

**BATTLING EXTREMISM:  
A POLICY FRAMEWORK  
FOR  
GROWTH THROUGH POVERTY REDUCTION**

Dr. Akmal Hussain  
Distinguished Professor  
Beaconhouse National University

© 2009 by Akmal Hussain. All rights reserved. Quotations from the text, not to exceed one paragraph, may be made without explicit permission, provided that full credit, including © notice, is given to the source.

Paper Contributed to the Centre for Trade and Development (CENTAD), Year Book  
New Delhi  
12 September 2009

# **BATTLING EXTREMISM: A POLICY FRAMEWORK FOR GROWTH THROUGH POVERTY REDUCTION<sup>1</sup>**

By

Dr. Akmal Hussain  
Distinguished Professor  
Beaconhouse National University

© 2009 by Akmal Hussain. All rights reserved. Quotations from the text, not to exceed one paragraph, may be made without explicit permission, provided that full credit, including © notice, is given to the source.

## **INTRODUCTION**

### **An Alternative Policy Paradigm**

Pakistan is in the midst of a war of national survival as Taliban-Al Qaeda combine have captured large swathes of Pakistan's territory in the NWFP and are now launching guerilla operations in some of the major cities such as Peshawar, Lahore and Karachi. As military combat is undertaken it is clear that an important dimension of prosecuting the war against extremism is to provide a stake in citizenship to the large proportion of the population that is suffering from growing poverty, unemployment and the deprivation of basic services. Economic growth in the past 60 years has failed to make a substantial dent into the poverty problem. This is because of an institutional structure within which high economic growth has been neither sustainable nor equitable.

Economic growth has not been sustainable because of a set of structural constraints<sup>2</sup>, the most important of which are: (i) A narrow base for savings which makes the savings rate (less than 12 percent of GDP), half that of the investment rate (24 percent

---

<sup>1</sup> An earlier version of this paper titled: An Institutional Framework for Inclusive Growth, 1 April 2009 was circulated as a discussion paper amongst the Panel of Economists, Government of Pakistan. Parts of the earlier version were also published in the State of the Economy Report, Beaconhouse National University, Lahore, 2009.

<sup>2</sup> For a detailed discussion of the structural constraints to sustained growth, see: Akmal Hussain, Pakistan: Poverty, Power and Economic Growth, South Asia Centre for Policy Studies, MSS, 30 September 2009, pages 22 to 26. (Publication forthcoming).

of GDP) required to sustain a GDP growth rate of 6 percent<sup>3</sup>. (ii) A narrow base for exports which excludes potential small scale high value added export based industries and instead concentrates on a small number of large scale textile units at the low value added end of the textile range. Therefore export growth is insufficient to finance the foreign exchange requirements of a high GDP growth trajectory. The consequence of this elite based growth process is that Pakistan's GDP growth has a stop-go pattern: high growth takes place only in spurts during periods when foreign aid is provided to fill both the savings and foreign exchange gaps. At the same time the narrow base of savings and investments, and an extremely unequal distribution of productive assets in both manufacturing and agriculture, has resulted in growing income inequality during the high growth periods, thereby severely constraining the capacity of growth for poverty reduction.

If growth is to be sustained and poverty is to be overcome quickly, a shift in the paradigm for understanding both the determinants of growth as well as the nature of poverty is required. The literature of the New Institutional Economics shows that the most important determinant of sustained growth is the institutional structure within which it occurs<sup>4</sup>. If Pakistan is to embark on a path of sustained growth it would be necessary to establish an institutional structure for *inclusive growth*. Such a growth process would enable a transition to economic democracy which would sustain political democracy<sup>5</sup>. The institutional structure of inclusive growth would enable all of the citizens of Pakistan rather than only a small elite to participate as subjects of economic growth as well as the recipients of its fruits.

---

<sup>3</sup> The Incremental Capital Output Ratio (ICOR) for Pakistan's Economy is, 4.

<sup>4</sup> (i) Douglass C. North, *Institutions, Institutional Change and Economic Performance*, Cambridge University Press, Cambridge, England, 2004.

(ii) Douglass C. North, *Understanding the Process of Economic Change*, Princeton University Press, 2005.

<sup>5</sup> For a discussion on Economic Democracy and case studies of action, See: Ponna Wignaraja, Susil Sirivardana, Akmal Hussain (eds), *Economic Democracy through Pro Poor Growth*, SAGE Publications, Delhi, 2009.

Our work with Professor Rehman Sobhan at SACEPS<sup>6</sup> attempts to redefine poverty as a process where the institutional structure excludes a large proportion of the population from participating on “...equitable terms in the opportunities for development and decision making in society.”<sup>7</sup> Taking this approach forward it can be proposed that neither handouts to the poor nor the trickle down effects of the conventional unequal growth process can resolve the poverty problem. This is because the poor are locked into a nexus of power within an institutional structure that gives them insufficient access to productive assets and to health, skill development and education through which they could develop their human potential<sup>8</sup>. They also lack access over justice and over governance decisions that affect their immediate social, economic and environmental conditions.

### **The Elements of Inclusive Growth**

A new approach to inclusive growth could be adopted by establishing an institutional framework for the provision of productive assets to the poor as well as the capacity to utilize these assets efficiently. In this way the poor by engaging in the process of investment, innovation and productivity increase could become the active subjects of economic growth rather than being merely recipients of a “trickle down” effect: Thus a sustained high growth could be achieved *through* equity<sup>9</sup>. Inclusive growth so defined can become both the means and the end of GDP growth.

The institutional framework of such an inclusive growth could have four broad dimensions:

---

<sup>6</sup> The South Asia Center for Policy Studies (SACEPS) in collaboration with the Center for Policy Dialogue has just completed a multi country poverty project involving a new approach to poverty and development policy. The synthesis volume of the study is authored by Professor Rehman Sobhan and the country studies have been authored by the following: (i) Akmal Hussain [Pakistan Study], Saman Kelegama with his research team [Sri Lanka Study], Mahesh Banskota [Nepal Study], Beena Pandey [India Study], Selim Raihan [Bangladesh Study].

<sup>7</sup> Rehman Sobhan, Rethinking Poverty Eradication in South Asia: An Agenda for Inclusive Development, SACEPS/CPD Project, Center for Policy Dialogue, Dhaka, Draft for Discussion, October 2008.

<sup>8</sup> Akmal Hussain, Pakistan: Poverty, Power and Economic Growth, South Asia Center for Policy Studies, MSS, 30 September 2008, Forthcoming.

<sup>9</sup> I am grateful to Professor A.K. Sen for pointing out to me, that while my argument that higher growth could be achieved through equity is technically valid, yet it is important to understand that equity is an end in itself. This comment was made by Professor A.K. Sen during a SACEPS/CPD seminar (Equitising Development) in Delhi, 17-18 December 2008.

- (1) A process of localized capital accumulation through Participatory Development.
- (2) A small and medium farmer strategy for accelerated agriculture growth through the provision of land ownership rights to the landless and institutional arrangements for yield increases.
- (3) Accelerated growth of small and medium scale industrial enterprises through an institutional framework for increasing the production and export of high value added products in the light engineering and automotive sectors.
- (4) An institutional framework for providing productive assets to the poor through equity stakes in large corporations owned by the poor and managed by professionals.

In this paper we will discuss each of these elements of inclusive growth in turn.

## **I. THE INSTITUTIONAL STRUCTURE OF ENDEMIC POVERTY<sup>10</sup>**

### **I.1 The Poverty Process**

The poor in Pakistan cannot be simply seen as individuals with certain adverse ‘resource endowments’, making choices in free markets. Poverty occurs when the individual in a fragmented community is locked into a nexus of power which deprives the poor of their actual and potential income. The poor face markets, state institutions and local power structures, which discriminate against access of the poor over productive assets, financial resources, public services and governance decisions which affect their immediate existence.

In this context some of the questions that arise are: How do distorted markets for inputs and outputs of goods and services result in the loss of the actual or potential income of the poor? If this is indeed the case then what is the magnitude of the income loss?; how do power structures adversely affect tenancy contracts of the poor peasants?; how do local structures of power with respect to landlords, local

---

<sup>10</sup> This section is based on Akmal Hussain: Poverty, Power and Economic Growth, Pakistan Country Study for the SACEPS Poverty Project, 30<sup>th</sup> September 2008.

administrative officials, and institutions for the provision of health, credit and dispute resolution, deprive the poor of their income, assets and the fruits of their labour?

These questions were examined in the Pakistan NHDR on the basis of new survey data to develop for the first time an understanding of the dynamics and concrete nature of poverty, rather than merely its magnitude<sup>11</sup>.

## **I.2 Poverty, Power and Asymmetric Markets**

Various forms of dependencies of the peasant on the local power structures and the distortions in the input and output markets functioning against the poor, constitute the elements of the process of poverty generation amongst the peasantry.

A substantial proportion of the potential as well as actual income of the poor peasantry is lost to the increasingly adverse tenancy arrangements and the obligation to sell labour at less than market wage rates or without any wages at all, to the landlords. This is because of the social and economic leverage that the landlords exercise over the poor peasants. For example, the NHDR data shows that 50.8 percent of the extremely poor peasants have taken a loan from the landlord and of these peasants 57.4 percent worked for the landlord without wages and 14 percent worked for the landlord at a daily wage rate of only Rs.28, compared to the typical market daily wage rate of about Rs.150.

