

## **LESSONS FOR POVERTY REDUCTION**

### **The Experience of Aga Khan Rural Support Programme**

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Honourable Chief Guest, Mr. Shaukat Aziz, Minister of Finance, Mr. Iqbal Walfi, Chairman AKRSP Board,

Your Excellencies,

Distinguished Scholars and Guests,

Ladies and Gentlemen,

I am grateful to the organizers of this Conference for providing me the opportunity to address this august gathering of scholars, practitioners, donors, public and civil society institutions and ultimate beneficiaries of rural development policy and programmes, not only in Pakistan, but also from our neighbouring countries in South, West and Central Asia. I have had the pleasure of keeping in touch with the AKRSP since its inception through my senior colleague and teacher, Mr. Shoaib Sultan Khan. His commitment, sense of dedication and sincerity have turned this small experiment into an international success story. In my previous incarnation as World Bank's Director of Poverty and Social Policy Department I had carried out an evaluation of thirty Social Funds and AKRSP was certainly one of the more successful projects. Consequently, as Country Director for Central Asian Republics I made a modest contribution by introducing a project on the lines of AKRSP in Tajikistan. That project according to my information is doing well. I also had the pleasure of visiting the Northern Areas two years ago and had intensive interaction with the staff and beneficiaries of various AKRSP activities. On the basis of this assessment, I wish to extend my felicitations to all those who have been involved in this project in the past or present as stakeholders. It is very rare that we have successful institutions which have survived over a period of two decades. I must therefore pay tribute to H.H. the Aga Khan for his generous support and leadership in turning AKRSP into an outstanding institution and for having done a pioneering job. The Conference, I hope, will be able to draw conceptual and operational lessons from

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the experience of AKRSP for broader application to rural development, poverty alleviation and more generally to institution building. We have destroyed more institutions in this country than have made them effective and well functioning and thus we should learn from this success story.

I am delighted to witness this important milestone not just in the history of AKRSP, but also in the history of Rural Support Programme (RSP) movement in Pakistan. As you begin your deliberations on the lessons learned from this experience, you will see that the RSP approach—pioneered by AKRSP in the early 1980s—has significant relevance not only for Pakistan, which a predominantly rural country with serious issues of poverty and inequity, but also for other countries in the region facing mounting challenges in rural reconstruction. In the RSP approach, we have found that the citizens’ participation in national development is not only desirable and possible, but it can also be a cost-effective instrument in our fight against poverty.

The main challenge that our countries face today is how to break out of the condition of poverty, especially in our rural areas. We all know that high economic growth is necessary for poverty reduction, but not sufficient. Until the late 1980s, Pakistan had achieved an average growth rate of nearly 6 percent per annum and reduced incidence of poverty from 33 percent to 18 percent. This was a period—from 1960s to 1980s—when institutions of governance also flourished in Pakistan. In the 1990s, however, growth rates slowed down and the governance standards weakened, with the result poverty once again resurfaced and almost doubled within a short period of time. The transmission mechanism from growth to poverty reduction is getting more complicated and entangled as factor endowments – both physical assets, social assets and access to public services – have become more differentiated and skewed in favor of the non-poor. Market forces that are good at ensuring efficient allocation of resources reward those who own assets and have existing endowments. It is only when a benign state and a compassionate civil society move in to compensate those who are not so well-off in improving their capabilities that the goal of poverty reduction can be achieved.

In recent years we have seen a growing body of knowledge on the complex nature and causes of poverty both in Pakistan and elsewhere. We now know, for instance, that high economic growth, improved social indicators, and strong governance systems and institutions that are accountable and work closely with the civil society, are all linked to poverty reduction and vice-versa. We also know that targeted and pro-poor investments are needed to build human capital, institutional capacities and social safety nets. Another lesson that we have been able to distil from the development history of Pakistan is that an overbearing and centralised state sector will not deliver social services in a cost effective and equitable manner.

Our national strategy for poverty reduction is therefore based on a number of lessons and premises. The first is the need to stay the course of current macroeconomic reforms, i.e. to achieve and maintain higher growth. Second, sound macroeconomic policies should be accompanied by structural reforms and good governance. The third is the recognition that the fight against poverty is a collaborative challenge, requiring a close partnership among the state, civil society and the private sector institutions and actors. Other elements of this strategy aim to devolve state authority, resources and responsibility to local government, communities and their leadership. This strategy can only succeed when each sector works in harmony and support of the others.

The problem is that, unlike the state and private sectors, there is no obvious mechanism to organize civil society as a capable and cohesive partner in development. In our countries, we have the added disadvantage of the ‘initial conditions’, characterised by low investment in human capital and the associated shortcomings of low productivity, social fragmentation, and decay in traditional institutions.

