

# Creating Pathways for the Poorest: Early Lessons on Implementing the Graduation Model

People at the very bottom of the economic ladder are often excluded, or exclude themselves, from microfinance. Their income is usually too low and unreliable to permit repayment of loans or investment in anything but basic food consumption. In some countries the very poor are served by safety net programs, which usually take the form of cash transfers, food aid, or guaranteed employment schemes. Starting in 2006, CGAP and the Ford Foundation have been exploring how a “graduation model” can create pathways out of extreme poverty, adapting a methodology developed by BRAC in Bangladesh.

The graduation model targets the “ultra poor”—people who have no assets and are chronically food insecure. Safety nets usually help these very poor people survive but don’t allow them to build up assets. The graduation program combines support for immediate needs with longer term investments in training, financial services, and business development so that within two years ultra poor people are equipped to help themselves move out of extreme poverty. This Brief discusses early lessons from the implementation of the graduation model.

## The Model

The term “graduation” refers to participants moving out of safety net programs and “graduating” into income-earning activities that let them sustain themselves without external subsidies. The graduation approach was originally developed by BRAC in Bangladesh. Over the past five years BRAC’s Specially Targeting the Ultra Poor program has reached 800,000 households—over 70 percent of them are currently food secure and managing sustainable economic activities.

Since 2006, CGAP and Ford Foundation have adapted BRAC’s experience to other contexts. Nine graduation pilots are underway, in Ethiopia, Haiti, Honduras, India, Pakistan, Peru, and Yemen, involving diverse institutional forms, economic

contexts, and cultures. The pilots are implemented through partnerships among financial service providers, nongovernmental organizations (NGOs), and government safety net programs.<sup>1</sup> Several of the pilots are measuring the program’s effect on people’s lives through rigorous randomized impact evaluations and qualitative research.

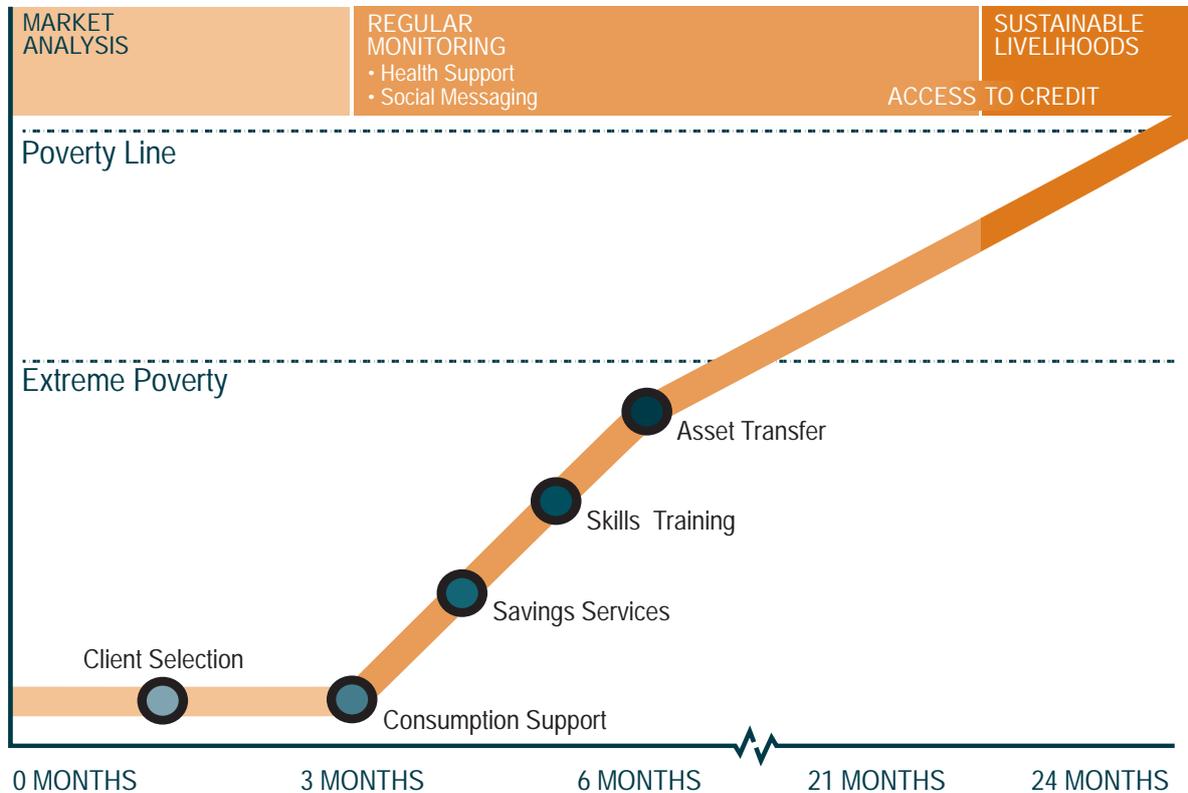
The graduation model is holistic and intensive, demanding a high level of concerted effort. The key is careful sequencing of development services, along with close monitoring and regular interaction between program staff and participant households.

