

## **NGOs, Micro-finance and Poverty Alleviation: Experience of the Rural Poor in Pakistan**

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### **INTRODUCTION**

Non-governmental organisations (NGOs) continue to be the global ‘flavour of the month’ in international development. They are regarded as “outside” actors perceived to work in the interests of the poor, and in the absence of the state, many NGOs have taken on vital role in the provision of basic services to the poor. The institutional and political environment is attuned to privatisation in whatever form it takes. NGOs are another expression of this trend, but in the case of NGOs no real disillusionment phase has yet set in. But still NGOs remain the favoured vehicle for grass-roots involvement and community development in many countries.

The present paper seeks to delineate the role of NGOs in micro finance and study their aggregate impact on poverty reduction in rural Pakistan as a result of micro finance efforts. The paper is organised in four sections. Section I commences with the concepts, promises and limitations of NGOs as a vehicle of micro finance. Section II summarises the record of performance of NGOs in Pakistan. In particular, the role, achievements and set-backs of two noted NGOs in Pakistan, Agha Khan Rural Support Programme (AKRSP) and National Rural Support Programme (NRSP). Which are studied by examining aggregate impact of these NGOs on poverty reduction as result of their micro finance efforts. Section III examines the poverty profile and presents summary of the role of NGOs in the context of poverty lending and, finally Section IV concludes the analysis and proposes some policy recommendations.

### **I. NGOS, MICRO CREDIT, AND POVERTY: SOME CONCEPTUAL ISSUES**

In its simplest form, an NGO is a body of people who come together to provide help to those who fail to accumulate sufficient resources to survive. In its

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most ambitious form, an NGO is a private, not-for-profit institution dedicated to influencing the working structure of government and ensure the greater welfare of all citizens.

NGOs emerged in real numbers only after the second world war, concurrent with the dismantling of former colonies. Many such organisations have evolved from anti-colonial independence movements and are now dedicated to the upliftment of the poor and implicitly recognise that government alone can never solve the problems of poverty in general and of destitutes in particular.

The poor people in the developing world manage to mobilise resources to develop their enterprises and their dwellings rather slowly over time. Provision of credit could enable the poor to leverage their initiative, accelerating the process of building incomes, assets and economic security. However, conventional finance institutions seldom lend down-market to serve the needs of low-income families and women-headed households. They are very often denied access to credit for any purpose, making the discussion of the level of interest rate and other terms of finance irrelevant. Therefore the fundamental problem is not so much of unaffordable terms of loan as the lack of access to credit itself [Mustafa (1992) and Ghate *et al.* (1992)].

Successful experiences in providing finance to small entrepreneur and producers demonstrate that the poor people, when given access to responsive and timely financial services at market rates, repay their loans and use the proceeds to increase their income and assets. This is not surprising since the only realistic alternative for them is to borrow from informal market at an interest much higher than market rates. Community banks and grassroots savings and credit groups around the world have shown that the micro-enterprise loans can be profitable for borrowers and for the lenders, making micro-finance one of the most effective poverty reducing strategy [Aziz (2000)].

It has been argued that in most organisations designed to provide intermediary services between government, or resource providers for grass-roots development, power tends to be skewed towards the small minority that already holds more resources (usually land). This minority uses its power to pre-empt, for its own use, the bulk of scarce and valuable resources provided by governments. Consequently, the poorest (marginal and landless people) tend to drift away from these organisations because they have nothing to offer them. Then, the clear message for NGO is the importance of involving poor people in the governance and the delivery of the services for which the NGO has been created [Uphoff (1982)].

Two approaches have been advocated on the role of credit in poverty reduction. The supporters of the 'income-generation approach' maintain that credit should be provided mainly to the entrepreneurial poor to enable them to finance specific private income-generating activities to increase their revenues, while the proponents of the so-called 'new minimalist approach' argue that credit programmes would still be helping the poor fight poverty by giving credit to any poor person

who is able to repay a loan without dictating to that person how and on what the loan should be used. Some studies have pointed out that the problem of the non-productive use of credit, as advocated by the minimalist approach, lies in the fact that by consuming rather than investing their loans, the actions of such borrowers, if imitated by other poor people, could produce a negative impact on the future growth of microcredit [ADB (1999) and Yaron (1992)].

Several NGOs in many countries (e.g. Bangladesh, India and Kenya) have succeeded in reaching the poorest of the poor by devising innovative strategies. These include the provision of small loans to poor people, especially in rural areas, at full-cost interest rates, without collateral, that are repayable in frequent installments. Borrowers are organised into groups, which reduces the risk of default. These are also effective mechanisms through which to disseminate valuable information on ways to improve the health, legal rights, sanitation and other relevant concerns of the poor. Above all, many micro-credit programmes have targeted one of the most vulnerable groups in society-women who live in household that own little or no assets. The provision of opportunities for self-employment to these women, have lead to the conclusion in case of many that studies such programmes have significantly increased women's security, self-confidence and status within the household [HDC (1999) and Narayan (2000)].

The development thinking is now characterised by a more pragmatic and cautious approach by NGOs. But on the government side, there is a reluctant admission to the idea that NGOs can play a useful role in stimulating grassroots involvement of the people in government development planning and implementation. By collaborating with NGOs, governments can mobilise the support of local people and local resources to ensure that the costs of delivering government-supported development projects are sustainable and appropriate to the circumstances of the intended beneficiaries. This scenario of NGO involvement in development process is characterised by being less conflicting, a reduced adversarial mode of operation, and an advocacy approach to the pursuit of justice and greater resources for the poor [Narayan *et al.* (1999) and HDC (1999)].

