

# **The Process of Organizational Change in the Aga Khan Rural Support Programme, Pakistan: Lessons for Rural Development NGOs**

Rashed un Nabi

E-mail: [runabi@sympatico.ca](mailto:runabi@sympatico.ca)

This paper reviews the shifting direction of the Aga Khan Rural Support Programme (AKRSP), Pakistan. It shows that AKRSP has accepted the principle of withdrawing from mature village organizations, but it has not acted to redirect resources from mature areas to undeveloped areas. The transfer of the microfinance programme to a development bank is relieving it from its service-providing role but financing a further round of physical infrastructure projects would re-inforce the role. On the other hand, the adoption of the function-based approach will enhance the capacity of village organizations and let AKRSP play a stronger role in policy change.

## **Introduction**

The Aga Khan Rural Support Programme (AKRSP) operates in North-West Frontier Province (NWFP), Pakistan, where the economy is dependent on precarious agriculture. Farming potentials of its program region, Northern Areas and Chitral (NAC), vary between high altitude and low altitude villages with the latter having a longer growing season. Mountainous terrain and poor infrastructure severely constrain the movements of its beneficiaries, affecting access to markets and non-farm income opportunities. The Karakoram Highway, constructed in 1978, has broken the isolation of the region but made very little impact on the lives of those whom AKRSP, with support from bilateral and multilateral donors, have been supporting through a range of infrastructure and agricultural development projects since 1982.

In four successive evaluations, the World Bank has rated AKRSP's programmes as effective as the number of beneficiary households has increased and the village organizations (VO), through which AKRSP channels program resources, have grown mature over the period. Noting the trend, the World Bank and other donors have advised AKRSP to withdraw resources from mature areas and divert them to the areas in need. Although the donors have

based their views on impact evaluations, they have only reiterated the original organizing principle of AKRSP (Khan & Husain, 1995, p. 74). Nonetheless, the question of withdrawal has prompted considerable debates leading to the preparations for some changes in service delivery structures of AKRSP. This exploratory paper relates the concern for change to the development objective of AKRSP and examines the responses of its program components to the concern with reference to their implications on rural development efforts in NAC. The paper also draws some general lessons that are deemed to be useful for steering organizational change in rural development NGOs.

## **The Shifting Strategies**

AKRSP tends to be adaptive to changing situations. From an extremely narrow objective of developing a model for service delivery, it evolved with an objective of doubling rural per capita incomes. As the discussion on withdrawal became intensified, it made further attempts to adjust its development objective by underlining the importance of strong village-based institutions in improving income and economic status (AKRSP, 1995, p. 16). This adjustment is a pointer of changing direction in which AKRSP is supposed to scale down its conventional service provision role to embrace a capacity building role. It is also an acknowledgement, which is absent in the target group approach of other NGOs, that capacity-building efforts must go beyond the circumference of VOs to develop a co-ordination between various rural development initiatives working towards the betterment of people in NAC. Interestingly, the attempts towards the shift were opposed by beneficiaries themselves, who argued that providing services to them is the main reason for AKRSP's existence (AKRSP, 2000, p. 14). This argument initially received support from the same donors who later insisted on withdrawal. The opposition certainly de-motivated AKRSP to work towards a strategy for giving VOs a greater role.

The scale of operation also prevents AKRSP from retreating and transferring strategic and operational responsibilities to VOs. As a result, VOs remain the main vehicle for institutional development but AKRSP retains its role in planning and decision-making. It has made attempts to broaden the scope of institutional development by introducing women's organizations that would bring women's concern in ongoing development programs. However, instead of retreating into a capacity-building role, it has embraced a plan of shrinking certain service-providing roles. One of the outcomes of such a plan is the ongoing process of running a development bank to take over the conventional micro-credit program.