At the same time there is unequal access over both the input and the output markets. For example, the NHDR data shows that the poor peasants have to pay a higher price on their inputs and get a lower price on their outputs compared to the large farmers. As a consequence the poor are losing 20.5 percent of their income in the major crops alone due to asymmetric markets.

In the small farm households the most significant constraint to increasing income is lack of ownership rights and the income losses associated with land use within the structure of dependence. The evidence shows that the contribution of tenants to input costs in the case of tractor rental, labour, seeds and fertilizers has increased during the period 1990-91 to 2000-01. For example, in the case of wheat the contribution of tenants in the provision of tractors increased from 63 percent to 74 percent, labour

---

<sup>11</sup> See, Akmal Hussain, with inputs from A.R. Kemal, Agha Imran Hamid, Imran Ali and Khawar Mumtaz: Pakistan UNDP-National Human Development Report 2003, Oxford University Press, Karachi, 2003. Chapter 3.

from 47 percent to 60 percent, seeds from 51 percent to 67 percent and fertilizers from 47 percent to 57 percent over the period, 1990-91 to 2000-01<sup>12</sup>. The poor owner farmers and owner cum tenant farmers in the small size category instead of buying additional land have been forced to sell their land over the period 1991-2000-01. As many as 76.5 percent of the extremely poor farmers and 38.9 percent of the poor farmers sold their land for urgent consumption needs, marriage expenditures and health expenditures<sup>13</sup>. As a consequence the productive assets of the poor peasants have been further depleted, thereby adversely impacting their future streams of income and reducing the probability of getting out of poverty.

Amongst the non rural farm households the principal constraint to poverty alleviation is the limited possibility of remunerative jobs and the low ability to initiate self employment projects. In the urban areas the employment status, informalization of the work force and the low level of productivity of micro enterprises constrain income levels and give rise to poverty<sup>14</sup>.

## II. INCLUSIVE GROWTH THROUGH PARTICIPATORY DEVELOPMENT<sup>15</sup>

Establishing the institutional basis for enabling the poor to increase their incomes, savings and investment, would not only constitute a direct attack on poverty but would also contribute to a faster and more equitable economic growth process. In this section we will begin by specifying the Participatory Development paradigm which has been formulated and put into practice successfully in a number of South Asian countries (including Pakistan) by a group of action researchers from South Asia led by Dr. Ponna Wignaraja<sup>16</sup>. We examine the issue of empowerment of the poor. In this

---

<sup>12</sup> See, Akmal Hussain, Poverty, Power and Economic Growth, op.cit., page-9, table 6.

<sup>13</sup> Ibid. page-9.

<sup>14</sup> For evidence and detailed analysis of this phenomenon, see, Akmal Hussain, with inputs from A.R. Kemal, Agha Imran Hamid, Imran Ali and Khawar Mumtaz: Pakistan UNDP-National Human Development Report 2003, Oxford University Press, Karachi, 2003.

<sup>15</sup> This section is drawn from Akmal Hussain, Pakistan: Poverty, Power and Economic Growth, South Asia Center for Policy Studies, 30<sup>th</sup> September 2008. pages 119 to 125.

<sup>16</sup> See, for example:

(i) Ponna Wignaraja, Akmal Hussain, Harsh Sethi and Ganeshan Wignaraja: Participatory Development, Learning from South Asia, United Nations Press, Tokyo and Oxford University Press, Karachi, 1991.

context we will explore the institutional imperatives of making the newly emerging local government structures more effective in achieving the empowerment of poor, particularly poor women.

## II.1 The Methodology of Participatory Development<sup>17</sup>

Participatory Development in its broadest sense is a process which involves the participation of the poor at the village/mohalla levels to build their human, natural and economic resource base for breaking out of the poverty nexus<sup>18</sup>. It specifically aims at achieving a localized capital accumulation process based on the progressive development of group identity, skill development, and local resource generation<sup>19</sup>.

At this level of generalization the concept has three key elements:

- (a) Process: It is a process whose moving force is the growth of *consciousness*, of *group identity* and the realization in practice of the creative potential of the poor.
- (b) Empowerment: The process of reconstructing a group identity, of raising consciousness, of acquiring new skills and upgrading, their knowledge base, progressively imparts to the poor a new power over the economic and social forces that fashion their daily lives.

---

(ii) Ponna Wignaraja and Susil Sirivardana, Pro-Poor Growth and Governance in South Asia: Decentralization and Participatory Development, SAGE Publications, New Delhi and London 2004.

(iii) Ponna Wignaraja, Susil Sirivardana, Akmal Hussain (eds), Economic Democracy through Pro Poor Growth, SAGE Publications, Delhi, 2009.

(iv) Akmal Hussain, Poverty Alleviation in Pakistan, Vanguard Books, 1994.

(v) Akmal Hussain, Punjab Rural Support Programme (PRSP), The First Four Months, Report to the Board of Directors of PRSP, 1998.

<sup>17</sup> Akmal Hussain, Poverty Alleviation in Pakistan, Vanguard Books, 1994, page-26 to 28.

<sup>18</sup> For a case study of a Participatory Development initiative in 9 districts of the Punjab based on field experience, see: Akmal Hussain, The Punjab Rural Support Programme, The First Four Months, Report of the Honorary CEO to the Board of Directors (1998). Also see: Akmal Hussain, Participatory Development Praxis in Pakistan's Punjab: A Case Study, chapter in, Ponna Wignaraja, Susil Sirivardana, Akmal Hussain (eds), Economic Democracy through Pro Poor Growth, SAGE Publications, Delhi, 2009.

<sup>19</sup> Akmal Hussain, Poverty Alleviation in Pakistan, op.cit.



It is through this 'power' that the poor shift out of the perception of being passive 'victims' of the process that reproduces their poverty. They become the vital subjects in initiating interventions that progressively improve their economic and social condition, and overcome poverty.

- (c) Participation: The acquisition of the power to break the vicious circle of poverty is based on *participation* within an organization in a *series* of projects. This participation is not through 'representatives' who act on their behalf but rather, the actual, involvement of each member of the organization in project identification, formulation, implementation and evaluation. It is in open meetings of ordinary members at the village/mohalla level organization that decisions are collectively taken, and work responsibilities assigned on issues such as income generation projects, savings funds, conservation practices in land use, infrastructure construction and asset creation.

#### II.1.1 *The Dynamics Of Participatory Development*

The process of Participatory Development proceeds through a dynamic interaction between the achievement of specific objectives for improving the resource position of the local community and the sense of community identity. Collective actions for specific objectives such as a small irrigation project, fertilizer manufacture through organic waste, clean drinking water provision, or production activities such as fruit processing, can be an entry point for a localized capital accumulation process, leading to group savings schemes, reinvestment and asset creation. The dynamics of Participatory Development are based on the possibility that with the achievement of such specific objectives for an improved resource position, the community would acquire greater self confidence and strengthen its group identity.

## II.2 **Empowerment and Autonomous Organizations of the Poor**

- (i) *The Meaning of Empowerment:* Since the term empowerment has been loosely used in much of the literature on development it may be helpful to specify its meaning in the context of this section. Empowerment means enabling the poor to build their human capabilities and economic resource base for breaking out of the poverty nexus. It is a process of reconstructing a group identity, of raising consciousness, of acquiring new skills and of achieving better access over markets and institutions for a sustainable increase in incomes. Such a process progressively imparts to the poor a

new *power* over the economic and social forces that fashion their daily lives. It is through this power that the poor shift out of the perception of being passive victims of the process that perpetuates their poverty. Thus they become active subjects in initiating interventions that progressively improve their economic and social condition to overcome poverty<sup>20</sup>.

(ii) *Empowering the Poor*: The economic strategy requires a national campaign to empower the poor at the level of village/mohallah, Union Council, Tehsil and District. The idea is to facilitate the growth of autonomous community organizations of the poor at the village/mohallah level to be able to break out of the poverty. Through these COs the poor can identify income generating projects, initially at the household level, acquire skill training from a variety of sources such as government line departments, autonomous institutions, private sector firms, NGOs. and donors; and access credit for micro enterprise projects through apex organizations such as the PPAF, Khushali Bank, Small Business Finance Corporation (SBFC), and commercial banks. Special organizational arrangements would need to be made in these apex institutions to take credit to poor women and women's COs, since poor women have even lesser access over institutional credit compared to poor men.

It is important that such village level community based organisations (CBOs) be autonomous and be permitted to form cluster apex organisations with other CBOs. Autonomous CBOs by means of social mobilisation, skill training, increased productivity, increased income, savings and investment would begin a process of localised capital accumulation. Such a process, which we have called Participatory Development<sup>21</sup> would be integrally linked with the emergence of a new consciousness of empowerment. The poor can begin to take autonomous initiatives to improve their material conditions of life. They would thus break out of the poverty nexus and shift from being victims to active subjects of social and economic change. Such a process of village level increases in productivity, incomes and savings would not only

---

<sup>20</sup> For a case study based on implementing the Participatory Development approach in nine districts of the Punjab province, see, Akmal Hussain, Honourary Chief Executive Officer, Punjab Rural Support Programme (PRSP), The First Four Months Report to the Board of Directors, PRSP, 1998.

