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Minutes of the Savings and Credit Forum
Graduation Models:
Graduating the Poorest into Microfinance
3 December 2009, Berne, Switzerland

The second Savings and Credit Forum of 2009 was opened by Peter Tschumi, head of SDC's Employment and Income Focal Point, who welcomed the participants and presented the program of the day.

The first presentation **"Graduating the Poorest into microfinance: Why and How?"** was made by Munshi Sulaiman, who was formerly working in BRAC's Research and Evaluation Division and led the evaluation of BRAC's ultra poor programme.[1] Mr Sulaiman presented the hypothesis and rationale that underlie the graduation approach. BRAC invented this model based on the observation (in Bangladesh and other countries) that microfinance services did not respond to the needs of extreme poor households and did not manage to create sustainable improvements in their livelihoods. BRAC's research led to important findings: 1. The poor and extreme poor are two very different categories of households, i.e. households headed by widows, households with no adult male and the landless are overrepresented among the extreme poor. 2. Extreme poor have limited entrepreneurial skills, a high risk aversion and are much more vulnerable to negative income shocks and health problems. 3. Conventional approaches to address extreme poverty, i.e. food aid, can be seen as "crisis management instruments" and fail to create the foundations for sustainable livelihood changes. BRAC has thus pilot tested graduation approaches, combining food and asset transfers with promotion (capacity building, skills development) and protection (addressing risk) measures.

Ms Aude de Montesquiou, microfinance analyst at CGAP, presented the **Ford Foundation/CGAP graduation program[2],** which promotes the replication of BRAC's experience in other countries. The graduation model is being implemented in nine pilot projects and seven countries. First results show that consumption support (food or cash transfer) is very important at the beginning of the graduation program, since participation in the program implies for the participants to abandon their current income generating activity (as beggar or daily labourers). Moreover, financial education, promotion of savings and a close and regular coaching of the participants are key success factors for graduation. The transferred assets should be a mix of assets which allows for short and long term income and combined with support services. Last but not least, the pilots have shown the importance of linking up with value chains or supporting the development of markets in regions where the latter are nonexistent.
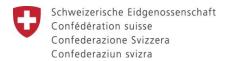
Ms Teresa Khanna is CEO of the NGO SKS[3], implementer of the **"Ultra Poor" graduation program co-funded by SDC in Andhra Pradesh, India**. The Ultra Poor program started in 2007 and has so far succeeded in graduating 369 persons out of extreme poverty. Particularly interesting in Teresa's presentation was the methodology to identify the participants, starting from a village survey, following with a participatory rural appraisal, a household survey and interviews with potential candidates. After this thorough selection process follows a close monitoring and coaching of participants by field officers of the institution. Participants are invited to regularly pass health checks and can call a phone help line when advice is needed. Criteria for graduation are: 1. Good awareness of health and hygiene; 2. Good awareness of and access to government sponsored schemes; 3. Cumulative savings of over 20 US$; 4. Asset diversification and one

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[1] Read more about BRAC on www.brac.net.
[2] See www.cgap.org/p/site/c/template.rc/1.26.1467/
[3] Read more about SKS on www.sksindia.com/ultrapoor_programme.php

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productive asset producing a regular income; 5. Adequate food, shelter, clothing and housing. One of the lessons learned by SKS is that "health is the single most important reason for ultra poverty as bad health creates income shocks."

Ms Karishma Huda from BRAC's Development Institute presented the second case study, **Fonkoze's "Pathway to a Better Life" Program in Rural Boukan Kare, Haiti. [4]** The microfinance institution Fonkoze started the graduation program after observing that microfinance services did not reach the poorest and most vulnerable people in Haiti. So far, the program includes 250 beneficiaries who have received economic, health and social support during two years. Major challenges for Fonkoze are to cope with external shocks (hurricane, increase in food prices), with limited enterprise options and with the chicken epidemic in the region of intervention. For Fonkoze, the two main lessons learned are that the graduation program needs a certain flexibility from Fonkoze in adapting the approach to individual cases, while maintaining the program pathway, and that financial literacy is a key factor for success.

The last case study of the day, **BRAC's programme "Challenging the Frontier of Poverty Reduction/Targeting Ultra Poor"**, was presented by Munshi Sulaiman. BRAC's first ultra poor program was started in 2002 and ended in 2005 with 100'000 households; it is now in its second phase of implementation and has been extended to 800'000 households. In his presentation, Munshi highlighted the importance of the asset transfer in the graduation process to allow for a big push out of poverty. The extreme poor have low retention rates of assets because of a very short planning horizon. In order to ensure asset retention, BRAC has created Village Poverty Reduction Committees in charge - amongst others - of ensuring the security of transferred assets and managing conflicts between the "asseted" ultra poor and those who have not received assets. Also very interesting in Munshi's presentation was the poverty dynamics: 53% of households in the program had passed over the poverty line three years after the beginning of the program, and an additional 41% three years after the end of the programme. Munshi also mentioned a positive impact on caloric intake still three years after the end of the program.

The lively discussions which followed the different presentations highlighted a series of **important issues**. **First**, the very limited number of beneficiaries in most graduation programs raises the question of "scaling up". The capacity of the institution and the framework conditions in the country (population density, role of the state, presence of the private sector) make a big difference for potential scaling up. While countries like India have a big potential for the graduated poor to be taken up by state programs or integrated into markets, countries like Haiti, have a much bigger challenge to reach an important number of poor and sustain their livelihoods. Could Fonkoze become "a BRAC for Haiti", i.e. an institution which partly replaces the State? **Second**, while its goal at the beginning of the program was to graduate the extreme poor into microfinance, CGAP has learned through the different pilots that the ultimate goal should be to promote sustainable livelihoods. Access to credit is only one among many services to sustain income. CGAP has included the promotion of savings in the graduation pilots as an important determinant for the sustainability of the results. A **third** issue raised was the cost of graduation models: while the direct costs of cash and asset transfer vary between US$ 400 and 1500 per household, the indirect costs (monitoring, impact assessment) are more difficult to estimate but seem to be quite high. CGAP has launched a costing study to analyse the cost-effectiveness of programs and the way to reduce indirect costs (will be available soon). **Last** but not least, it was clearly highlighted that graduation programs should be clearly differentiated and handled separately from microfinance programs. Either separate institutions implement these respective programs or separate units under the same roof, like BRAC and Fonkoze do. Microfinance service providers can learn a lot from the graduation programs and enrich their services accordingly.

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[4] Read more about Fonkoze on www.fonkoze.org.

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