Careful **client selection** is critical to ensure only the poorest households are being selected. Community-level participatory wealth rankings and simple household surveys identify the poorest. In addition, household visits by senior managers have proved necessary to avoid participation by better off people. Since the model is based on household-level economic activities, only people who are physically or mentally able to manage enterprises can be included.

Soon after participants are selected into the program they start receiving **consumption support** in the form of a small cash stipend or goods in kind. This support gives them “breathing space” by stabilizing their consumption. It can be offered through a pre-existing safety net program.

<sup>1</sup> The pilots in India are implemented by SKS, Trickle Up, and Bandhan. Fonkoze is running a pilot in Haiti, Odef and Plan in Honduras, Asociacion Arawiwa and Plan in Peru, Relief Society of Tigray in Ethiopia, and Social Fund for Development and Social Welfare Fund in Yemen. The pilot in Pakistan is implemented by the Pakistan Poverty Alleviation Fund through five partners (Aga Khan Planning and Building Services Pakistan, Badin Rural Development Society, Indus Earth Trust, Sindh Agricultural and Forestry Workers Coordinating Organization, and Orangi Charitable Trust).

## THE GRADUATION MODEL



Discussing the amount and duration of the support with participants builds trust and helps them plan ahead for when the support stops.

Once people's food consumption stabilizes, they are encouraged to start **saving**, usually in an individual account at a microfinance institution (MFI). In addition to building assets, regular savings instills financial discipline and familiarizes potential participants with the MFI. Most pilot sites have felt the need to teach participants about cash and financial management.

Participants receive **skills training** on caring for an asset and running a business. While rudimentary, such training is essential in managing successful small businesses. The training also provides information on where to go for assistance and services (the vet, for example).

A few months after the program starts, each participant receives some form of subsidized **asset transfer** to help jump-start an economic

activity. To identify sustainable livelihood options in value chains that can absorb new entrants, support services and market infrastructure must be thoroughly analyzed beforehand. Once several options have been identified, the participant chooses from a menu of assets, based on preferences and past experience. To mitigate risks, households need to engage in multiple activities; short-term and long-term assets should be mixed; and if the asset chosen is livestock, it should be disease-resistant and easy to care for.

The crucial part of the model is the **regular monitoring** and coaching of participants by dedicated staff. Ultra poor people generally lack self-confidence and social capital. The skills-training builds up expertise and confidence, but it's usually not enough to boost self-confidence. Weekly household visits by staff allow for monitoring but even more so for "coaching" over the 18 to 24 months of the program. During these meetings, staff help participants with business planning and money management, along with social support

and health and disease prevention services. In several instances, linking up with a health care service provider—either government clinics or nongovernmental options—has proven critical. Peer support in group meetings and self-help groups also builds confidence. Several pilots have created “village assistance committees,” which typically include local community leaders, such as the clergy, teachers, or village elders. These committees support participants during the program and can continue to help after the program is over. Committees offer participants close support and integrate isolated people into the community without overburdening program staff.

The pilots are highly structured, with graduation in **sustainable livelihoods** as the end goal. Programs adopt a contractual approach, setting clear targets for participants. While the overarching goal across all pilots is to help people escape extreme poverty, the individual programs set their own context-driven criteria for graduation. Achieving food security, stabilizing income, accessing healthcare, and having a plan for the future are key elements of moving out of extreme poverty. In some cases, program participants will become full-fledged microfinance clients, using savings services and borrowing and repaying loans.