The extent of poverty in its program areas is another factor that may discourage AKRSP from reducing its service-providing role. An average person in NAC still lives in poverty—on about half a dollar a day—and fails to seize any opportunities created by development agencies including AKRSP. Considering the poverty level, a World Bank evaluation has recommended that AKRSP needs to change its direction (World Bank, 2002, p. 35). This implies that the current direction of AKRSP of building capacity would fall short unless it paid attention to the differentiated capacities of the population in NAC. Shifting the focus from the broad capacity-building approach to the targeted approach demands a different level of grassroots involvement of AKRSP and in effect requires diverting resources from mature areas to undeveloped areas. AKRSP is testing the possibility through pilot poverty-focused projects (AKRSP, 2001) but it has yet to internalize the lessons in its program components that support institutional development, infrastructure development, microfinance and agricultural development.

### **The Outcomes of the Withdrawal Debate**

Village organizations bear the spirit of farmers' co-operative movements rather than the spirit of the target group approach of the 1980s. Although membership is open to all villagers, typically a VO operates as a site for collective action by farmers (Afshar, 1995). If AKRSP withdrew from a program area, it would leave behind capable VOs which would undertake development programs independently and be able to negotiate with other agencies for resource allocation. However, a World Bank evaluation shows that the incidence of VOs'

attempts to operate independent of AKRSP is very rare (World Bank, 1996a, p. 44). Although AKRSP in the 1997-2001 phase scrutinized options for transforming VOs into a legal body, and although VOs participated in the projects of other NGOs and governments, they remained as dependent as before on AKRSP for program planning and implementation.

The number of VOs continued to grow between 1983 and 2000 but fell in the years when AKRSP covered fewer villages and created fewer VOs. There is no evidence that the growth of VOs was influenced by the pulling out of any VOs from AKRSP. While the steady growth of VOs over the period gives an indication of the effectiveness of AKRSP's institutional development efforts, it gives little indication about VOs' sustainability that would establish that VOs are motivated to operate independent of AKRSP.

The institutional maturity index (IMI)<sup>1</sup> survey of AKRSP sheds some lights in this regard. Measuring the capability and sustainability of VOs, an IMI survey undertaken in 1991 shows that the maturity level of the surveyed VOs varied markedly. VOs in initial areas of interventions demonstrated greater maturity than VOs in newly entered areas (World Bank, 1996a, p. 48-49). Given the history of two decades' intervention of AKRSP, the existence of mature VOs in old program areas is not surprising. The concern here is whether the mature VOs are prepared to operate with the same maturity without AKRSP's assistance, for which there is no evidence.

AKRSP has fostered some level of co-ordination between mature VOs and other local development agencies. This effort for co-ordination could also be an exit point for AKRSP if it succeeded in adopting its proposed function-based approach. Instead of channeling resources only through VOs, the function-based approach would allow AKRSP to work with any appropriate village-based organizations based on matching functions. If adopted, this approach would extend co-ordination between VOs and local organizations as well as facilitate the

<sup>1</sup> Indicators included, inter alia, participatory group process, extent of dependence on AKRSP, management capacity for planning, finance, and conflict resolution, links with other agencies, adoption of new technologies

process of AKRSP's withdrawal. By working with an array of organizational structures, AKRSP would enhance the capacity of the whole community. On the other hand, by associating with other village-based organizations, AKRSP could demonstrate to VOs the importance of competitiveness and help them reduce dependency on AKRSP.

The failure to adopt the function-based approach lies in the lack of a consistent withdrawal policy of AKRSP. Despite acknowledging the importance of capable and independent VOs, AKRSP believes that its withdrawal will result in an institutional gap in NAC (AKRSP, 2004, p. 5). This argument is typical of South Asian rural development NGOs which are dependent on foreign donations and which has given rise to large parallel bureaucratic structures; without the dependence of the beneficiaries on them, those NGOs will have few reasons to seek funding from foreign donors. AKRSP may not share the values of those NGOs, but its socio-political background limits its choices for withdrawal. If it wants to withdraw at any rate from mature villages, it will have to start with the villages of the *Ismaili* community (a sub-sect of the Shia Muslim), which elsewhere is the major fund - mobilizing source for AKRSP; it is likely that AKRSP will risk losing its funding base by withdrawing from *Ismaili* villages. Likewise, if it shifts its concentration from mature areas to undeveloped areas, it has to shift its focus from the entrepreneur class in the better-off areas to poorer people who would demand a greater amount of resources and services than the former (World Bank, 2002, p. 42-43). Unless AKRSP streamlines its objective toward poverty reduction, it is difficult to mobilize supports within the organization in favour of these major shifts.