## **II. NGO DEVELOPMENT IN THE CONTEXT OF MICRO-FINANCE LENDING IN PAKISTAN**

Experience shows that small credits play a significant role in poverty eradication. Also, when these loans are used by women, the benefits have been observed to include better education and food and health care for their families. On the other hand, men have the tendency to utilise a substantial amount of their income outside their homes, on social activities and personal enjoyments.

Rural supports programme (RSP) have been initiated by the Govt. of Pakistan in order to improve the social and economic conditions of the rural masses. The largest among these is the National Rural Support Programme (NRSP) followed by

the Sindh Rural Support Corporation (SRSC), Balochistan Rural Support Programme (BRSP) and Punjab Rural Support Programme (PRSP). All these follow the successful model of Aga Khan Rural Support Programme (AKRSP) based in Pakistan's Northern Areas and Chitral. Performance of two of these Programmes—Aga Khan Rural Support Programme (AKRSP) and the National Rural Support Programme (NRSP) is critically assessed in the following pages.

### **The Aga Khan Rural Support Programme (AKRSP)**

The Aga Khan Rural Support Programme (AKRSP), a non-profit project initiated by the Aga Khan Foundation, started operating in 1982 to improve the extremely poor socio-economic conditions of about one million inhabitants of Pakistan's five northern mountain districts. AKRSP derives its success from a two pronged focus on institution-building and community participation.

AKRSP has worked to accomplish its mission through several types of operations, including: (1) organising village-level institutions; (2) funding physical infrastructure projects; (3) promoting natural resource management in agriculture, livestock and forestry; (4) training and human resource development; and (5) marketing and enterprise development. By the end of 1994, 1,834 Village Organisations (VOs) and 763 Women's Organisations (WOs) had been established with 101,304 total members. These VOs and WOs covered over two-thirds of the rural households in the programme area. In addition, 1,501 productive physical infrastructure projects had been initiated to the benefit of 85189 households; 986 training courses had been given to villagers, 200 hectares of forest and more than 2,000 forest nurseries had been established; and nearly 2.5 million fruit trees had been planted [HRD and NRSP (1998)].

Since its start and through 1994, the total expenditure of the AKRSP programme has been US\$7.4 million. The funds are largely arranged from donors and the Aga Khan Foundation network provided 65 percent of the funds in the programme's first year, which declined to 30 percent in the 1984–87 period, and to 7 percent in 1991–94 (see Table 1).

The provision of saving and loan services is central to the many other instruments used by AKRSP to accomplish its mission. Savings services have been offered since the programme's inception, however, AKRSP's credit operations did not begin until 1989. As of the end of 1995, AKRSP had mobilised \$7.5 million in deposits and had \$5.6 million in outstanding loans. AKRSP's financial services reach more than 100,000 households—over-two-thirds of Pakistan's estimated rural population in the programme areas [World Bank (1996).]

Loan and deposit services are not part of every AKRSP activity, however, they are integral parts of VO/WOs. Cumulative (to the end of 1994) loan disbursements totaled Rs 350 million. The outstanding loan portfolio at the end of 1994 was Rs 123 million and the deposit balance was Rs 211 million. As part of

Table 1

*AKRSP Donor Support, 1982–94 (in US\$ 000')*

	1982-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	Total	%
CIDA	415	658	706	888	1069	1530	1855	694	867	1836	1331	2521	14367	27
Netherlands Government	0	0	258	461	1183	1717	1834	709	1120	1489	1109	1352	11230	21
ODA	25	65	131	208	10	1878	1068	1014	2769	717	1230	632	9749	19
Aga Khan Foundation	1132	715	805	1046	816	464	450	381	777	336	252	502	7674	15
Norwegian Agency for Int. Dev.	0	0	0	0	0	0	0	0	590	538	548	739	2414	5
EU	0	0	0	0	137	135	0	160	381	184	571	449	2018	4
Konrad Adenauer Foundation	0	0	90	246	0	72	88	156	451	183	143	344	1438	3
USAID	0	0	0	0	334	331	0	0	0	0	0	0	1001	2
GTZ/BMZ	0	0	0	0	0	0	0	0	0	0	317	160	477	1
World Bank	0	0	0	0	0	0	0	0	0	0	31	85	116	0
Others	165	202	290	233	518	18	49	77	106	41	23	51	1771	3
Total	1735	1640	2279	3081	4068	6144	5344	3190	7060	5324	5553	6835	52254	100

*Source:* World Bank (1995); AKRSP (1995).

AKRSP's inception, provisions were made for small-sized loans from AKRSP to the VO/WOs for distribution to members; and medium-sized loans were taken primarily by the VOs themselves. AKRSP introduced obligatory savings to mobilise capital and the use of credit from village organisations to assist small farmers. Later on, AKRSP shifted its focus to village organisation/women's organisation credit programmes (VOCP/WOCs) that linked amounts borrowed to money saved. The VOCP/WOCs made savings a more attractive proposition. AKRSP launched a micro enterprise programme. This is a considerable departure from the basis on which AKRSP had historically allocated credit and the micro enterprise programme has been far more risky. It was followed in 1995 by a new programme of corporate and commercial credit designed to support enterprises linked directly with village and women's organisation commercial interests [World Bank (1996)].

