



POLICY BRIEF

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Community Investment Fund: Empowering the Marginalized and the Poorest

Summary

Microfinance services in Pakistan have a limited outreach to remote rural areas and the poorest. Community Investment Fund (CIF) is an alternative financing mechanism and delivery system. It entails the creation of a revolving fund which is managed by community-based organizations and the loans are provided to the poorest only. CIF was initiated in Pakistan when it was piloted in District Layyah of Punjab by the Rural Support Programmes Network (RSPN) and Punjab Rural Support Programme (PRSP). It was initiated in November 2007. CIF has experienced considerable expansion ever since. Currently, as many as ten of RSPN's partner organizations are involved in CIF, the total CIF amount disbursed is approximately PKR 1.6 billion/USD 15.6 million and the total number of borrowers is 146,917 (RSPN, 2012). A vast majority of these beneficiaries are women as all RSPs, with the exception of Aga Khan Rural Support Programme (AKRSP), have exclusively targeted women. Evaluations led by RSPN have shown that CIF has resulted in the creation of financially sustainable access to credit for the poorest of the poor. It has also strengthened social mobilization by directly encouraging the creation of community-based organizations and by also enhancing participation in such institutions. It has also resulted in improving the livelihoods of individual borrowers and their households. It has resulted in poverty alleviation and increased incomes. It has lowered domestic violence and enhanced borrowers' self-esteem, self-confidence, mobility and their ability to decide on small and large household expenditures. Governments and donors that aim to extend the outreach of financial services, particularly to remote and poor areas targeting the poorest women, should invest in the role out of CIF across the organized communities in Pakistan.

INTRODUCTION

The Government of Pakistan has adopted microfinance as a central tool in its poverty reduction strategy (Economist Intelligence Unit, 2010). However, its outreach in the fourth quarter of 2012 was 2,355,943 borrowers, which only formed 8.6% of the potential market (MicroWatch, 2013). Microfinance Strategy of 2007 set a target to reach 3,000,000 borrowers by the end of 2010. Two primary factors limit the outreach of microfinance (State Bank of Pakistan (SBP), 2011). These factors are as follows:

- Hard-to-reach rural areas have a significant scope for expanding the outreach of microfinance services. Nonetheless, they have been typically excluded by Microfinance Institutions (MFIs) due to high transaction costs and perceived risks (ibid).
- Microfinance services are typically neither provided in communities with low average income nor are they provided to households that are in the lowest income groups within those communities. (Department for International Development (DFID), 2006). This bias is predicated on the assumption lowest income groups have the highest likelihood to default on loans (ibid).

Community Investment Fund (CIF) is an alternative system of delivering financial services that does not experience the abovementioned limitations of conventional microfinance. CIF entails the creation of a revolving fund for the poorest. The poorest are identified via a poverty scorecard¹. The delivery of credit and grants is entirely operated by members of community-based organizations, and not professional staff. Hence, unlike conventional microfinance, CIF can reach the poor and it is not limited by the costs of operating through brick and mortar branches.

The antecedent to CIF in Pakistan is the CIF component of the Society for Elimination of Rural Poverty (SERP). SERP was set up in Andhra Pradesh in the late-1990s by the South Asia Poverty Alleviation Programme (SAPAP), which was sponsored by the United Nations Development Programme (UNDP) and led by Mr. Shoaib Sultan Khan. CIF was initiated in Pakistan when it was piloted in District Layyah of Punjab by Rural Support Programmes Network (RSPN) – a network of 11 Rural Support Programmes (RSPs)² and the Institute of Rural Management (IRM) – and PRSP. It was initiated in November 2007 (ShoreBank, 2009). During this time period, a total amount of PKR 12.9 million/ USD 126,000 was disbursed to community-based organizations in the three respective districts. Subsequently, CIF has experienced considerable expansion. Currently, as many as ten of RSPN's partner organizations are involved in CIF, the total CIF amount disbursed is approximately PKR 1.6 billion/USD 15.6 million and the total number of borrowers is 146,917 (RSPN, 2012). A vast majority of these beneficiaries are women as all RSPs, with the exception of AKRSP, have exclusively targeted women. CIF is currently managed by as many as 236 LSO and 5,076 VOs (ibid). The expansion of CIF has been largely funded by Pakistan Poverty Alleviation Fund (PPAF); the Government of Sindh through the Union Council Based Poverty Reduction Programme (UCBPRP), which was implemented by SRSO and TRDP; and the Government of Khyber Pakhtunkhwa through the Bacha RSPN Poverty Alleviation Programme, which was implemented by SRSP.