<sup>21</sup> The concept of Participatory Development is formulated in: Akmal Hussain: Pakistan, A Strategy for Poverty Alleviation, Vanguard, Lahore, 1994, Pages 26 to 29.

Also see: P. Wignaraja, A. Hussain, H. Sethi & G. Wignaraja: Participatory Development: Learning from South Asia, O.U.P, 1991.

constitute a direct attack on the poverty problem but would also contribute to a faster and more equitable macro economic growth<sup>22</sup>.

Such autonomous organizations of the poor could not only become a framework for grassroots economic growth, but would also constitute countervailing power to that of the power structures of local elites. At the same time, these autonomous organizations of the poor would enable the individual poor household to get better access over input and output markets.

Facilitating the emergence of autonomous organizations of the poor particularly organizations of poor women, could enable the newly established local government institutions to function in a more equitable and effective manner. The equity would be with respect to class as well as gender. This would require establishing institutionalized links between autonomous organizations of the poor and local government bodies at the Village, Union Council, Tehsil and District levels. *These institutional links between organizations of the poor and elected local bodies would enable more participatory and equitable processes of project identification, design and implementation for local level development.*

### II.3 Institutional Forms of Development NGOs

Over the last three decades the tightening financial constraints on the government<sup>23</sup> and growing awareness of the limitations of top-down development programmes to alleviate poverty,<sup>24</sup> have created the space for non-governmental organizations and an alternative approach to development action, that a group of South Asian scholars and practitioners have called Participatory Development.<sup>25</sup> During this period a variety of

---

<sup>22</sup> For a more detailed discussion of this issue, See: Akmal Hussain: Poverty, Growth and Governance, Chapter in, V.A. Pai Panandiker (ed.): Problems of Governance in South Asia, Centre for Policy Research, New Delhi, 2000.

<sup>23</sup> The government's annual development programme as a percentage of GDP has declined from seven percent in the 1970s to 2.5 percent this year.

<sup>24</sup> For a discussion on the limitations of top-down development programmes see: Akmal Hussain, Poverty Alleviation in Pakistan, op. cit., pages 23 –26.

<sup>25</sup> The theory and practice of Participatory Development was developed by a group of South Asian scholars including Dr. Ponna Wignaraja (Sri Lanka), Dr. Akmal Hussain (Pakistan), Mr. Susil Sirivardana, Mr. Harsh Sethi (India), Dr. Maqsood Ali (Bangladesh). Their published work articulating the Methodology of Participatory Development and documenting their praxis includes the following:

NGOs have established support programmes aimed at developing community organizations at the village level, institution building, providing training and accessing credit and technical support.

Compared with the other South Asian countries the development NGO sector in Pakistan has been slow to mature. Until well into the 1980s the bulk of NGOs in Pakistan were small charitable or social welfare oriented bodies. Of these, a distinct segment were rural cooperatives, registered under the Cooperative Act. These would have merited attention in as much as the Cooperatives Act is one of the possible, indeed one of the logical means of constitution of a non-profit NGO. There are historical reasons however, why cooperatives in the form in which they have existed in Pakistan with Government support, are distrusted by the bulk of the rural population. Apart from the tendency of rural cooperatives to be dominated by rural elites which manipulated their policies and monopolized their resources and benefits, there has been generalized outright fraud in the cooperative sector.<sup>26</sup> This has led development professionals to explore other possible means of NGO formation, such as a charitable trust (the form chosen by NGOs such as Orangi Pilot Project)<sup>27</sup> and non-profit private limited companies (which is the form chosen by RSPs) or a society under the Societies Act, (the form chosen by PIEDAR).<sup>28</sup>

- 
- (i) Ponna Wignaraja, Akmal Hussain, Harsh Sethi and Ganeshan Wignaraja: Participatory Development, Learning from South Asia, United Nations Press, Tokyo and Oxford University Press, Karachi, 1991.
  - (ii) Akmal Hussain, Poverty Alleviation in Pakistan, Vanguard Books, 1994.
  - (iii) Ponna Wignaraja, Susil Sirivardana, Akmal Hussain (eds), Economic Democracy through Pro Poor Growth, SAGE Publications, Delhi, 2009.

<sup>26</sup> The Cooperatives scandal in Pakistan, which wiped out the savings of tens of thousands of small investors, came to a head in 1993. There were two main types of scams: Financing cooperatives that swindled small private investors through "pyramid" schemes that collapsed or by outright theft, and agricultural societies that have embezzled public money, provided through laxly administered loans at heavily subsidized rates using grossly overvalued assets as collateral. In general the majority of both types of offenders have escaped legal sanction.

<sup>27</sup> The Orangi Charitable Trust (OCT) which is the micro-credit agency for the Orangi Pilot Project (OPP) group has found the Trust format particularly useful because "OCT could take greater risks and bear losses of defaults and bad debts because it was neither the custodian of depositors (it did not accept any deposits), nor profit maker for shareholders (it had no shareholders and gave no dividends)." (from Micro Enterprise Credit, Dr. A.H. Khan, OCT, Karachi 1996).

<sup>28</sup> There are five ways in which a development NGO can register itself as a legal entity:

Development NGOs exist in a variety of sizes and forms, from large centralized bodies spanning a number of districts and provinces, such as the Rural Support Programs (RSPs) to smaller organizations operating in a number of regions within the same province (such as SUNGI). Finally there are CBOs which operate on a very local scale either at the village level or a cluster village level.

Development NGOs range from multi-functional ones that support a wide range of activities in fields such as income generation, natural resource management and the social sector, (e.g. PIEDAR, SUNGI and RSPs) to a particular limited set of operations such as KASHF (which is essentially a micro-credit support NGO), or which target a particular disadvantaged group such as women through innovative and multi sectoral interventions (e.g. Shirkatgah, Aurat Foundation).

#### II.4 Taking small NGOs to Scale: Some Necessary Conditions for Success<sup>29</sup>

Some large NGOs such as AKRSP, PRSP and PPAF have achieved impressive results. At the same time, in the case of other large government created NGOs such as the NRSP, questions continue to remain with respect to five issues: (i) Lack of financial self sufficiency and continuing dependence on government/donor support. (ii) The problem of cost effectiveness. (iii) The problem of accuracy in targeting the poor population. (iv) The problem of speed and scale of coverage of the poor

- 
- i) a voluntary social welfare agency under the Voluntary Social Welfare Agencies Registration and Control Ordinance;
  - ii) a society under the Societies Registration Act, 1860; this is the route taken by most of the NGOs since the provisions of the Act provide legal cover without the more stringent requirements of the Companies Ordinance;
  - iii) A co-operative society under the Co-operative Societies Act, 1925;
  - iv) a public and charitable trust; while restrictive for multi-sectoral development NGOs, this suits certain specialised organisations such as the Aga Khan Foundation, the Orangi Charitable Trust and the Trust for Voluntary Organisations;<sup>28</sup>
  - v) a non-profit company, as provided for by Section 42 of the Companies Ordinance of 1984; this allows flexibility of operation, but imposes strict legal requirements that mandate financial and managerial discipline including regular reporting requirements. This is the route chosen by the RSPs.

<sup>29</sup> See, Akmal Hussain, Employment Generation , Poverty Alleviation and Growth in Pakistan's Rural Sector: Policies for Institutional Change, Report prepared for the ILO, Country Employment Policy Review (CEPR), Pakistan, March 1999. pages 65 to 73.

population. (iv) Lack of autonomy of village level community organizations within the centralized command structure of the NRSP<sup>30</sup>.

The success and limitations of existing large government supported RSPs notwithstanding, an approach of letting “a hundred flowers bloom”, may enable greater innovation, rapid growth and success of the endeavour of development through NGOs.

In this section we will examine some of the necessary conditions for taking the wide range of existing small NGOs to scale.

Of the large number of multi-sectoral NGOs with small beginnings, using the Participatory Development methodology, at least three can be said to have grown to a significant size and achieved national prominence. These are SUNGI, PRSP and BANH BELI. Three questions arise in the context of their success: (a) What are the common factors in their success? (b) At this stage of their growth, what are the constraints they face to further up-scaling and/or rapid replication? (c) What are the elements of an enabling environment at the national level which could let a “hundred flowers bloom”, in the sense of nurturing the rapid growth/replication of development NGOs, enable mutually catalyzing interaction and yet maintain the unique character of each of them?

#### II.4.1 Success Criteria

Apart from the efficacy of the Participatory Development methodology adopted by the above mentioned NGOs, perhaps the single most important factor in their success is the quality of leadership. Specifically, it is the ability to relate with humility and love with the poor. It is to build a team which while being internally coordinated, at the same time, enables each member to become a centre of thought and action. The successful NGO leader creates the team synergy to develop innovative responses to each new problem on the ground. Yet, he/she ensures that each action by the team contributes to reinforcing the process of the poor taking charge of their own development. The effective leader focuses the team to experience the potential of the

---

<sup>30</sup> (i) For a more detailed discussion of these issues, see, Akmal Hussain, et.al. UNDP-Pakistan National Human Development Report 2003, Oxford University Press, Karachi 2003. chapter 4.