The credit programme that AKRSP initially promoted involved short and medium term loans. The principal type of short term loans featured since 1983 are for fertiliser. While these are not collateralised, applicants must be approved by their VOs and the VO savings are a sort of informal collateral in a transaction which requires AKRSP approval. Crop marketing loans are 100 percent collateralised by the borrower's savings. These are used to facilitate sale at an advantageous time, enabling VO/WOs members to obtain better prices than if they sell their crop just after harvest. In a typical case, a very high proportion of VO members may qualify and receive short-term loans.

The medium term loans, issued since 1985, were 30 percent secured by time deposit receipts representing VO/WO deposits at commercial banks or similar institutions (the rest being underwritten by AKRSP). They were meant to take advantage of the irrigation provided by the PPIs and were used for sulphur tents for apricot drying, for agricultural machinery and other rural activities. The maturities on these loans were for two to five years. They were issued by AKRSP to VOs, rather than to individual borrowers. These have been virtually discontinued because of poor performance, either because of ineffective handling by VOs or issued for inappropriate technologies.

The Village Organisation Credit Programme (VOCP) of AKRSP involves a number of conditions: all short term and medium term loans have to be paid off and the VO must have a generally good repayment record as well as sufficient trained management. Also, VO savings must exceed Rs 50,000 to be eligible for the minimum loan amount of Rs 50,000. Maturities on loans to members can be as short as three months and do not exceed one year, although roll-overs are possible. Unlike the Village Organisation Credit Programme (VOCP), Women Organisation Credit Programme (WOCs) dispenses credit with the minimum Rs 50,000 savings balance requirement and there is no minimum loan size requirement for a WO (see Table 2).

Table 2

*Credit Disbursed by AKRSP (US\$ Millions)*

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
<b>From AKRSP to</b>											
<b>VO/WOs, by Type</b>											
Short-term	0.08	0.19	0.30	0.48	0.71	1.24	0.84	0.45	0.38	0.41	0.38
Medium-term		0.03	0.23	0.27	0.78	0.72	0.74	0.07	0.11	0.11	0.04
<i>Sub Total</i>	0.08	0.22	0.53	0.75	1.49	1.96	1.58	0.52	0.48	0.52	0.42
<b>From VOCP/WOCPS</b>											
<b>to Members, by District</b>											
Gilgit							0.14	0.57	0.39	0.63	0.97
Chitral							0.01	0.04	0.15	0.15	0.20
Baltistan							0.00	0.02	0.05	0.11	0.12
Astore											
<i>Sub Total</i>							0.16	0.64	0.60	0.89	1.29
<b>From AKRSP to MECP</b>											
<b>Participants, by District</b>											
Gilgit										0.02	0.04
Chitral										0.00	0.02
Baltistan											0.01
Astore											
<i>Sub Total</i>										0.03	0.07
Total	0.08	0.22	0.53	0.75	1.49	1.96	1.74	1.16	1.08	1.44	1.78
Annual Increase		195%	136%	42%	97%	32%	-11%	-33%	-7%	34%	23%

Source: World Bank (1995); World Bank (1996); AKRSP (1995).

With the VOCP/WOCP structure, credit operations of AKRSP have been decentralised: VOs and WOs take on the responsibility for approving and issuing loans to members. Frequently, groups delegate loan approval authority to a credit committee consisting of up to seven members. The programme also links loan amounts to savings. The VO/WO can borrow from AKRSP up to a limit—making all loans fully secured by members' own savings balance, plus that of his or her guarantors when the loan is larger than the borrower's own savings balance. To be eligible for the programme, groups must also establish a reserve fund, distribute profit proportionately to savings and remunerate officers for their services.

Part of the contract between a community and AKRSP is the formation of a VO and the undertaking by members to make a deposit at every meeting, which is usually semi-monthly. Some VOs agree on a minimum deposit (such as Rs 5) and other allow members to decide upon the amount which can vary over time. In those cases where an equal amount of savings are prescribed, this may be a symbol of solidarity or, less positively, a way to exclude the poorest members of the community. VOs have a membership in the hundreds whereas WOs, which follow the same system, usually have 30–35 members. For both, savings efforts have produced impressive results (see Table 3).

Certain procedures have been used by AKRSP to ensure transparency and also to focus on members' performance. Individual members are supposed to be informed of their savings balances at each meeting. Members are supposed to be apprised of any changes in the status of their collective savings and investment in a bank time deposit; for example, about the profits or interest earned on these assets, and about any pledges against these that have been used to secure VO/WO borrowings. Final statements of accounts are to be prepared every six months and these have to be submitted to the VO or WO for its approval. Books are to be audited at least once a year by an AKRSP Field Accountant. Although AKRSP core staff have been

Table 3

*Deposits by Members of VOs and WOs (AKRSP)*

	(US\$ Millions)										
	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
VOs	0.06	0.43	0.66	0.95	1.78	2.58	2.96	3.47	3.75	4.37	5.04
WOs	0.02	0.04	0.08	0.12	0.19	0.27	0.37	0.48	0.57	0.71	0.82
Total	0.09	0.47	0.75	1.07	1.97	2.85	3.33	3.94	4.33	5.07	5.86
Annual Increase		437%	60%	44%	84%	45%	17%	18%	10%	17%	16%

Source: World Bank (1995); AKRSP (1995).

entrusted the task for overall guidance and control central records and systems, they often depend upon the records of Village Accountants and the Field Accounts. It was reported that one third of the VO/WOs lacked village account assistance and the Field Accountants were still too few to implement accounting controls effectively [Potter and LeBreton (1992)].