This policy brief presents a case for CIF based on the following assessments led by RSPN, which are grouped according to the interventions assessed:

- UCBPRP: 'Process Review of Union Council Based Poverty Reduction Programme' (Sustainable Development Policy Institute (SDPI), 2011) and 'An Assessment of the Community Investment Fund in Kashmore-Kandhkot and Shikarpur Districts of Sindh' (RSPN, 2011).
- LSP: 'An Assessment of the Livelihood Strengthening Programme' (RSPN, 2012a).
- CIF Pilot Project: 'Community Investment Fund Assessment of the Pilot Programme' (ShoreBank, 2009) and 'An Assessment of Community Investment Fund in District Layyah' (RSPN, 2012b)

Benefits and Impacts

- **Creation of access to credit for the poorest.** According to baseline surveys conducted for UCBPRP and the Layyah CIF project, all borrowers belonged to the two lowest poverty bands i.e. the extremely and chronically poor (ShoreBank, 2009; RSPN, 2012b; SDPI, 2011; RSPN, 2011). Subsequent evaluations reported that none of the borrowers had access to formal credit before their first CIF loans (ibid). This shows that CIF was successful in strictly targeting those who were the poorest and did not have access to formal credit (ibid).
- **Financial sustainability:** The UCBPRP and the Layyah CIF project funds increased by PKR 73,940 and PKR 485,557, respectively (RSPN, 2011 and RSPN, 2012b). The respective funds increased due to the recovery of service charges (ibid). This shows that the funds are financially sustainable as they are not decreasing in value.
- **Encourages community participation.** According to the SDPI's assessment of UCBPRP (SDPI, 2011), CIF encourages community members to participate in the management of CIF and in deciding the terms and conditions of the loans they take. 89% of the respondents claimed that they participated in decision-making with regard to the management of CIF. Also, 90% of the borrowers claimed that they were actively involved in setting the terms and conditions of the CIF loans they took. This shows that CIF can enable communities and borrowers alike to become autonomous. In addition to this, the table below from RSPN (2011) shows high levels of participation by the beneficiary household. CO/VO involvement took place in order to make loan amount, duration and service charge levels uniform across all borrowers (ibid). Also, note that there was no involvement of SRSO or sole decision-making by spouses.

Table: UCBPRP CIF: Who decides on loan amount, duration and service charge level?

Who Decides	Beneficiary	Jointly with Spouse	CO/VO
• Loan Amount	• 44%	• 22%	• 34%
• Loan Duration	• 26%	• 24%	• 50%
• Service Charge Level	• 24%	• 24%	• 52%

- **Catalyzes social mobilization.** CIF encouraged social mobilization in the cases of LSP and the Layyah CIF project. Regarding LSP, RSPN (2012a) states that CIF incentivizes CO membership. CO membership is a prerequisite for access to CIF and women who were previously not interested in becoming CO members have started to volunteer (ibid). The development of a critical mass of organized poor offers tremendous linking opportunities to the state and the private sector (ibid). In addition to this, ShoreBank (2009) state that with the advent of CIF in UC Jamal Chapri (District Layyah), the rate of social mobilization dramatically increased from that of regular RSP social mobilization. The average rate of social mobilization coverage in a UC in RSP areas was 15.4% households at the time of the assessment, while in Jamal Chapri, in a span of six months, it was 37% households (ibid).
- **Poverty reduction.** As mentioned above, baseline surveys conducted for UCBPRP and the Layyah CIF project showed that borrowers were either extremely or chronically poor according (ShoreBank, 2009; RSPN, 2012b; SDPI, 2011; RSPN, 2011). In other words, credit was provided to the poorest of the poor (ibid). RSPN (2011) and RSPN (2012b) show that 57% and 55% of the borrowers for the same two projects (respectively) had moved out of these two lowest poverty bands. Hence, CIF proved successful in reducing the depth of poverty experienced by these beneficiaries.
- **Increase in income.** Evaluations of LSP and the Layyah CIF project show that CIF increased the income of its borrowers (RSPN, 2012a and RSPN, 2012b). The investments made through LSP CIF loans yielded average revenue of PKR 3,765 per month (RSPN, 2012a). Regarding the Layyah CIF project, RSPN (2012b) states that about half of the households undertook sale of livestock. On average, a household earned a profit of PKR 5,411 through the sale of its livestock (RSPN, 2012b).
- **Enhanced self-esteem.** CIF beneficiaries of UCBPRP, LSP and the Layyah CIF project reported increased self-esteem. RSPN (2011) reports that 95% of the respondents reported increased self-esteem primarily due to increased financial autonomy. Results of focus groups conducted also showed that the ability of borrowers to make more significant household contributions enhanced their self-esteem (RSPN, 2012a). Similarly, RSPN (2012b) reported an increase in a number of borrower's self-esteem based on their enhanced ability to (a) contribute to the household, (b) contribute at the community level, (b) understand rights and (c) see oneself as an equal to her household members and community leaders. Overall, 63.7% of the respondents reported a positive change in at least one of these abilities (ibid).