How do we address this issue? How do we create strong and capable development partners in rural areas that act as receiving mechanisms at the grassroots level for effective internalisation of development inputs and services available with the state sector institutions??

I think this is where the AKRSP experience is most relevant. The RSP approach in Pakistan has shown that not only it is desirable, but also a practical value proposition to reach out to large numbers of people in vast rural areas of Pakistan with small scale investments and cost-effective tools to mobilise rural communities and build their capacity to take up the bulk of responsibility to change their conditions.

There is clear indication that while the incidence of poverty actually increased at the national level during the last decade, the poverty levels were declining in AKRSP's programme area during the same period. While recognising the difficulty of attribution for this, there is enough indirect evidence to show that investments made by AKRSP in human, financial and physical capital contributed significantly to increasing real incomes and reducing levels of poverty in Chitral and the Northern Areas. These micro level investments had the effect of 'internalising' full benefit of macro level investments, such as the Karakoram Highway (KKH) for the small farmers living in remote communities.

From what I know personally, AKRSP started out as a modest but flexible catalyst for rural development in the Northern Areas and Chitral, one of the poorest and remote parts of Pakistan. Its message was simple, concise and comprehensible to all, particularly to members of the rural communities, that in order to improve conditions in their area, everyone had to work together, learn together, and be accountable to each other. This message, woven throughout its partnership model, had the effect of infusing a new confidence and vitality among rural communities, creating new, more equal and meaningful partnerships with development support systems, and leveraging community resources for local development priorities.

The 20-year old history of AKRSP as a successful development practitioner offers a unique opportunity to visit its past with a particular focus on gleaning out important lessons in rural development for wider usage at the national and international level. Such an exercise becomes imminent and more important when we see a general dearth of documentation of policy-focused lessons, especially for micro-level interventions, both within Pakistan and in other developing countries.

I can draw at least five important lessons from the rich experience of AKRSP and more recently the RSP approach in general. Other observers and analysts can either come up with other lessons or empirically validate the lessons which I have chosen to draw this morning. There may be alterations, modifications or nuances but we have to agree on a broad set of principles which can be employed for scaling up and replicating the RSP model widely.

The first key lesson is the importance of social intermediation. The poor are not organized, nor do they have any voice and due to the prevalence of mai-bap culture prevalent in this country are unable to properly articulate their choices. AKRSP is a pioneer in successfully demonstrating social mobilisation as a proactive policy instrument to bring about the collective interest articulation and action by the poor at micro-level. Not only that AKRSP has demonstrated the efficacy of this approach with good effect, but has done so on a scale large enough to make its diffusion more meaningful. Seen in the light of AKRSP experience, social mobilisation models aimed at promoting collective action seem to prove more effective when: a) such models are embedded in the local institutional history; b) when such models follow local preferences for organisational forms, instead of relying on fixed and blue print approaches and, c) infused with democratic norms, renewed with new organisational knowledge and backed by broad-based public support.

This is, by no means, any easy task. Collective action, whether practiced through the traditional or modern methods of association is threatened by many forces. Significant among them are forces of individualisation, authoritarianism (feudalism), sectarian divisions (social closure), and changing socio-economic needs. This is a constant battle which needs to be fought with vigor, courage and tact in order to make a difference. Weaker mortals get disillusioned by these obstacles and give up too soon. Perseverance and making strides in face of these roadblocks are the only way for survival.

Further, collective action needs to be promoted around such needs and resources, which are relevant to the livelihoods of communities. We need to learn to work with diversity of institutions (coming into existence as a result of local

preferences and needs). Learning through action – oriented research rather than imposing or transplanting some pre-conceived notions which may have worked elsewhere is the key to success.

The second lesson is more specific to the geographical and remote areas with difficult terrain which are characterized by spatial poverty traps - such as the Northern Areas and Chitral. The overwhelming lesson here seems to be that such areas can and do benefit from non-targeted mainstream poverty reduction approaches (such as interventions aimed at improving physical infrastructure, agricultural extension services, etc.) particularly during the initial phases of intervention. This is true because in such spatial poverty traps, often the majority falls in the poverty bracket due to physical, human, and natural resource limitations and hence, there is little need for targeting.

However, poverty reduction programmes aimed at harnessing the productive capacity of poor alone cannot address the complex issue of poverty. Poverty exists in many forms ‘chronically poor, excluded groups, poorest people’ and these special forms need to be distinguished from others and should be addressed through a combination of productive and social protection measures.

Vulnerability remains an important challenge for even graduating households in such areas owing to the fragility of geographic environment, greater dependence on meagre natural resources, heavy dependence on limited human resources, and volatility of off-farm sector within such areas. Safety nets and continued mainstream packages remain important areas of intervention for such households. Social transfers from the government for such communities are perfectly justifiable as they cannot support and sustain themselves at times of crisis.