The AKRSP started lending at 8 percent rate after the closure of interest free loan policy in 1988, as service charge and was equal to the interest paid by commercial banks on profit and loss sharing accounts. VO/WOs add additional 5 percent to cover their own administrative costs for purposes such as payment to the manager and to create reserve for contingencies. In addition, most VO/WOs follow the Programme's advise that an additional fee be added to reward savers. As such, twelve percent per year has been recommended, but those actual charged have ranged from zero to 24 percent, resulting in total service charges to the borrowers that range from 12 to 36 percent, with a median of 24 percent consisting of 7 percent to AKRSP, 5 percent for overheads and 12 percent to reward savers [Word Bank (1995)].

It is perhaps the result of higher rates charged to borrowers that repayment performance of members in VOs/WOs of AKRSP has tended to deteriorate over time. This trend is most noticeable as the recovery rate have slid from 98 percent in 1983 to some 77 percent in Gilgit and its surroundings during 1991-93. Amongst others, causes of generally declining repayment performance may be attributed to (a) decreasing intensity of AKRSP activities in a village over time; (b) rational selection of lowest risk activities at the outset and gravitation toward larger, riskier ventures over time; (c) borrowers probing the effects of delays in repayment coupled with; (d) AKRSP's reluctance to move forcibly and its proclivity to try and reach a solution through dialogue, which is possibly the only recourse when loans are unsecured; (e) lack of a plan devised to deal with loans affected by catastrophic situations such as communal strife; and finally (f) limits to growth of economic activity in the area which are a function of human resources, and the area's continued isolation from the rest of the country [World Bank (1996)].

To sum up, the three hallmarks of AKRSP's success are the organisation's community focus, saving emphasis, and flexible operations. These are the features that are perhaps most often attempted to be replicated in other areas, of Pakistan. One of AKRSP's successes has been its ability to attract and retain sufficient qualified and dedicated staff to maintain the development of the programme and expansion of its operations. Its recruitment efforts have been focused on the local populations; its development results have been tangible; and its salary structure has been attractive, especially in its rewarding of outstanding employees (see Table 4).

Table 4

*AKRSP's Staff Strength by Category and by Gender, 1987–94*

	1987	1988	1989	1990	1991	1992		1993		1994	
	Total	Total	Total	Total	Total	Total	Women	Total	Women	Total	Women
Management Group	9	10	10	13	15	13	1	12	1	13	1
Senior Professionals	21	16	25	50	49	52	5	55	6	53	6
Junior Professionals	61	62	78	100	112	105	11	104	13	126	17
Support Staff	53	49	55	59	51	57	15	56	21	77	20
Divers/Auxiliaries	89	100	102	95	100	116	0	127	0	172	0
Total	223	237	270	317	327	343	32	354	41	441	44

Source: World Bank (1995, 1996); AKRSP (1995).

Note: Women employees are only segregated here for the last three years of data. However, the sources have data on women employees from 1989.

AKRSP's saving and credit operations have been dependent on the formation and functioning of VOs and WOs. The energy and health of the VOs/WOs however appear to be major determinants of savings levels and credit use, and of the quality of the credit portfolio. At the same time successful savings and credit operations reinforce the strength and sustainability of the VOs/WOs.

It may be pertinent to sum up:

“The AKRSP has contributed significantly to rapid economic growth and development in Northern Pakistan. Results of the periodic Farm Household Income and Expenditure Surveys conducted by the AKRSP show that per-capita income in the programme area has increased by almost 55 percent during 1991–97. As a result of this significantly higher rate of increase in incomes in the area compared to the rest of the country, per capita incomes in Northern Pakistan as a proportion of national per capita incomes has increased from 35 percent to 56 percent in the same period. Because of this rapid economic growth, the poverty level in the area, as measured by standard poverty line definitions, decreased from 49 percent of the population in 1991 to 32 percent in 1997. At the same time, the Gini coefficient, a measurement of income inequality, exhibited a small decline from 0.37 in 1991 to 0.36 in 1997, indicating that the significant economic growth in Northern Pakistan was not accompanied with higher levels of income inequality” [Pakistan (2000)].

### **National Rural Support Programme (NRSP)**

The National Rural Support Programme (NRSP) was set up as a public limited company under the Companies Act of 1984 in November 1991. Its conceptual basis

is the organisational model of the Aga Khan Rural Support Programme (AKRSP). At the heart of this model lies the vision of building up the collective strength of the poor through social organisation. The institutional capacity of the organisation is predicated upon capital formation through collective savings and human resource development through training of village specialists.

NRSP has helped rural communities in eight districts of Pakistan to establish 4988 Community Organisations (COs), of which 3250 are male, 1292 female, and 446 mixed COs: upto April 1998. Mixed COs are often formed in those communities where a group of distant or close relatives get together, or where the segregation of sexes is not very rigid. The risk in all these cases is that male domination does not allow the full participation of females. [HRD and NRSP (1998)].