(ii) See, Akmal Hussain, Employment Generation , Poverty Alleviation and Growth in Pakistan’s Rural Sector: Policies for Institutional Change, Report prepared for the ILO, Country Employment Policy Review (CEPR), Pakistan, March 1999. pages 60 to 65.

poor and to grasp the specific dynamics of how they can organize, take responsibilities and initiate change. Thus the challenge for the NGO leadership is to so relate with the poor and the team, that every act, every word, every moment of silence, contributes to fertilizing the other, rather than establishing control: Liberating rather than inducing dependency.

The second factor in the success of small NGOs is the identification, training and fostering of village level activists who gradually begin to manage existing COs, thereby, enabling NGO staff to give more time to develop new COs. This process of devolution of management responsibility from NGO staff to village level activists is a crucial factor in the enlargement of NGO coverage in a situation where funds are limited and rapid expansion of staff financially infeasible. The converse of this dynamic is that if too much money becomes available too early, it undermines discipline, initiative and energy of the NGO.

The third factor in the success of small NGOs which have reached significant scale is the development of second level management and the ability of top level leadership to devolve responsibility, acknowledge their achievements and to learn from them just as much as it is necessary for the leadership to learn from the poor. An inner wakefulness that comes from transcending the ego is necessary to be always open to learning from the poor, and from each member of one's team. It is this openness to learning from others that constitutes the basis of the organization's dynamism, its innovation and its sense of being a community.

The fourth factor in the success of small NGOs in reaching significant scale is the development of credible accounting procedures, and a regular monitoring and evaluation exercise on the basis of which donor funding can be sought when it is required. In each case the successful NGO, apart from devising efficacious modes of reflection and action with the village communities, also develops formalized recording and reporting systems

#### II.4.2 Key Features in the Transition from Medium-sized to Large-sized NGOs

Those NGOs which started small and through certain specific features (discussed above) have reached a medium-size are now faced with the challenge of up-scaling to a much larger size. Typically, the successful NGOs started work in one hamlet a

decade ago, are now working in scores of villages and in three or four districts. The question is what are the key changes within the organization which could enable them to reach a large size. In this context, seven key changes may be required:

- i) The single leader at the top (variously called Chairman, President or Chief Executive Officer) would need to build a team of at least three or four leaders who can work independently at the top level. This is necessary in a situation where programme operations become so geographically diversified that overall programme management would need to get regionally decentralized, such that each regional programme would be operating in three or more districts. At the moment, each of the heads of the three successful NGOs mentioned above are taking all strategic decisions and many tactical ones and have a hands on presence in each area of operation. In addition, they are also devoting part of their time to doing consultancy work or other private business to supplement their meagre salary from NGO funds. Consequently, the leadership is so over-stretched, that it is difficult for them to consider making a quantum leap of up-scaling. Yet, they have acquired the consciousness of relating with the poor necessary to train and develop a larger top level leadership.
- ii) For a major up-scaling of successful medium-sized NGOs, it would be necessary to receive grant funding for institutional strengthening and growth. The Pakistan Poverty Alleviation Fund (PPAF) could provide such funding after careful evaluation of the concerned NGOs and assessment of their expansion plans.
- iii) As the organizational structure of the NGO changes from a centralized to a geographically decentralized one, the methodology of work would also have to change to enable introduction of procedures for monitoring and strategic planning. As full autonomy is granted to regional programme heads, each of them would be expected to report and evaluate on programme performance within an agreed format and in consultation with community organizations and the regional programme team. This evaluation could be done on a monthly basis and could feed into the process of developing regional programme plans on a quarterly and annual basis. These regional programme plans prepared initially at regional programme offices, would include issues such as the



number and locations of new COs to be formed and the deepening of existing COs. It would also include facilitating the preparation of participatory village development programmes for infrastructure, social sector services, and off-farm enterprises, as and when such services are identified by COs. The deepening of existing COs in the regional programme plans would include devolution of organizational responsibilities to village activists for managing village level or village cluster level apex organizations of the poor. Such devolution of responsibility would, on the one hand, enable self-managed community organizations to develop, and on the other hand, enable the NGO to keep its overheads low as it enlarges its coverage. The regional planning exercise could be conducted at the regional office on a quarterly basis. However, this process could also involve annual plenary planning sessions at Head Office where village activists, key members of regional teams and Head Office personnel in planning, monitoring and human resource development, would interact with each other.

- iv) One of the necessary conditions for successful NGOs that up-scaled to medium-sized level, was the development of a nascent middle level management in their team, although still tightly supervised by the top leadership. As such NGOs up-scale to large size and achieve geographic diversification, such middle level management would have to be brought to maturity, allowed greater autonomy and considerably increased in number. Such middle level management would play a key role in coordinating social mobilization, training of village level activists, and accessing technical support and credit. The middle management cadre by virtue of its proximity to the field would also be important in collecting data necessary for monitoring, evaluation and planning.
- v) The challenge to NGO up-scaling is that unlike the NRSP, they must keep overheads costs to a minimum level. In order to achieve this, it is necessary for the NGO to be able to withdraw from those villages where COs have achieved adequate maturity and have developed the capacity to form apex support organizations of their own. The critical factor for enabling NGOs to devolve organizational responsibilities to apex organizations of COs, is the development of a cadre of village activists with training in the following

fields: (a) community management skills, (b) ability to interact with donor organizations and government line departments, (c) expertise in a range of basic skills such as, livestock management, agriculture, soils, irrigation, natural resource management and micro-enterprise development. Such a cadre could constitute a core management team in an independent apex support organization.

- vi) As the NGO up-scales to a large size it would generate a variety of training needs for CO members at the village level, as well as career development and professional training needs of NGO personnel. Consequently, a human resource development programme within the NGO may be necessary to identify the human resource and career development needs specific to the internal dynamics of the NGO's work. The human resource development section within the NGO would need to be a lean unit which should network with diverse specialized institutions to access the required training services.
- vii) As the NGO reaches a large scale, there would be a quantum leap in the range and complexity of financial flows within the NGO programmes and also between the NGO and macro level institutions (such as PPAF, commercial banks, donor agencies and government departments). It would, therefore, be essential for the NGO to have a high quality professional finance and accounts division, with the ability to develop and operate MIS, finance, accounting and statistical software packages. Members of this division, while having the best available skills as chartered accountants and finance managers would need to be sensitized to the methodology of Participatory Development and their work integrated with field operations. It would be necessary to develop accounting procedures that while meeting the auditing requirements at the most rigorous level, would also have the innovativeness and flexibility to cater to the unique nature of development NGOs credit operations.

The following matrix shows the key features of NGOs at each stage of their growth from small to large size. The features specified at the small size and transitional stages, actually prevail in successful NGO that have grown to a significant size. The features in the third stage (large size), however, are indicative in nature, for large NGOs to be sustainable, cost-effective and genuinely participatory.

## NGO GROWTH AND CHANGING PROFILE OF KEY FEATURES

Sr. No.	Key Features	Small NGO (Prevalent Features)	Transition to Upscaling (Prevalent Features)	Large NGO (Indicative Features)
1.	Leadership	Single, dedicated leader usually without formal management training.	Emergence of one or more field officers as Regional programme Heads. Hiring of specialists at senior management level.	Hiring and training of professional and dedicated leaders for regional programs. Elevation of talented middle management field officers to top leadership positions.
2.	Management Systems	Absence of formalized procedures, multi-function role of staff members, intense synergy and team work. An openness to learning from the poor and from each other.	Institutional regulations and job specifications emerge; yet, emphasis on participatory decision making; collective reflection in regular staff meetings.	Formalized management systems, functional division of roles, systematic, periodic collective reflection to ensure participatory decision making and planning. Inhouse research capacity and link up with specialized research institutions.
4.	Accounting and Finance Systems	Rudimentary, operated by non-specialists. Maximum emphasis on keeping costs at lowest level.	Hiring of professional accountants emergence of financial analysis, computerized accounts and formal auditing.	Hiring of top level finance manager with professional finance and accounting team, sensitized to participatory development approach, development of customized software for MIS and credit operations.
5.	Devolution of Responsibility to Independent Apex Support Organizations of VOs	Social mobilization and support functions performed only by NGO staff.	Emergence of cadre of village activists, who share support role; emergence of independent multifunction support organizations at village level.	Large experienced cadre of village activists, matured multifunction VOs; emergence of independent apex multifunction support organizations at village cluster or tehsil level. They enable redeployment of NGO field staff and hence NGO overheads kept low.
6.	Relationship with Funding Agencies	Funding usually from single foreign donor, covering function specific operational costs hence occasional donations from friends of leader.	Funding from multiple donor sources for both operations and institutional capacity building. Application to PPAF for institution building grant and credit line.	Establishment of an endowment fund, project specific and region specific funding from multiple donor sources, link up with banks and PPAF for financing credit operations.
7.	Relationship with Government	Government departments usually hostile, avoiding pressure from lower echelon government officials a significant preoccupation.	Nascent links with government line departments to access technical support for VOs, good working relationship with district officials and selected provincial secretaries. Interference by vested interests amongst senior government officials and politicians a major hazard particularly due to fragility of NGO at this stage.	Systematic working relationship with government Line departments at the provincial, district, and tehsil level. Systematic working relationship with specialized institutions for technical support and training in government, autonomous and private sectors. Unwarranted government interference through senior officials and politicians could be a significant hazard.