The ambivalence towards withdrawal from VOs influences AKRSP's productive physical infrastructure (PPI) program. The formation of VOs centers on the PPI, whereas the completion of the PPI project—communication or irrigation facilities—forms an indicator of the village-level capacity of a VO to undertake further agricultural development projects.

Deviating from its initial "one infrastructure per village", AKRSP is set to undertake another round of PPI projects in its program villages with the same level of involvement and funding as the first round (AKRSP, 2000, p.10). This proposal totally negates the ongoing debate on

shifting AKRSP's role from service provision to capacity-building. It is hard to overlook the impact of PPI projects, especially roads and irrigation, on agricultural productivity in NAC, and it is equally hard to ignore the high demand for such projects in the region. The implementation of large PPI projects will enhance VOs' capacity further; it is also likely that the projects involving multiple villages will give AKRSP a chance to test the function-based approach. However, all of these might be achieved at the cost of a greater dependence of VOs and communities on AKRSP. Acknowledging the importance of PPI projects, a World Bank mission has suggested an alternative framework for a greater partnership with the government focusing on the poorer and in which "AKRSP should become more a social facilitator and technical assistance agency for infrastructure rather than a financier" (World Bank, 2002, p. 29)

This suggestion is inconsistent with the consideration of withdrawal. Partnership-building in village- or supra-village based infrastructure projects can be a useful means to draw more development resources from the ongoing Decentralization Support Programme of the government with which AKRSP already has developed some relationship (Najam, 2003). By contrast, the continued involvement of AKRSP in funding PPI projects will make it difficult for the program villages to attract community infrastructure projects implemented by local government and rural development departments. Indeed, building partnerships with government departments around infrastructure projects will open up new opportunities for AKRSP to influence the government in re-organizing local development policies.

AKRSP has made a tangible shift in its microfinance operation, which is now being taken over by Northern Region Development Bank (NRDB) along with an enterprise support company. This independent financial institution could be defined as a combination of the Grameen Bank and the commercial bank in that it will serve urban clients besides handling micro loans to VOs. This new financial institution will not interfere with the savings raised by VOs that serve the function of mobilizing and deploying financial resources locally. Many uncertainties have surfaced regarding future relationships between AKRSP, the bank, and VOs. There is a provision for appointing social organizers to

ensure that the credit reaches VOs; nonetheless, being a commercial bank, it may tend to underplay VOs in a bid to become competitive.

Currently, microfinance and social mobilization are intrinsically linked. Credit acts as an incentive for sustaining organizational structure and initiating village level investments by VOs. Savings is a back up in the process—whenever a member of a VO needs a small amount of loan, he or she can take it from the savings through an arrangement known as internal lending. One of the uncertainties surrounding the operation of the NRDB is the sustainability of internal lending and the provision of group savings itself. It is yet to be seen whether the operation of the NRDB will diminish the benefits of credit and savings as an incentive for village-level investments.

There is no evidence to link the falling recovery performance of AKRSP's credit program to the new crossbreed financial institution. But there is evidence that the attempts to diversify the credit program into enterprise development has not gone as planned (Hussein, 2003). The diversification includes high risk loan products for clients who are not traditional targets of AKRSP. On the other hand, regular loan products seem to have become inadequate to satisfy the needs of the members of village institutions, particularly women (World Bank, 2002, p. 27). These situations present opportunities rather than threats and AKRSP is examining them so that the new bank can handle the situations efficiently.