The membership of the COs increased from 10,975 in 1993 to 116595 in 1998. The average membership in a community organisation, however, has fallen from 30 to 22. The reduced average size of the CO is a reflection of the fact that the COs have applied their rules of membership quite strictly and excluded inactive members from their rosters. Also, some members probably the local influential apparently left on their own accord because they did not see direct benefits, which in any case they could easily derive from non-participatory programmes and projects. It was reported that in one-third of the COs the membership base had shifted towards the poor; one-fifth of the COs had provided a safety net to the needy households; and an equal proportion of the COs had taken special initiatives in local management [Mumtaz (1997); HRD and NRSP (1998)].

It is reported that most CO members generally do not participate in the decisions made by the general body, which is required to meet twice a month, though they like the idea of regular assembly and see some benefit of saving regularly, even in small amounts. However, they are unsure about the central idea of the CO: each members should be willing to sacrifice in some form for the collective good through which, alone his/her individual welfare is best served. There are often wrong expectations of the partnership with NRSP, in which the CO is seen simply as a convenient arrangement to receive benefits. Many CO members are not aware of the major decisions made in the general body even though they were present. Similarly, they are often unaware of their savings in the CO account (see Table 5).

NRSP considers capital formation through CO savings as one of the three 'cornerstones'. Each CO is left to determine the amount of savings that its members will be required to make regularly at each meeting. This flexible approach is better in that it accommodates differences between and within the COs. The total CO savings at the end of 1998 were Rs 79.89 million, including the amounts pledged as collateral for loans from NRSP. The average savings per CO and member were Rs 16016.44 and Rs 685.19 respectively. It should be noted that, unlike some other rural support programmes such as AKRSP, NRSP did not link the CO savings to free inputs or grants for physical and social infrastructure. It has imposed no conditions on the CO to achieve a certain level of savings before the real partnership could begin.

Table 5

*Progress of National Rural Support Programme (NRSP)—upto April, 1998*

		RWP	KHB	BDN	RWK	TBT	MDN	D.G. Khan	Vehari	Total
Community Organisations										
CO's Formed (No)	Male	638	529	686	354	191	271	176	405	3250
	Female	299	305	261	217	192	18	–	–	1292
	Mixed	295	21	48	58	24	–	–	–	446
	Total	1232	855	995	629	407	289	176	405	4988
Community Organisation (CO)										
Membership (No.)	Male	18147	11229	17748	9475	5254	9443	2997	8543	82836
	Female	8851	6205	6135	7499	4762	307	–	–	33759
	Total	26998	17434	23883	16974	10016	9750	2997	8543	116595
Total Savings of Community Organisations (in Rs)										
	Savings	4290852	3857240	2334643	7750296	2509588	425249	1490008	1196716	23854592
	Collateral	14616700	17900339	8805350	8376860	1883000	237960	–	7215610	56035819
	Total	18907552	18757579	11139993	16127156	4392588	663209	1490008	8412326	79890411

Source: HRD and NRSP (1998).

The basic purpose of the credit policy of NRSP is to bridge the gap between what the small farmers and the rural poor need and what is accessible to them. Loans are offered neither free nor at heavily subsidised rates. The advantages of NRSP credit are: (i) accessibility, (ii) simple procedures and short time lag, and (iii) group collateral. There are four major credit lines for which NRSP extends its loans: agricultural inputs; livestock purchase and fattening; enterprise development; and small infrastructure as individual enterprise. The collateral requirements are the same for each of the credit lines; so are the penalties of 1 percent per month in case of default. Each credit line has a specified ceiling, a time limit for repayment, and a service charge. The loan ceiling for a CO ranges between Rs 80,000 and Rs 90,000. The cumulative disbursement of credit until the end of April 1998 was Rs 457.47 million, of which nearly 70 percent went to enterprise development and livestock in almost equal proportion; the share of agricultural inputs was about 28 percent. 9744 COs (upto Feb. 2000) were established and 23969 households had enrolled in their membership. The total number of loans was 1746. The average size of loans per household was Rs 19085.90 but there is no way to determine the average loan amount per loanee since there is no indication of whether each loanee has received only one loan, or one loan has been distributed among several loanees in the CO. The average recovery rate had stayed around 97 percent in between 1993 through 2000 [HRD and NRSP (1998); Pakistan (2000)].

NRSP's programme for women includes the formation of separate COs for women where they cannot be partners with males in the so-called mixed COs. Female COs increased from 143 in 1993 to 1292, and their membership increased from 3,110 to 33759, by end April 1998. Their savings increased quite significantly, from Rs 129,487 to Rs 715,041 over the same period; they accumulated Rs 844,523 in their savings. They were also quite active in acquiring credit from NRSP. By the end of 1998, 62 female COs, comprising 269 loanees, had used nearly Rs 1.3 million in loans, mainly for poultry birds, livestock, and micro enterprises (see Table 6a, 6b).

In Primary education, 150 community schools for 3097 girls and 1683 boys had been established in collaboration with the rural communities by April 1998. Education committees and parents' groups have been established to maintain and operate these schools. The school teachers are holders of certificates of matriculation and intermediate education; they are paid Rs 1000 to Rs 1500 per month, in which the contribution of the community ranges from 38 to 63 percent. The community is expected to increase its share as the benefits of education are now well recognised. In addition, some 2179 infrastructure schemes were initiated and 57688 households availed the benefits of these schemes. Nearly 5.1 million animals were vaccinated and 6499 million trees planted through NRSP in collaboration with UNDP upto February 2000 [Pakistan (2000) and HRD (1998)].