### **III. INSTITUTIONAL FRAMEWORK FOR A SMALL AND MEDIUM FARMER AGRICULTURE GROWTH STRATEGY<sup>31</sup>**

Pakistan's fragile democracy is threatened by an economic crisis combined with growing poverty that fuels terrorist organizations. An important factor in the economic crisis is the food deficit and the underlying stagnation in yields per acre of major crops. (In the year 2007-08, crop sector growth was negative). It can be argued that if the yield potential of the medium and small size farm sector is achieved, food shortages can be converted into food surpluses. Such a shift can enable Pakistan to convert its weakness into its strength: The current crippling economic burden of food imports can be converted into a strength through food exports. To bring about this transformation a new policy framework is required to shift from the earlier elite farmer strategy to a new small farmer growth strategy.

The rural poor once liberated from the shackles of feudal power and provided with ownership rights can become a major driving force in accelerating agriculture growth and in achieving both political and economic democracy in Pakistan. In this section we will first briefly argue the case for land reform in Pakistan today as a means of achieving democracy at the political level and equitable growth at the economic level. We will then discuss the policy option available to the government of transferring state owned land to the landless peasantry together with an institutional framework for providing sustainable livelihoods to about 58 percent of the existing tenant households.

#### **III.1 Land Reforms for Sustainable Growth with Equity**

At an economic level the existence of a powerful landed elite is indicated by the fact that according to the Agriculture Census of 2000, as much as 30 percent of total farm area is owned by land owners with ownership holdings above 50 acres, and yet they constitute

---

<sup>31</sup> This section is drawn from Akmal Hussain: Poverty, Power and Economic Growth, Pakistan Country Study for the SACEPS Poverty Project, 30<sup>th</sup> September 2008. chapter 4, pages 129 to 137.

only 2 percent of the total number of land owners<sup>32</sup>. Elements of this landed elite dominate the major political parties, local governments, institutions and markets for credit and agriculture input distribution.

When the ‘Green Revolution’ technology became available in the late 1960s it was possible to substantially accelerate agriculture growth through an elite farmer strategy which concentrated the new inputs on large farms. Now the crucial determinant in yield differences became not the labour input per acre in which small family farms had been at an advantage in earlier decades, but the application of the seed-water-fertilizer package to which the large landlords with their greater financial power had superior access. Thus the ‘Green Revolution’ had made it possible to accelerate agriculture growth without having to bring about any real change in the rural power structure. Today, after almost four decades of the elite farmer strategy, the imperative of land reform is re-emerging, albeit in a more complex form than before. As the large farms approach the maximum yield per acre with the available technology, further growth in agricultural output increasingly depends on raising the yield per acre of small farms and reversing the trend of land degradation brought about by improper agricultural practices.

The small and medium farm sector whose yield potential remains to be fully utilized, constitutes a substantial part of the agrarian economy. Farms below 25 acres constitute about 94 percent of the total number of farms and about 60 percent of the total farm area. From the viewpoint of raising the yield per acre of small and medium farms (i.e. farms of less than 25 acres) the critical consideration is that 15.7 percent of the total farm area in the less than 25 acre farm category is operated by landless tenants. Another 13.07 percent of the farm acreage in less than 25 acre farms is operated by owner cum tenant farmers. Since tenants lose half of any increase in output to the landlord, they lack the incentive to

---

<sup>32</sup> These Agriculture Census figures of the share of large land owners are highly under estimated because the Agriculture Census does not take account of the fact that a large number of individual ownership holdings may be nominally under the names of individual family members or even servants (to avoid the legal ceiling on individual ownership holding) but are actually owned by the head of the family. According to an earlier estimate of the share of land owning families as much as 30 percent of total farm area was owned by land owners in the over 150 acres category who constituted less than 0.1 percent of the total number of land owners. (See, Akmal Hussain, Pakistan: Land Reforms Reconsidered, chapter in Hamza Alavi and John Harriss (eds), *Sociology of “Developing Societies” South Asia*, Macmillan, London, 1989.

invest in technology which could raise yields per acre. Because of their weak financial and social position they also lack the ability to make such investments. Their ability to invest is further eroded by a nexus of social and economic dependence on the landlord which deprives the tenant of much of his investible surplus.

This problem is further exacerbated by the absence of an efficient land market where productive land can move to the more efficient operator. Flexible and secure tenancy contracts, and a competitive land market which can allow efficient operation of farm land, can only emerge if the extra economic power currently enjoyed by the feudal elite is constrained. Thus the objective of raising yields in the small farm sector is inseparable from removing the constraints to growth arising out of the institutional structure of tenancy. A policy initiative that enables the tenant to acquire land is therefore an essential first step in providing the small farmers with both the incentive and the ability to raise their yields/acre.

Thus the imperative of land reform today arises not only from the need to accelerate agricultural growth and alleviate rural poverty, but also from the need to build a sustainable democracy. A society based on tolerance, merit and the supremacy of law would require overcoming feudal forms in the conditions of production, in society, and in the very functioning of the State.

### **III.2 Land for the Landless**

A policy of enabling tenant farm households to acquire ownership rights together with access to the markets for inputs could play a vital role in making the small farm sector the leading edge of a faster and more equitable agriculture growth. Such a policy could have two main elements: (a) Transferring the existing 2.6 million acres of state owned land to landless peasants together with an institutional framework for providing them with access over high quality seeds, fertilizers, water and extension services. (b) Institutional changes to open up the land market together with the provision of credit to tenant farm households for enabling them to purchase land. Let us briefly discuss each of these policies in turn.

### III.3 State Land for the Landless

An initial step in providing productive assets to the rural poor could be to allot the available 2.6 million acres of State owned land to the landless. This cannot be seen as a substitute for a land reform programme of 'land to the tiller'. According to the Census of Agriculture 2000, there are about 4.97 million acres of private farm area under pure tenant cultivation in farms below 25 acres. It is this acreage that would need to pass into peasant ownership for a genuine land reform to occur. Nevertheless 2.6 million acres (assuming that all of it is cultivable) could make a significant contribution to the reduction of rural poverty. For example if the 2.6 million acres of state owned land were to be transferred to landless farm households in holdings of 5 acres each, then as many as 520,000 tenant farmers would become owner operators. This means that out of the total number of tenant farmers (about 897,000) in the less than 25 acre category, as many as about 58% would become owner operators.

However, it is important to recognize that providing ownership of land to the landless is a necessary but not a sufficient condition for alleviating their poverty. Enabling the landless to make the transferred land cultivable, to actually settle on the new land and to achieve a sustainable increase in their income, productivity and savings are equally important factors in making the scheme successful.

The achievement of sustainable livelihoods for the landless rural poor through the provision of state owned land would involve the following steps to be undertaken by relevant departments of provincial governments in partnership with NGOs, private sector and international donor agencies<sup>33</sup>:

1. Undertake a diagnostic survey of the areas in which the beneficiaries and the lands to be transferred to them are located. The objectives of these diagnostic surveys would be:

---

<sup>33</sup> This sub-section is based on a policy note contributed by the author to the Ministry of Local Government and Rural Development: Akmal Hussain, Overcoming Poverty Through Providing Land to the Landless, Note submitted to the Ministry of Local Government and Rural Development (Mimeo), April 30, 2001.

- (a) To evaluate the cultivable status of the land and the potential uses for which the land could be utilized.
  - (b) Identification of the main physical constraints to utilizing the land for the purpose of achieving a sustainable livelihood for the poor. (Examples of such constraints are: saline soils, poor quality of ground water, poor management of torrent water or an absolute non availability of water).
  - (c) Identification of physical infrastructure interventions that could be made through participatory development projects involving partnership between government departments, NGOs and organizations of the landless poor in the concerned areas (examples of such interventions could be, minor land forming and land reclamation schemes, provision of tube wells where possible, check dams, water lifting devices and water harvesting schemes).
  - (d) Identification of micro enterprise projects which individual households or groups of households of the poor could undertake in order to achieve a diversified economic base for their livelihoods. For the identification of such micro enterprise schemes the survey would involve consultations with organizations of the poor and with individual poor households from amongst the potential beneficiaries.
  - (e) Estimates of credit needs of those poor households who are targeted as beneficiaries of the newly allotted lands.
  - (f) Socio economic profiles of the landless poor in the specific areas where they are expected to acquire the land under the scheme. This profile would identify the mechanisms through which poverty of the concerned households is reproduced, their current major sources of income, debt and actual or potential skills.
2. The provincial governments would facilitate the local governments in the specific areas where the relevant state lands are located to initiate a process of social mobilization of the landless poor. This mobilization would be essential to



enabling the landless poor households to begin using the newly acquired land in a productive way and to position themselves for acquiring skill training, credit and technical support from both government departments and NGOs.

This social mobilization could be conducted by local governments through partnership with community based organizations at the local level, NGOs at the district and provincial levels and with support from apex organizations such as the Pakistan Poverty Alleviation Fund and also from donor agencies.