Third, the AKRSP model also reinforces at the micro level what macro and growth economists have learnt through their cross-country studies. Investment in female education and their participation in labor force has the highest pay off both in economic and social terms. We have learnt that promotion of gender equality interests in culturally sensitive areas like the Northern Areas and Chitral requires frequent dialogue with the religious and cultural opinion leaders with an objective of building

pro-equality constituencies. Further, organisations pursuing gender interest should base their policies on the ground realities and respect local sensitivities rather than ignore them. The process of internalization and broad acceptance of gender equality and other innovative programs is not always easy but in Bangladesh the Pesh Imams of Mosques played an important role in the success of family planning programs.

Gender agenda can be pursued more effectively when practical and beneficial considerations e.g. tangible programmes, are included in the projects. Awareness and sensitivity programmes alone are not sufficient.

Many factors internal to the organisation such as clear understanding of gender concept, senior staff commitment, and strong collaboration among concerned professionals contribute substantially to the promotion of gender equality

Fourth, AKRSP was the first to recognise the importance of microfinance as an instrument of rural development and poverty reduction strategy in Pakistan. AKRSP's experience of building social capital, the centrepiece of its approach, provided it a ready answer to the basic question of how to lend to assetless people in its programme area? It has followed a flexible approach, which allowed its microfinance programme to adapt and evolve according to the needs of local communities. AKRSP's microfinance portfolio is now part of the newly established First Microfinance Bank Limited, established by the Aga Khan Development Network, the first financial institution of this nature in the private sector.

The State Bank of Pakistan is a proactive supporter of such a 'learning-by-doing' approach, rather than providing a prescriptive regulatory mechanism before hand. The State Bank is following a consultative process, to involve all stakeholders in the process of learning from various experiences and putting in place standards to manage and regulate this sector. AKRSP's experience is invaluable in developing a responsive and gradually tailored approach to evolving the overall legal and regulatory framework in a mode of partnership, self-assessment, and continuous learning.

With 6.3 million poor households, the Microfinance sector holds enormous potential and promise for reducing poverty in Pakistan. The Microfinance services market sector is, however, grossly underdeveloped with only 5% coverage, narrow institutional base, limited retail capacity and, little, if any, financial integration. The Problem is that more than 80% of the current market coverage is through the informal sector, which tends to perpetuate rather than alleviate poverty.

The RSP approach however shows that this can be changed by effective targeting, capacity and institution building, and gender analysis at the end use level. Microfinance sector is still at a nascent stage in Pakistan, and we have yet to properly document and analyse lessons from several going initiatives. It will take time and much innovative thinking on the part of all of us to reach a stage where Microfinance operations can be a financially viable proposition in Pakistan.

The State Bank of Pakistan, under its Microfinance Sector Development Programme (MSDP) recognises the need to enhance social capital and risk mitigation as a necessary safety net for the poor. The policy also recognises the need for a collaborative effort between the public and civil society institutions, especially involving large NGOs and RSPs to provide complementary services, such as social intermediation and capacity building.

The fifth and more important lesson is that Civil Society Organizations and NGOs have to work with the government as partner and not against the government. If the scaling up is feasible from the experiments carried out by the Community and Civil Society Organizations and lessons learnt are of wider applicability the government has to be involved in more than one way. But the guiding principle for the government should be 'Do no harm'. Financial, administrative, human and political resources at the disposal of the government are so enormous that no other organization can match them. Most of the time these resources are not always utilized properly or targeted at the poor segments of the population. An active and collaborative rather than adversarial and confrontational relationship between the govt. and civil society organizations can be a win-win situation for all parties concerned as the civil society can leverage the government resources for the larger benefits the poor. Limitations of resources on their part can never allow them to extend their



outreach to the large segments of the poor. I was impressed by the positive relationship between AKRSP and the Northern Area Government which, in my view, is the right way to manage it.

AKRSP was a creative response to the prevailing conditions of poverty, social fragmentation and powerlessness—conditions that characterize much of rural Pakistan. Two decades later, we have an active and growing RSP movement in Pakistan and the experience is being shared with other countries in Asia and Africa. I believe that RSPs are ideally positioned to provide social intermediation and capacity building services at the community level, thus adding further value to the devolved system of state sector institutions in Pakistan.

I hope the outcome of this conference will not only enhance our knowledge of the issues and enrich our experience, but also inspire us to take concrete actions at every level to eradicate and eliminate extreme forms of poverty and promote peace and prosperity among our communities.

Thank you and my very best wishes for a productive and stimulating two days of deliberations.