Table 6(a)

<i>NRSP-Rural Credit and Enterprises Development (upto April, 1998)</i>	
Credit Disbursed	Rs 457479095
Households Covered	29480
COs Covered	9660
Male	1819
Female	537
Fixed	304

Table 6(b)

<i>Credit Disbursed for Different Activities</i>	
Activities	Percentage
Agri. Inputs	27.1
Enterprise Development	30.1
Small, Individual Enterprise	3.8
Stock Development	39.0

Source: HRD and NRSP (1998).

### III. ROLE OF NGOs IN THE CONTEXT OF POVERTY LENDING

The poverty profile of Pakistan shows that a quarter to one-third (30-50 million) of its population lives below the poverty line, if poverty is defined narrowly—in terms of required food calories per capita or minimum income of \$ 1/day. While less than one-third of the country's population is income-poor, almost one-half (70 million) suffers from serious deprivation of opportunities. Nearly two-thirds of total adult population (and as much as three-fourth of adult female population) cannot read or write. Access to basic social services like primary health care and safe drinking water is denied to nearly half of the population [Banuri *et al.* (1997)].

The Pakistan Integrated Household Survey (PIHS), established that in 1991 tenants constituted a sizeable group (14 percent) of rural sample and had a poverty headcount of 44 percent; agricultural labourers, (7 percent of rural sample), were even worse off with poverty headcount of 56 percent. Among non-agricultural rural households, the groups with the highest poverty headcount were casual workers (45 percent) and the self-employed (46 percent) with less than Rs 1000 in assets, livestock etc. There is a general consensus that poverty in Pakistan has increased in

the 1990s. This rise in poverty is mainly attributed to declining economic growth, persistence of severe macro-economic imbalances, reduction in the flow of remittances from overseas Pakistani workers, lack of social safety nets, and poor governance [Pakistan (2000); Aziz (2000)].

According to the caloric-based poverty (headcount ratio), the incidence of poverty declined sharply from 46.5 percent in 1969-70 to 17.3 percent in 1987-88. The rural and urban poverty also declined sharply during the period. However, poverty increased significantly in the 1990s, rising from 17.3 percent in 1987-88 to 22.4 percent in 1992-93 and further to 31 percent in 1996-97. The recent estimates suggest that poverty has further increased to 32.6 percent in 1998-99. In other words, the number of poor people that cannot meet their daily nutritional requirements and fell below the poverty line, increased from 17.8 million in 1987-88 to 43.9 million in 1998-99. Similar trends are observed in the case of rural and urban poverty. In fact, the incidence of poverty in rural areas has remained higher than the urban areas since 1966-67 (see Table 7).

The role of NGOs in poverty reduction may remain ambiguous and questionable if judged in the context of given poverty profile in Pakistan. It may be that NGOs contributed to the well-being of their participants at various places but their aggregate impact on poverty reduction seems to remain negligible. Notwithstanding their performance, over 8000 NGOs were identified in Pakistan in 1994.

Table 7

*Trends in Poverty: Head Count (Poor Households as Percentage of Population)*

Year	Total	Rural	Urban
1963-64*	40.24	38.94	44.53
1966-67	44.50	45.62	40.96
1969-70	46.53	49.11	38.76
1979	30.68	32.51	25.94
1984-85	24.47	25.87	21.17
1987-88	17.32	18.32	14.99
1990-91	22.11	23.59	18.64
1992-93	22.40	23.35	15.50
1996-97**	31.00	32.00	27.00
1998-99***	32.60	34.80	25.90

Source: Pakistan (2000).

\* Rashid Amjad and A. R. Kemal (1997) Macroeconomic Policies and their Impact in Poverty Alleviation in Pakistan. *The Pakistan Development Review* 36:1.

\*\* Social Policy Development Centre, Karachi.

\*\*\* S. K. Qureshi and G. M. Arif (1999) *Profile of Poverty in Pakistan, 1998-99*. Pakistan Institute of Development Economics, Islamabad.

Almost 50 percent fell in the categories of religious organisations, professional and commercial associations, employee unions, housing societies, clubs, clinics, and hospitals. Some 1998 NGOs existed only on paper with no physical presence anywhere. The majority of the 2547 remaining NGOs were welfare oriented rather than development oriented. In Pakistan, the major focus of the development oriented NGOs is on community development and provision of social services. For financing of their activities the larger NGOs are still dependent on foreign donors who find these NGOs a sound and cost-effective tool for implementing community development projects and channel their grants through them. However, donor dependency makes these NGOs vulnerable to donor agendas. And the NGOs can not be a replacement for government, but they instead may create good models of development in some areas of the country [Banuri *et al.* (1997) and Zaidi (1999)].

A major disappointment of NGO development in Pakistan has been the near total collapse of the co-operative movement, which had been the most common form of NGO established for development purposes. Co-operatives had been hailed as the solution to a whole host of problem areas, including rural credit as an end to usurious money lenders, and new channels for improved seeds, fertilisers and other inputs to flow from governments. Instead, co-operatives emerged with a reputation for corrupt leadership, inefficiency and political manipulation. This failure of the co-operative movement led some NGOs to begin to question what sorts of organisations were required to represent the poor and whether, in fact, the poor needed special help to be able to build organisations to represent their interests adequately. Whereas, in the past, NGOs worked in collaboration with governments and elite groups to promote economic development, now they began to target their work at the poor, and in many cases, the 'poorest of the poor'. However, during this reorientation, NGOs have remained content to pursue a common purpose of 'working for the poor' and it matters little whether this is in 'relief' mode or in pursuit of more durable 'development' solutions to chronic poverty [Mustafa (1992); Narayan *et al.* (2000)].