3. Training of social mobilisers/catalysts could be undertaken by specialized NGOs such as the South Asia Partnership, NRSP, PRSP and SAPNA (South Asian Perspective for new Alternatives).
4. After specific local level infrastructure projects for improving the productivity of state allotted lands have been identified, the provincial governments in collaboration with Pakistan Agricultural Research Council could mobilize the technical expertise for implementing the projects through organizations of the poor. The financial resources necessary for these infrastructure projects could be mobilized from Asian Development Bank, World Bank, Small Business Finance Corporation, The Khushhali Bank, Pakistan Poverty Alleviation Fund.
5. The provision of technical training and credit for micro enterprise projects could be undertaken by networking the following organizations: (a) PPAF and Khushhali Bank for credit. (b) For organizing technical training and technical support for micro enterprise projects of the poor the following organizations could be networked: NGO Federation (BINGOF), Punjab NGO Coordination Council, Sarhad NGO Ittehad , Sind NGO Federation, the Pakistan NGO Forum and SUNGI.

The scheme of providing state lands to the landless poor can lead to a sustainable increase in incomes of the beneficiaries if the provision of state land is combined with the following elements: (1) social organization of the poor, (2) development of local infrastructure for increasing land productivity, (3) development of micro enterprise

projects of the poor and (4) provision of training, technical support and micro credit to the poor in order to develop a diversified economic base for overcoming their poverty. If such a scheme for participatory development of poor landless households could be undertaken then the government could set a new example not only for Pakistan but for developing countries as a whole, that could demonstrate how the landless poor can be enabled to overcome their poverty.

#### **III.4 Enabling Tenant Households to Buy Land**

While the transfer of state owned land (2.6 million acres) could provide land to 58 percent of the existing tenant farmers, the remaining 42 percent could be enabled to buy land through credit and institutional changes in the land market. Thus *all* the existing tenant households could become owner operators who could play a strategic role in generating a faster and more equitable agriculture growth.

Out of a total of 897,000 pure tenant farmers, 377,000 households could be enabled to acquire ownership rights over 5 acre farms through purchase of land. This would create the institutional basis of providing both the incentive and the ability to tenant farmers to increase yields per acre. This objective could be achieved through four sets of policy actions:

- (a) Through a consortium of government, donors and commercial banks a credit fund for providing land to the landless amounting to about Rs.332 billion (USD 4.24 billion) could be created. The purpose would be to: (a) provide targeted credit to enable about 377,000 tenant farm households to purchase 5 acres per household of cultivable land with a total cost of approximately Rs.283 billion (USD 3.62 billion), (b) allocate Rs.50 billion (USD 0.64 billion) for follow up extension services to enable efficient cultivation of purchase land.
- (b) Update, systematize and computerize the land revenue records. The objective would be to establish clear ownership rights of existing

owners/claimants such that owned land could become legally transferable without the market transactions being subject to crippling litigation.

- (c) Facilitate the formation of small farmer associations at the union council and tehsil levels with a view to providing small farmers with the leverage to get equitable access over the markets for seed, fertilizer, tube well water and pesticides. At the moment markets for these inputs are asymmetric with respect to the large and small farmers respectively. Local power structures mediate local markets so that the small farmers get poorer quality of seeds, fertilizer and pesticides, and have to pay relatively high prices for these inputs compared to the large farmers.
- (d) Strengthen extension service organizations of the Ministry of Rural Development at the union council and tehsil levels and re-orient their operations to provide high quality support to small farmers for: (i) soil testing to enable the farmer to determine the precise composition of the chemical fertilizers that is congruent with the nutrient requirements of the soil, (ii) improved on farm water management to increase water use efficiency, (iii) improved agricultural practices based on new scientific knowledge to reduce salinity and improve the organic profile of the top soil.

#### **IV. INSTITUTIONAL FRAMEWORK FOR FASTER GROWTH OF SMALL SCALE INDUSTRIAL ENTERPRISES (SSEs)<sup>34</sup>.**

Since small scale industries have higher employment elasticities, smaller Incremental Capital Output Ratios (ICORs), and shorter gestation periods. Therefore an increased share of investment in this sector could enable both a higher GDP growth for given levels of investment as well as higher employment generation for given levels of growth. At the same time if the institutional conditions could be created for enabling small scale industries to move into high value added components for both import substitution in the domestic market and for exports, Pakistan's balance of payments pressures could be

---

<sup>34</sup> This section has been drawn from Akmal Hussain: Poverty, Power and Economic Growth, Pakistan Country Study for the SACEPS Poverty Project, 30<sup>th</sup> September 2008. pages 115 to 119.

eased. The key strategic issue in accelerating the growth of SSEs is to enable them to shift to the high value added, high growth end of the product market. These SSE's include high value added units in light engineering, automotive parts, moulds, dyes, machine tools and electronics and computer software.

Training of a large number of software experts with requisite support in credit and marketing could quickly induce a significant increase in software exports from Pakistan. Pakistan could build a pool of software experts for a large increase in export earnings. This would of course require a proactive government to establish joint ventures between large software companies such as Microsoft and Pakistan's private sector institutions such as LUMS and INFORMATICS. The Ministry of Science and Technology is already moving rapidly in facilitating the growth of information technology in Pakistan. In this sub-section however we will focus on small scale manufacturing enterprises.

A large number of small scale enterprises (SSEs) in the Punjab and the North Western Frontier Province (NWFP) have a considerable potential for growth and high value added production such as components for engineering goods or components of high quality farm implements for the large scale manufacturing sector.<sup>35</sup> Yet they are in many cases producing low value added items like steel shutters or car exhaust pipes resulting in low profitability, low savings and slow growth.

#### **IV.1 Constraints to the Rapid Growth of SSEs**

Small scale enterprises in small towns of Pakistan face the following major constraints:

- (i) Inability of small units to get vending contracts for the manufacture of components from the large-scale manufacturing sector (LSM).
- (ii) Due to lack of expertise in production management and the frequent inability to achieve quality control it becomes difficult to meet tight delivery schedules.

---

<sup>35</sup> Akmal Hussain: Labour Absorption in Pakistan's Rural Sector, Final Report, ILO/ARTEP (Mimeo), 20<sup>th</sup> September 1989, Pages 21 to 23.

- (iii) Lack of specific skills like advanced mill work, metal fabrication, precision welding, all of which are needed for producing quality products with low tolerances and precise dimensional control. In other cases accounting and management skills may be inadequate.
- (iv) Difficulty faced by small units in getting good quality raw materials, which often can only be ordered in bulk (for which the small entrepreneurs do not have the working capital), and from distant large cities.
- (v) Lack of specialized equipment.
- (vi) Absence of fabrication facilities such as forging, heat treatment and surface treatment which are required for manufacture of high value added products, but are too expensive for any one small unit to set up.
- (vii) Lack of capital for investment and absence of credit facilities.

#### **IV.2 Overcoming the Constraints to the Growth of SSEs**

Overcoming the aforementioned constraints would involve providing institutional support in terms of credit, quality control management, skill training and marketing. This could be done by facilitating the establishment of Common Facilities Centers (CFCs) located in the specified growth nodes in selected towns where the entrepreneurial and technical potential as well as markets already exist. Such support institutions (CFCs) while being facilitated by the government and autonomous organizations such as SMEDA can and should be in the private sector and market driven.

The concept of the Common Facilities Centers is based on the fact that small scale industrialists in Pakistan have already demonstrated a high degree of entrepreneurship, innovation and efficient utilization of capital. The CFCs would provide an opportunity for rapid growth to SSEs through local participation in extension services, prototype development, and diffusion of improved technologies, equipment, and management procedures. The CFCs would constitute a decentralized system which ensures continuous

easy access to a comprehensive package of support services such as credit, skill training, managerial advice and technical assistance. The CFCs could also be linked up with national research centres, and donor, agencies for drawing upon technical expertise and financial resources of these agencies in the service of small scale industries (SSI).

The Common Facilities Centres could have the following functional dimensions:

(i) Marketing

Provision of orders from the large scale manufacturing sector for components, and from farmers for farm implements. These orders would then be sub-contracted to the cluster of SSI units that the CFC is supposed to serve. The individual order would be sub-contracted to the SSI on the basis of the skills and potential strengths of the unit concerned.

(ii) Monitoring and Quality Control

Having given the sub-contract, the ISC would then monitor the units closely and help pinpoint and overcome unit specific bottlenecks to ensure timely delivery and quality control of the manufactured products. These bottlenecks may be specialized skills, equipment, good quality raw material or credit.

(iii) Skill Training and Product Development.

Skill training for technicians could be provided by the new good quality vocational training institutes (VTIs) established by the Vocational Training Council of Punjab. Similar VTIs could be established in other provinces. The CFC would provide specialized supplementary skill training on its premises to workers in the satellite SSI units when required. At the same time, it would provide advice on jigs, fixtures, special tools and product development where required.

(iv) Forging and Heat Treatment Facilities

The CFCs would establish at their premises plants for forging, heat treatment and surface treatment. The SSI units could come to the CFC to get such fabrication done on the products they are manufacturing on sub-contract, and pay a mutually agreed price for this job to the CFC.