NOTES

1. A poverty scored estimates the likelihood that a household has expenditure below a given poverty line. It uses verifiable indicators to get a score that is highly correlated with poverty status as measured by expenditure in the Pakistan's Social and Living Standards Measurement (PSLM) survey. The cut-off point between the poor and the non-poor and different categories of the poor are developed on the bases of various factors e.g. program budgets, implementation cost, targeting performance etc. (Xiaohui, 2011).
2. Collectively the RSPs are the largest group of rural development programs in Pakistan, which are currently working with five million rural households in 110 districts and two Federally Administered Tribal Areas. The RSPs are: AJKRSP (Azad Jammu & Kashmir Rural Support Programme), AKRSP (Aga Khan Rural Support Programme), BRSP (Balochistan Rural Support Programme), FIDA (Foundation for Integrated Development Action), GBTI (Ghazi BarothaTaraqiatildara), NRSP (National Rural Support Programme), PRSP (Punjab Rural Support Programme), SGA (Sindh Graduates Association), SRSO (Sindh Rural Support Organisation), Sarhad Rural Support Programme (SRSP), TRDP (Thardeep Rural Development Programme). The RSPs follow a three-tiered social mobilization approach. Community Organisations (COs) are based at the neighborhood or hamlet level. Village Organisations (VOs) are an agglomeration of COs at the village level. In turn, VOs agglomerate at the Union Council (UC) level to form a Local Support Organisation (LSOs). Details of the RSPs' social mobilization approach are provided in **Annex 1**.

- **Enhanced mobility.** CIF beneficiaries of UCBPRP and the Layyah CIF project reported increased mobility. RSPN (2011) states that 78% have acquired the ability to go to retail markets and 77% have acquired the ability to attend Community Organization (CO) meetings since taking their first CIF loans. In addition to this, RSPN (2012b) reported an increase in a number of borrower's mobility based on their enhanced ability to go to places on their own and negotiate directly in markets. Overall, 50.5% of the respondents reported a positive change in at least one of the indicators of mobility (ibid).
- **Enhanced decision-making ability.** CIF beneficiaries of UCBPRP and the Layyah CIF project reported enhanced decision-making ability. RSPN (2011) states that 80% each have experienced an increased ability to make small and large expenditures. Moreover, increased income has enabled to invest in their children (ibid). Similarly, 86% and 81% have acquired the ability to invest in boys' and girls' nutrition (respectively) (ibid). 30% have acquired the ability to invest in boys' schooling and 12% have acquired the ability to invest in girls' schooling (ibid). In addition to this, RSPN (2012b) reported an increase in a number of borrower's ability to make every day purchases and undertake large expenditures. Overall, 59.5% of the respondents reported a positive change in at least one of the indicators of decision-making (ibid). In addition to this, ShoreBank (2009: 10) states that the Layyah pilot project provided women with an immediate increase in decision-making ability by providing them with the ability to manage and/or access loans:

“The SBI-P (ShoreBank International Ltd-Pakistan) team noted that CIF programme has had a substantial positive impact on the women. With this programme, women have been given decision-making power, which normally would be in the hands of male community members.”

- **Reduced domestic violence.** CIF beneficiaries of UCBPRP, LSP and the Layyah CIF project reported reduced domestic violence. RSPN (2011) states 51% do not feel the threat of psychological or physical violence from husband/in-laws anymore. In addition to this, RSPN (2012b) and RSPN (2012b) state that respondents from focus group discussions reported that CIF loans had resulted in reduced domestic violence. Both of these studies state that women's status in their households has improved because they have become economically active (ibid). Before CIF, being economically inactive forced them into a situation where they were not equal to other household members (ibid). This enabled economically active household members to practice domestic violence (ibid). Hence, by making women economically active, CIF has removed a factor that enables domestic violence.

Recommendation

Governments and donors that aim to extend the outreach of financial services, particularly to remote and poor areas targeting the poorest women, should invest in the roll out of CIF across the organized communities in Pakistan. Key players such as the federal and provincial governments of Pakistan, multilateral and bilateral donors, and the PPAF can fund a large-scale expansion of CIF.

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Annex 1: RSPs' Social Mobilization Approach

The RSPs collectively espouse a defined social mobilization approach of fostering people's organizations at the community, village and union council levels. The RSPs' Social Mobilization is a process whereby people are organized into three tiers in order to enable them to collectively think and act upon their development.

At the first tier, the rural households are organized into Community Organisations (COs) which are organizations at the neighborhood or mohallah level. These COs consist of membership from 15 households on average. COs ordinarily carry out activities such as household level need identification, trainings, savings and credit.

At the second tier, the COs are federated at the village level into a Village Organisation (VO). Membership of the VO normally consists of two nominated members from each CO in the village. The activities of the VO are to work on development activities which run across the village such as community infrastructure, partnerships with local government and other agencies, and on issues which affect the entire village.

At the third tier, VOs federate at the Union Council level to form a Local Support Organisation (LSO). LSO consists of membership from the VOs in the entire Union Council. This institution of the people is responsible for coordinating with its membership base to construct a development agenda for its members. It is also responsible for networking and developing linkages with external organizations such as local government, donors, NGOs and the private sector for the purpose of achieving its development agenda. In addition to this, in several areas, these organized communities have started to federate even further into LSO Networks at the tehsil and district level. Currently there are 14 such networks of LSOs. This mobilization strategy is described in Chart 1 and the operational Manual of RSPs social mobilization approach is available at RSPN website: http://www.rspn.org/publications/manual_and_guidelines.html

Chart 1: RSP Social Mobilization Strategy