There has been mixed record of NGOs performance in Pakistan. On the positive side, many localised examples of NGOs are reported to have been reaching groups of the poor with highly valued services. But there are also stories of problems with NGO coverage, implementation and ultimate effectiveness. Relations between NGOs and the government have at times, marked by tension. It is alleged that true complementary relations between the two are rare. Moreover, it is reported that only very few NGOs in Pakistan are addressing underlying social inequalities by actively supporting either poor people or social movements. However, with some exceptions, NGOs are reported to have not moved forward to address fundamental inequity issues that create the problems in the first place [Mumtaz (1997)].

The great anomaly that one would encounter is the coexistence of chronic poverty and plenty. At the national and regional levels there exist more than sufficient food, know-how and resources to ensure that every person could have

access to basic needs essential to a reasonable standard of living. However it is not the lack of means, but the failure of existing socio-political system (governance forms and practices) that deliver and sustain poverty, hunger and the abuse of human rights to so many citizens. The crime of the rural poor is their powerlessness, their vulnerability to abuse in situations dominated by unfair competition, sectional self-interests, dishonesty, and unbridled corruption. The persistence of poverty in Pakistan is a sign that existing system of governance and delivery of the benefits of development are not functioning as they ought to do if poverty and injustice are to be overcome. In a very few cases this failure is directly the outcome of a failure of the political will to do what is needed to eliminate poverty, but in most cases the causes are more complex. In short failure of resources to 'trickle down' and feed the estimated 50 million living below the poverty line may be attributable to barriers of class and caste that derive from a feudal tradition thousands of years old [Narayan *et al.* (2000); Narayan *et al.* (1999); Banuri *et al.* (1997)].

#### IV. CONCLUSIONS AND LESSONS

A vast majority of the poor in Pakistan reside in rural areas, and the severity of their poverty is greater than in the urban areas. Most of the rural poor are in the households of small landholders, cultivators (tenants), and the landless. Moreover, given the evidence on accessibility to food, nutrition, health care, education, and employment opportunities, there are glaring disparities between male and females in rural Pakistan.

The experience of AKRSP, has shown that it can work well, provided the rural poor effectively participate and the support organisation has the institutional and technical capacity to provide assistance in the development of the social organisation at the community or village level. There is also some evidence that these activities and services have contributed significantly, by creating trust and confidence, to the growth and strength of the COs. These relationships, however, need further analysis and study.

Indeed a major reason for the relative success of the Aga Khan Rural Support Programme (AKRSP) in the Northern areas has been a commitment to the long-term sustainability of the programme through financial autonomy. NRSP in Pakistan has followed the dependency model by which the rural people have been kept for so long at the mercy of a paternalistic state. This, however, can be prevented only if NRSP enjoys financial autonomy on a long-term basis as it is noticed in the case of AKRSP.

While the international donor agencies channelled more of their financial and technical assistance through the NGOs to stimulate the process of 'democratisation' and increase the effectiveness of aid, the governments in Pakistan have often remained ambiguous about their relationships with NGOs, particularly with regard to establishment and development of the rural community (grassroots organisations). It

is fair to say that, at least in Pakistan, the idea of increased empowerment of the poor vulnerable in the society has not been given unequivocal support by the entrenched political elite and the state bureaucracy. Therefore, the NGOs as support organisations have to establish their autonomy, credibility, and competence in this environment to assist the poor in rural areas in their quest to acquire greater control on their lives and improve their standards of living.

Besides the need for voluntary codes of conduct concerning the behaviour of non-state actors within a community, NGOs in Pakistan need to be provided positive incentives, alternative financing, and better government access to improve their mobilisation of, and level of service for, the poor. When power is shared between the government and the informal institutions of civic governance, democracy and the rule of law can be strengthened.

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## Comments

All kind of fashions come in waves. However, some fashions are more favoured than other because of their convenience, affordability and popular appeal. The authors have taken up three of the most favoured offshoots of the trendy development economics of the contemporary post-regulationist era, namely, NGOs, micro credit and poverty alleviation. But in developing countries, unfortunately, the convenience, affordability and popular appeal of these three phenomena are not in their own right, rather they all owe their existence to the marked shift in the priorities of Western donors in favour of lesser government. It could be argued, rightly or wrongly, that NGOs is one of the most controversial phenomenon, specifically in the developing countries' context. The most obvious and equally alarming aspect of NGOs in Pakistan is that too many of them have cropped up in the last two decades. But numerical advantage alone is not sufficient to justify institutions in the civil society, since proliferation is not a substitute of performance. And opportunity cost, once it has been paid, deprives the limited resources of their fundamental trait, namely, the alternative employment in a better use. This contradiction is specifically important in the context of the latest drive of the NGOs i.e., micro finance programmes. Many would agree that the latter has recently been given only the new clothing in that the 'liquidity deficiency syndrome' in the human society dates back to the times which reconcile the dogmatic and evolutionists' controversy over the Genesis. The diagnosis and treatment, however, have varied both inter-temporally and inter-spatially, ranging from usurious to benevolent lending.