(v) Credit

The ISC would provide credit to the SSE's for purchase of new equipment and raw materials. In cases where raw materials are available in bulk supply, the ISC could buy it from the source, stock it on its premises and sell at a reasonable price to units as and when they need them.

**V. INCLUSIVE GROWTH THROUGH EQUITY STAKES FOR THE POOR IN LARGE CORPORATIONS**

The hallmark of underdevelopment or what North calls a Limited Access Social Order, is an institutional structure which systematically excludes the majority of the people from the process of investment, economic growth and access over basic services for human development<sup>36</sup>. If economic growth and political democracy are to be sustainable it is necessary to move towards an institutional framework which provides opportunities to all of the people rather than a small elite to participate in the process of investment, growth and human development. In this section we will examine some of the innovative new institutional forms that have been tried and tested in a number of South Asian countries for mainstreaming the poor into the economy.

The concept of enabling ownership rights to the poor in the mainstream large scale corporate sector has not yet been addressed in the literature on development policy. The poor can be included in the process of investment and economic growth not merely through micro enterprises, but can be engaged into the mainstream corporate sector as well.

---

<sup>36</sup> Douglass C. North, John Joseph Wallis and Barry R. Weingast, *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History*, Cambridge University Press, July 19, 2008 (Forthcoming).

## V.1 *Financing the Entry of the Poor into the Capital Market*

Investments in the capital market have often been made by pledging the stocks being purchased. A down payment of say 20 percent of the value of the asset is usually made by the investor and the residual amount of the stock purchased is covered by the bank which then holds the stock as collateral.

There is no reason why such loan financing for under writing investment in the capital market should not be made available to organizations of the poor. Their small savings can be pooled and then used as down payments on investments in the corporate sector. The poor can thereby become eligible for bank loans to buy into the initial public offering (IPO) by the corporate sector. They can also be directly inducted as equity partners in existing large corporations.

There are clearly issues of risk assessment, as well as how such groups of the poor can be mobilized into sufficient numbers to empower them to become partners in the corporate sector. The methodology of group formation of the poor and its dynamics, have been discussed in the preceding section-II. Some of the institutional mechanisms that have been used in the countries of South Asia to enable the poor to become owners of corporate assets include: (i) The Social Enterprise, (ii) The Grameen Bank Model, (iii) Reconstructing NGOs as Corporations of the Excluded, (iv) Worker Ownership.

## V.2 *The Social Enterprise*

Dr. Muhammad Yunus<sup>37</sup> has defined Social Enterprise (SE) as a non-loss, non-dividend company. It is a company that has a social goal of benefiting a particular group of the under privileged or society in general. The investors in the SE would get their capital back over a period of time, and the residual income is reinvested in the business. The target group of the under privileged would receive benefits in the form of lower prices of goods and other services provided by the SE.

---

<sup>37</sup> Muhammad Yunus, *Creating a World Without Poverty: Social Business and the Future of Capitalism*, Public Affairs (A Member of the Perseus Books Group), USA, 2007.



A Social Business can also be a profit making enterprise where the investors are drawn entirely from the poor and where some of the profits are distributed as dividends amongst the poor shareholders, after ensuring the long term viability of the business. The poor could be gifted shares by these Social Enterprise companies, or they could buy shares of such companies with their own or group savings, or borrow from banks to buy these shares and later repay the loan through earned dividends.

The manager or a “social entrepreneur” should be a person who has specialized skills combined with an altruistic desire to help the under privileged to improve their economic conditions of life. The idea that altruistic activity is part of the social welfare function of many people and increases their individual perception of increased personal welfare has now been incorporated into social choice models in economic theory. For example, Howard Margolis has developed a model of individual voting behaviour in which he shows that individuals have two types of utility functions, those that favour group oriented preferences and those that favour selfish preferences with a trade off being made between the two<sup>38</sup>. Muhammad Yunus argues in the context of social enterprise management that individuals have twin motivations: to seek self interest and also the benefit of other human beings in society<sup>39</sup>.

Social enterprise initiatives have proliferated in some of the South Asian countries. Selected examples are discussed in the ensuing sub-section<sup>40</sup>:

### V.3 *Grameen Bank (GB)*

The constraint to the poor entering the mainstream corporate economy is the small size of the savings of the individual wage earners and the market constraints of unequal competition faced by individual micro enterprise entrepreneurs. The Grameen Bank

---

<sup>38</sup> Howard Margolis, *Selfishness, Altruism and Rationality: A Theory of Social Choice*, Cambridge University Press, Cambridge, 1982. cited in Douglass C. North, *Institutions, Institutional Change and Economic Performance*, Cambridge University Press, Cambridge, England, 2004.

<sup>39</sup> Muhammad Yunus, *Creating a World Without Poverty: Social Business and the Future of Capitalism*, Public Affairs (A Member of the Perseus Books Group), USA, 2007.

<sup>40</sup> The author wishes to acknowledge his debt of gratitude to Professor Rehman Sobhan and his team at the Center for Policy Dialogue, Dhaka for providing the background material on which this sub-section is based.

project has shown that this saving and asymmetric competition constraints can be surmounted through an appropriately designed and collectively owned organization of the poor. The design of the Grameen Bank involved aggregating the small savings of the poor, supplementing it with large scale borrowing from state owned banks and not only lending to the poor but also undertaking a diverse portfolio of investments in the modern corporate sector.

By the year 2004 the Grameen Bank had 3.7 million poor borrowers, 96 percent of whom were women. GB has 1267 branches providing services to 46000 villages which constitute 68 percent of the total villages in Bangladesh.

An important feature of the Grameen Bank is that it is engaged in the investment and management of a wide range of commercial enterprises such as the following: (i) Telecommunication services (Grameen Telecom), (ii) Self phone services for the poor (Grameen Phone), (iii) Internet service provision (Grameen's Cybernet), (iv) The development of renewable energy sources for rural Bangladesh. (v) Experimentation and training to improve agricultural practices for increased crop yield (Grameen Krishi Foundation), (vi) Fish pond and livestock breeding programmes (Grameen Motsho O Pashusampad Foundation), (vii) Training, technical assistance and financial support for micro finance institutions (Grameen Trust), (viii) Social venture capital funding for entrepreneurial initiatives (Grameen Fund).

#### V.4 *BIRDEM Hospital*

BIRDEM is one of the largest hospitals in Bangladesh specializing in the treatment of diabetes and is a non profit social enterprise. The income generated from this hospital which is being run as a commercial venture, is used to provide subsidized health care to low income households and to conduct research in diabetes.

#### V.5 *Jaipur Foot and Arvind Eye Care*

Jaipur Foot and Arvind Eye Care in India are two examples of market competitive and self financing social enterprises in the main stream corporate sector, providing specialized goods and services to low income households.

Jaipur Foot manufactures, fits and services prosthetic products to low income handicapped citizens on a non-profit basis. JF is owned and managed by Mahaveer Viklang Sahayata Samiti (BMVSS), a charitable NGO. BMVSS has emerged as one of the largest manufacturers of prosthetic products in the world. It out competes by far, similar companies in the US. For example, College Park Foot in the USA has an average cost of producing and fitting a prosthetic foot amounting to US dollars 2700 compared to only US dollars 30 by Jaipur Foot.

Arvind Eye Care provides eye care services of global standards but at rates affordable by low income households in India. In 2002 Arvind Eye Care facilities provided services to 1.4 million out care patients of which 54 percent were treated free. In the same year Arvind Eye Care performed surgeries on 196,425 patients of which 66 percent were free. On the basis of fee paying patients Arvind Eye Care generated revenues of Rs.388 million to earn a surplus of Rs.210.5 million which was reinvested to expand and further modernize the facilities.

#### V.6 *AMUL*

India from being an insignificant producer of milk at 17 million tons in 1950-51 has emerged as the world's largest milk producer with 102 million tons by 2007-08. From being a major importer of milk it has now become one of the largest milk exporters in the world. This transformation of the dairy industry in India was started by the Kaira District Cooperative Milk Producers Union Limited, popularly known as AMUL (Anand Milk Union Limited), with Dr. Verghese Kurien providing the leadership. He combined a commitment to poor farmers, with innovative management systems, the use of simple milk testing technology and later a computerized data base. The initiative was designed to address the problem of small milk producers who had to travel long distances to deliver milk and in the summer season the milk often went sour. The farmers were therefore compelled to sell at low prices to the middle man.

The Kaira Union initially began pasteurizing milk with a few farmers in just two village cooperative societies in June 1948. The AMUL brand of dairy products were launched in 1955 with a new trajectory of growth being established through the institutional structure

of the marketing agency called Gujrat Cooperative Milk Marketing Federation (GCMMF) set up by the Kaira Union. The membership of this milk cooperatives union expanded rapidly so that today there are 120,000 village level dairy cooperative societies spread over 265 districts in the country, collecting 21 million liters of milk and marketing 18 million liters per day.

AMUL dairy for its membership of millions of small farmer milk producers has transformed the process of the milk supply chain through a computerized collection system which reduces the time for weighing, quality testing and payment. AMUL's computerized quality testing machines make the milk collection process both quick and transparent. The installation of the Automatic Milk Collection System (AMCS) at the level of village societies consists of milk testing machines and computers recording daily information about each farmer member with respect to the milk fat content in each case, the volume of milk collected and the amount payable.