The nine CGAP–Ford Foundation pilots are at different stages of development—four have reached graduation while five are in the process of being implemented. Fonkoze, in Haiti, graduated 143 participants out of 150. A majority of nongraduates lived in an area with competing post-cyclone aid interventions, and Fonkoze has chosen not to expand operations in that area. At

*When Bandhan in West Bengal, India, started its pilot it did not have a “village assistance committee” as BRAC did. But in a couple of cases program participants had their livestock stolen by young people from neighboring villages. In both cases village elders helped track down the thieves and collected compensation for the beneficiaries. This prompted Bandhan to start village committees in each village. Such committees now ensure security of the participants, provide advice to them, and even mediate in cases of domestic violence and alcohol abuse.*

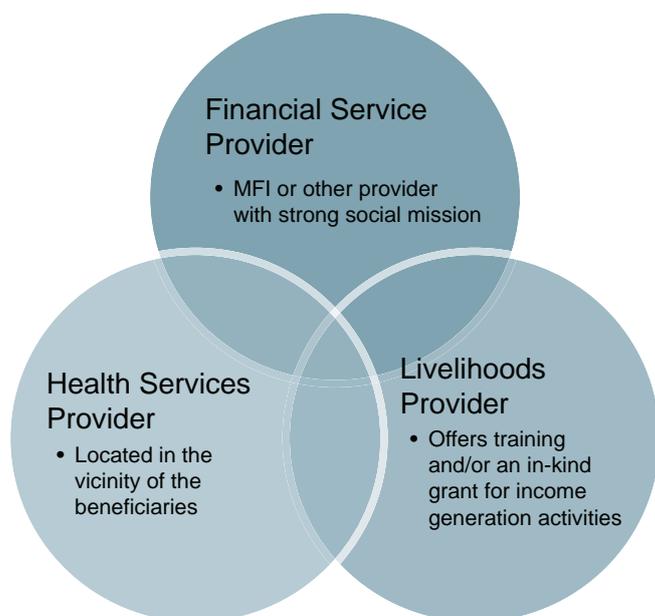
*Chemen Lavi Miyo, the pilot implemented by Fonkoze in Haiti reached graduation in early 2009. The 150 program participants were drawn from the poorest, most food-insecure, and most vulnerable households in Haiti in terms of lack of kinship support. To graduate from the program, Fonkoze determined that participants had to meet the following criteria: a secure supply of food at least once a day, a solid roof over their head, at least two income-generating activities, assets worth at least \$150, and a plan for the future. Of the 150 participants, 95 percent met these criteria and graduated from the pilot project. Of these, 70 percent immediately went on to borrow a first \$25 loan, a stepping stone to Fonkoze’s standard loan products.*

Bandhan, in West Bengal, there has been a 97 percent graduation rate, and the organization has already started scaling up in urban and rural areas. At Trickle Up, also in West Bengal, participants faced major challenges from the beginning, including bird flu, other diseases, floods, and a severe cyclone, but 258 out of the 300 pilot participants graduated in October 2009. They each had assets worth US\$150, savings over \$20, and diversified sources of earnings. SKS, in Andhra Pradesh, is graduating participants in batches—360 participants out of 426 graduated by October 2009. SKS expects that, after the fourth batch, it will have a 97 percent graduation rate.

It remains to be seen whether the graduation model has a long-term effect on poverty or if participants fall back without ongoing support. The CGAP–Ford Foundation impact research will continue to monitor the results, which can be seen only over the long term.

## Partnerships

Few organizations have the capacity to offer all of the components of the model effectively. The program is typically a collaboration among three partners: a financial service provider (often an MFI), a livelihoods promoter or provider (often an NGO), and a health services provider. Additional partners, such as an agricultural extension program, may also be useful depending on the livelihoods pursued by



## Conclusion

What percentage of program households manage to graduate and stay above extreme poverty? What do such programs cost? What are the benefits of the program in terms of employment, creation of new economic activities, and improvements in nutrition and education? What are the savings to the government if people move out of safety net programs and incur lower healthcare costs? In this first phase of the CGAP–Ford Foundation graduation program, we are looking at how the model works in different contexts and with different institutional arrangements. In the next phase, we will expand this to include costs and benefits of this model, comparing it to livelihoods and safety net interventions that are done as standalone programs.

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participants. The model is usually led by a champion organization, most often the financial services provider or the livelihoods provider, but these champions cannot achieve results on their own.

Graduation programs need long-term soft funding from a donor or a government. While the model ultimately aims to move social assistance recipients into becoming sustainable entrepreneurs or independent wage earners, the targeted participants will need subsidies for a time, as will most of the service providers. In particular, MFIs must understand that a graduation program will not produce net income for them. MFIs participating in the pilots view their engagement as a form of corporate social responsibility in the short term and a potential source of new clients in the medium to long term. In a few cases, MFIs see reaching out to the extreme poor as a clear part of their mandate but recognize the need for this segment of their activities to be subsidized.

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