What do the authors offer for resolving the controversy and curing the paranoia surrounding the NGOs and micro finance schemes respectively? First of all, it is hard to determine the focus of this study. The authors are constantly shifting their position in a circular movement from offensive, anti-thesis, to defensive, pro-thesis, and then back to offensive. Added to this is the problem of frequent intermittent vacuums. Consequently, any effort, on the part of the reader, to filter out the synthesis of the study is largely futile. The authors were essentially required to provide a synthesis in a study supposedly addressing an issue which, if not carefully managed, may become still another unfortunate addition to the history's huge dustbin of fiascos.

Secondly, the authors have not used a single coherent framework for analysing the problem statement, the title of the paper. On the contrary, their approach is essentially a compartmentalised one. The different compartments, if viewed separately, contain useful material and information, but together they do not provide a consistent strand of argument.

Poverty is a phenomenon involving fair degree of arbitrariness both in its concept and measurement. But poverty alleviation is universally reckoned to be a

noble cause. However, no cause can be translated into plausible outcome without the assurance of the sustainability of consistent efforts. The latter on the other hand, demands from any developmental project the twin traits, namely, the financial viability and operational transparency. In Pakistan, the micro credit schemes are fraught with gray areas. Several institutional issues remain to be resolved. The question of staffing and the direction of programme has not been clearly spelt out anywhere. During the early phase of the development of any programme, different visions of institutional development occasionally clash. If the management turnover and the struggle to define the programme strategy and mission take place in an objective context, the efficiency is eventually ensured. Unfortunately, given the hindsight, the objective context is difficult to be realised in Pakistan. The authors have not taken into account these very important aspects while discussing the micro credit programmes.

Further, the authors have adopted a route from specific to general in that AKRSP and NRSP are their chosen terms of reference, but rather than discussing the poverty alleviation in the micro areas of the operation of these two programmes, they have attempted, however unsuccessfully, to gauge the effect at a macro level. This amounts to gross injustice, especially given the authors' opinion that "the fundamental features of AKRSP's success, however, are consistent with established international best practices and can be adapted not only to surrounding countries, but indeed to most places in the world".

One of the most interesting research question in any study on micro credit is whether or not the Grameen Bank can be replicated in regions that greatly differ from Bangladesh. Certainly, the implementation of a group lending methodology must vary inter-spatially in many important ways from the Grameen experience. The substance could have been added to this paper by examining the appropriateness of a Grameen replication in Pakistan and analysing three commonly touted advantages of group lending over other financial methodologies: that poor women prefer it, that repayment rates are better, and that costs are lower. The authors, however, tell us that rural support programmes in Pakistan follows the successful model of AKRSP. And major part of the paper is devoted to explaining the procedural and other details of the latter and NRSP, but the authors do not provide any comparison of the strengths of AKRSP and the weaknesses of the 'NGOs' undertaking micro credit programmes. AKRSP has been given a clean bill of health and, in authors definition, NRSP is a government funded programme, the reader is totally lost while being continuously served a "red herring", the NGOs' failed micro credit programmes. Indeed, the NGOs implicit vision has been to set up the micro credit programmes with foreign assistance. This approach is fair enough as long as there is a will to gradually lessen the external influence in favour of local control. But this does not appears to be on the agenda of the most of the NGOs in Pakistan. As this transition has not evolved, the questions of staffing and direction of the programmes have never surfaced. That

said, it must also be considered that most of the NGOs have chosen difficult economic environments for the micro credit operations. In particular, many of the programmes operate in villages where agriculture forms the heart of the economy with non-farm activities including petty trade, services and small businesses. Most of the areas are dependent on the vagaries of the weather. Given these obstacles to credit inter-mediation, it is no wonder that numerous attempts to provide these regions with credit in the past have failed due to low repayment.<sup>1</sup> The combination of low incomes and susceptibility to shocks makes any type of micro finance particularly challenging in these areas.<sup>2</sup>

Further, there is a high possibility that adopting the “credit-first strategies” as opposed to “savings-first strategies”<sup>3</sup> have resulted in the inefficacy of many of the micro credit programmes in Pakistan. In the credit-first approach, outreach grows quickly due to the reliance on groups that can reach a wide number of clients and due to the fact that donors’ funds are used rather than relying on the arduous process of mobilising local savings. The inefficiency, and even malappropriation, in inevitably created in the credit-first programmes since a greater incentive to default occurs as the members know that they are defaulting on donors’ funds rather than the savings of their neighbours. However, a good deal of empirical research in this area is needed. Indeed, working with primary data is a better option for the kind of study which the authors have attempted to conduct.

Finally, the study has made an important contribution in terms of questioning the success of micro credit lending for poverty alleviation. In Pakistan, it is high time that several issues relating to the micro credit programmes are brought to the forefront since the experimental programmes have now matured into financial institutions, the Khushkhali Bank, for example. For achieving the poverty alleviation targets, different group sizes, loan sizes, loan types and terms and conditions need to be carefully appraised. It is suggested that the micro-finance institutions adopt their loan instruments to the local context which essentially requires an innovative research tradition. The most cost effective way for establishing such a tradition is to encourage and facilitate the university students for performing studies on various aspects of micro credit lending.

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<sup>1</sup>However, the failure is part due to politically motivated credit pushes with no emphasis on repayment.

<sup>2</sup>These observation were made by the author during a field survey of a micro credit programme of Khyber Bank in District Swabi, being channelled by Swabi Women Welfare Society (SWSS).

<sup>3</sup>See, D. Graham, and J. D. Von Pischke “Factors and Strategies that Lead to a Sustainable Supply of Financial Services for the Rural Poor”. IDB Workshop of Financial Services for the Rural Poor, December.