Before the operation of the bank grows large, AKRSP has to deal with the question of the role of VOs in the management operation of the bank. This question is completely different from the question of the relationships in which the bank and village institutions establish mutual interests. AKRSP has not thought carefully about the possibility of the inclusion of VOs in the ownership or the management structure of the bank. The necessity of the bank to operate in a competitive business environment may make it difficult to internalize VOs within NRDB's structure because of VOs' low-profile organizational and financial skills. According to one suggestion, they may be included in the ownership and management structure as a financial intermediary (Hussein, 2003, p. 8); according to another, they can play a role in the

organizational and governance structure (World Bank, 1996a, p. 92). The experience of the Grameen Bank shows that it is possible to implement either of the suggestions: 94% of the ownership of the Grameen Bank is held by poor women borrowers with the rest by the government. However, the NRDB has to operate in a more competitive environment than the Grameen Bank and therefore may not be able to draw on the experience. Although AKRSP has no direct role in managing the NRDB, it needs to be vigilant so that the NRDB does not deprive VOs of access to micro-credit.

The lack of access to credit, among other things, will affect the abilities of VO members to undertake agricultural and income-generating projects, thwarting the underlying rationale of withdrawal. If the new credit arrangement has any negative effects on agricultural development projects, it will affect the capability and sustainability of VOs. The new arrangement will also be a test for AKRSP to see if VO members sustain the adoption of the technologies that have been introduced by AKRSP. In conformity with AKRSP's emphasis on increased production and doubling income, the NRDB will direct its credit programme only to those households that are capable of adopting and sustaining new technologies. This approach will benefit some mature areas but will definitely discourage AKRSP social organizers from focusing on poorer areas.

There are also concerns that AKRSP farmers are mere recipients of a new technology throughout the whole process from choice to adoption. On the one hand, this deters the process of capacity-building, while on the other, it discourages AKRSP from phasing out even from a mature area. When farmers become active participants in technology development, they develop ownership of the technology, become willing to contribute towards its recurrent costs (World Bank, 1996b), open up avenues for greater co-operation, and attract funding from various agencies (Uphoff, Esman & Krishna, 1998, p. 161-162). The involvement of farmers in technology development can expand AKRSP's limited collaboration with agricultural research agencies and transform its strong partnership with farmers on a path that could arrive at a greater partnership involving all agents in the agricultural development in NAC.

#### **Lessons for Rural Development NGOs**

Organizational change is a slow process, especially when it involves multiple stakeholders. While the necessity of a change may be easy to establish, it is extremely difficult in rural development organizations to obtain agreement with regard to transferring the planning and management role to beneficiary organizations. The case of AKRSP shows that change is easier to conceptualize than to implement. The idea of reducing the service delivery role as village organizations grow capable was an integral part of AKRSP's initial program design. However, now AKRSP is grappling with the idea whereas donors are taking the role of change advisers.

Organizational change is also governed by the development objective of an organization. Although there has been evolution in AKRSP's objective, it has centered on increased income rather than on poverty reduction. Consequently, it has helped village organizations to grow mature only in those villages where there are capable farmers and entrepreneurs. Unless AKRSP includes a poverty reduction objective, it will remain concentrated in the mature areas, and will make little difference by shifting from the service provision role to a capacity-building role.

Nevertheless, few rural development NGOs in South Asia have demonstrated commitment like AKRSP towards handing over the development management role to beneficiary organizations. For willing NGOs, the debate on AKRSP's withdrawal strategy should be illuminating. Lessons generated from this debate will underscore the importance of the role of rural development NGOs in fostering co-ordination between their beneficiary organizations and other governmental and non-governmental development initiatives. In this context, the concept of the function-based approach, as proposed by AKRSP, is a useful one: the partnering of rural development NGOs with community organizations based on matching function will eliminate the necessity of a permanent presence of NGOs in a single area.

By transferring microfinance functions to a development bank, AKRSP has set an example of retreating from a service provision role into a capacity-building role. Not all NGOs have the capacity to do that nor is it necessary. It provides an important insight into the process of consolidating rural development functions. The absence of consolidation in many areas results

in the duplication of activities by NGOs at the village level, leading to the waste of development resources. The consolidation, however, involves the risk of excluding certain socio-economic or geographic groups. The function-based approach can reduce this risk by fostering broader co-ordination and bringing the marginal groups to the front.

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