## **VI. INSTITUTIONAL INITIATIVES FOR INCLUSIVE GROWTH THROUGH CORPORATE ENTERPRISES OWNED BY THE POOR**

There are three sectors which have considerable potential for stimulating GDP growth, poverty reduction and increasing Pakistan's foreign exchange earnings: (i) Milk and dairy products, (ii) Livestock and the production of meat and meat products, (iii) Marine fisheries. In this section we will briefly discuss the institutional form that can be deployed in the case of milk and dairy products on the basis of public private partnership to establish corporate enterprises with equity stakes for the poor. Similar institutional structures can be established for livestock and production of meat, and for marine fisheries.

*Milk Production Potential of Poor Peasants.* With over 177 billion rupees worth of milk being produced annually in Pakistan, milk is Pakistan's largest product in the agriculture sector. Unlike agriculture crops the production of milk can be accelerated sharply within a couple of years. Currently Pakistan's milch cattle yield per animal is one fifth the European average. Demonstrable experience in the field has shown that the milk yield per animal in Pakistan can be doubled within two years through scientific feeding, breeding

and marketing. What is required is an institutional framework for training the farmers in scientific feeding and breeding, and for establishing the logistics to collect milk from the farm door by means of refrigerated transport, domestic marketing as well as arrangements for refrigerated storage at airports and subsequent airfreight to export markets. Such an initiative could have a significant impact not only on the incomes of poor peasants but also on exports and overall GDP growth<sup>41</sup>.

*Marine Fisheries Potential and Constraints.* Marine Fisheries, also provide a significant potential for improving foreign exchange earnings although not as large as the potential for milk. Here again, what is required is improved institutional support and better management rather than huge investments by the Government. The expansion in the export of marine fisheries is constrained because the storage facilities for transportation do not match the international quality standards. Currently alternate layers of fish and hard sharp edged ice are placed in containers on the boats. Under the weight of upper layers of fish and the sharp edged ice, fish at the lower layers are crushed, and the resultant bleeding causes putrefaction. To avoid this, it is necessary to provide shelves for layered storage of fish in boats, topped by dry ice, with fiberglass covers to maintain the European Union standards of minus 7°C temperature during transportation. An export potential of 300 million dollars exists over the next three years if such improved management of the marine fisheries industry could be achieved<sup>42</sup>.

*Proposed Institutional Structure for Milk and Milk Products.* It is proposed that the Pakistan Poverty Alleviation Fund (PPAF), its NGO partner organizations at the district level and provincial Dairy Development Boards be brought together into a consortium to establish a Pakistan Dairy Corporation (PDC). The institutional framework for the PDC could be as follows:

- This corporation should be a public limited company, run by a professional management with poor peasants as its shareholders.

---

<sup>41</sup> Akmal Hussain, A Policy for Pro Poor Growth, paper in Towards Pro Poor Growth Policies in Pakistan, Proceedings of the Pro-Poor Growth Policies Symposium, 17<sup>th</sup> March 2003, UNDP-PIDE, Islamabad. page 72.

<sup>42</sup> Ibid. page 73.

- International donors, and the government of Pakistan can contribute to establishing a special fund within the PPAF which can be used to give either grants or loans to poor peasants to enable them to buy the equity in the PDC and also to acquire additional milch animals.
- The objective of the corporation should be to generate profits through establishing milk collection centers in each Union Council to collect milk, from its shareholders, arrange refrigerated transport, establish milk pasteurizing and packaging facilities at the provincial level, and a marketing and export infrastructure.
- The PDC should also establish an infrastructure at the village level for directly collecting milk from poor peasant milk producer shareholders, testing the milk and immediate payment to the milk producers.
- A computerized data base platform should be established at the Union Council level to keep a record of the profile of each milk producer with respect to the following data: percentage of milk that passes the quality test; payments for milk supplied; extension services provided; increases in yields per milch animal; changes in the stock of milch animal, initial level of and changes in household income resulting from increased milk sales.
- The profits of the corporation should be used partly for re-investment and growth and partly for disbursing dividends to the poor peasant shareholders.
- The PPAF should develop new partner organizations at the Union Council, Tehsil and District levels which would be exclusively devoted to forming special purpose community organizations (COs) of poor peasants. The objective of the COs would be to enable its members to increase production and sale of milk, access credit for increasing the stock of milk animals at the household level and undertake scientific feeding and breeding of milch animals for increasing milk yields.

- The PPAF could also be tasked to provide credit to the milk producer share holders of PDC, arrange for extension services to the community organizations of milk producers for testing and inoculating animals against disease, scientific feeding and breeding practices.

## **CONCLUSION**

At this time the battle for Pakistan is being conducted against the extremists. The economic dimension is a vital element in prosecuting this war. Establishing the institutional structure for inclusive growth in which the people of Pakistan could participate in the process of growth would enable a higher sustained growth with equity.

An essential feature of inclusive growth is to provide access to the poor over productive assets through a variety of institutional mechanisms so that they can become both the subjects as well as the beneficiaries of growth. In this context four main institutional mechanisms were discussed: (i) A process of localized capital accumulation involving micro enterprise development, sustainable livelihoods and local infrastructure construction through the Participatory Development methodology. (ii) A small and medium farmer strategy for accelerated growth through the provision of land ownership rights to the landless with supportive institutional mechanisms for increasing yields per acre. (iii) Accelerated growth of small and medium scale industrial enterprises through an institutional framework for increasing production and export of high value added goods in high growth sectors. (iv) Provision of productive assets to the poor through equity stakes in large corporations owned by the poor and managed by professionals in the fields of milk production, livestock, and marine fisheries.

The institutional structure for inclusive growth would enable growth through the provision of economic citizenship to the people of Pakistan and thereby constitute a vital element in national security.

## REFERENCES

1. Hussain, Akmal, et.al. 2003. Poverty, Growth and Governance, Pakistan National Human Development Report 2003, UNDP, Oxford University Press, Karachi.
2. Hussain, Akmal. 1989. Labour Absorption in Pakistan's Rural Sector, Final Report, ILO/ARTEP (Mimeo).
3. Hussain, Akmal. 1989. Land Reforms Reconsidered, in Hamza Alavi and John Harriss (eds.): South Asia, Macmillan Education Ltd., London.
4. Hussain, Akmal. 1994. Poverty Alleviation in Pakistan, Vanguard Books, Lahore.
5. Hussain, Akmal. 1998. Punjab Rural Support Programme (PRSP), The First Four Months, Report to the Board of Directors of PRSP.
6. Hussain, Akmal. 1999. Employment Generation, Poverty Alleviation and Growth in Pakistan's Rural Sector: Policies for Institutional Change, ILO, Country Employment Policy Review (CEPR), Pakistan, (Mimeo).
7. Hussain, Akmal. 2000. Poverty, Growth and Governance, chapter in, V.A. Pai Panandiker (ed.): Problems of Governance in South Asia, Centre for Policy Research, New Delhi.
8. Hussain, Akmal. 2001. Overcoming Poverty Through Providing Land to the Landless, Note submitted to the Ministry of Local Government and Rural Development (Mimeo).
9. Hussain, Akmal. 2003. A Policy for Pro Poor Growth, paper in Towards Pro Poor Growth Policies in Pakistan, Proceedings of the Pro-Poor Growth Policies Symposium, March 17, 2003, UNDP-PIDE, Islamabad.
10. Hussain, Akmal. 2008. Poverty, Power and Economic Growth, Pakistan Country Study for the SACEPS Poverty Project, (Forthcoming).
11. Khan, A.H. : Micro Enterprise Credit, OCT, Karachi 1996.
12. Margolis, Howard. 1982. Selfishness, Altruism and Rationality: A Theory of Social Choice, Cambridge University Press, Cambridge.
13. North, Douglass C. 2004. Institutions, Institutional Change and Economic Performance, Cambridge University Press, Cambridge, England.
14. North, Douglass C. 2005. Understanding the Process of Economic Change, Princeton University Press.



15. North, Douglass C., Wallis, John Joseph, Weingast, Barry R. 2008. *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History*, Cambridge University Press, (Forthcoming).
16. Sobhan, Rehman. 2008. *Rethinking Poverty Eradication in South Asia: An Agenda for Inclusive Development*, SACEPS/CPD Project, Center for Policy Dialogue, Dhaka. [Draft for Discussion, October 2008].
17. Wignaraja, Ponna, Hussain, Akmal, Sethi, Harsh and Wignaraja, Ganeshan. 1991. *Participatory Development, Learning from South Asia*, United Nations Press, Tokyo and Oxford University Press, Karachi.
18. Wignaraja, Ponna and Sirivardana, Susil. 2004. *Pro-Poor Growth and Governance in South Asia: Decentralization and Participatory Development*, SAGE Publications, New Delhi and London.
19. Wignaraja, Ponna, Sirivardana, Susil, Hussain, Akmal, (eds). 2009. *Economic Democracy through Pro Poor Growth*, SAGE Publications, Delhi.
20. Yunus, Muhammad. 2007. *Creating a World Without Poverty: Social Business and the Future of Capitalism*, Public Affairs (A Member of the Perseus Books Group), USA.