and sharecroppers, the plight of these people led the Pakistan government to pass the *Bonded Labor System (Abolition) Act* of 1992. Despite the serious penalties prescribed by the legislation, however, cases of bonded labor persist because of the political and financial strength of some landlords in southern Punjab and Sindh.

Sources: Nazli 2003 and Agrodev 2000.