

# Graduation Pathways: Increasing Income and Resilience for the Extreme Poor

The graduation approach focuses on helping the poorest and most vulnerable households develop sustainable livelihoods, increase incomes, and move out of extreme poverty (see Figure 1). It consists of a carefully sequenced, multisectoral intervention comprising social assistance to ensure basic consumption, skills training, seed capital, and employment opportunities to jump-start an economic activity, financial education and access to savings, and mentoring to build confidence and reinforce skills. The interventions are time bound (generally 24–26 months) to preclude long-term dependence. The participating household's trajectory, however, continues beyond the phase of the program interventions. Sustained progress rests on continued income earning and asset building and effective social protection systems to cushion against shocks. Given the Sustainable Development Goals' (SDG) global focus on eradicating extreme poverty by 2030, the graduation approach should form an integral component of national social protection and poverty reduction strategies, along with social transfers, guaranteed employment, social insurance, and labor market support.

While the share of the world's population living in extreme poverty has seen spectacular reductions since the 1990s, over 700 million people still live on less than US\$1.90 a day. Reaching SDG No. 1—eradicating extreme poverty by 2030—requires, among other strategies, targeted interventions to help the poorest increase their standard of living.<sup>1</sup> However, serving the poorest effectively is expensive and difficult, because such populations are often geographically and socially isolated and because of the complex, multi-dimensional nature of poverty. Even when interventions do manage to reach the extreme poor, they often have little lasting impact, with many households falling back into extreme poverty.

## The Graduation Approach for the Poorest

While there have been many attempts at developing models for improving economic conditions of the poorest, at least one model has proven to be highly successful in building sustainable livelihoods and "graduating" people out of extreme poverty. Since 2002, BRAC's Challenging the Frontiers of Poverty Reduction/Targeting the Ultra Poor Program (CFPR/TUP) has supported over half a million very poor households to increase their income and assets in a sustained fashion in Bangladesh. The 2016 follow-up to a randomized evaluation by Bandiera et al. (2016) finds positive impacts on employment, income (37 percent increase in earnings), assets (household asset value more than doubled), savings (cash savings increased nearly

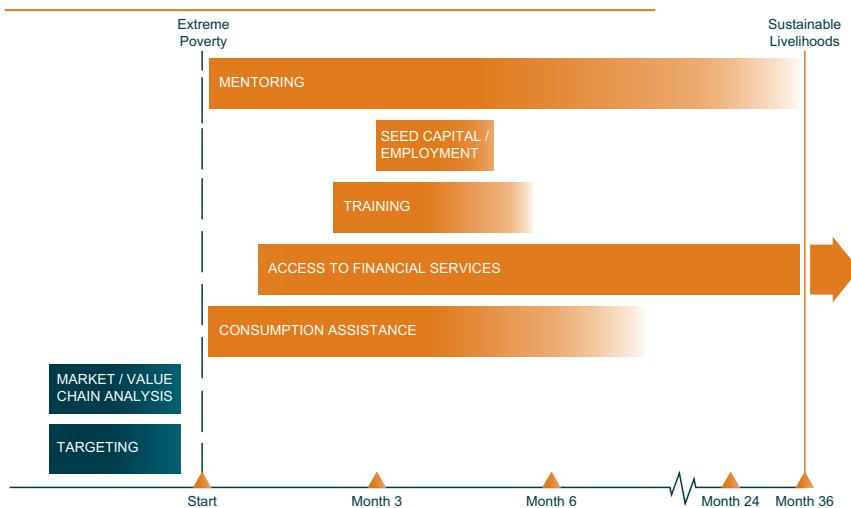
nine-fold), and consumption (9 percent increase in per capita nondurable consumption) that are sustained after two years from the end of the intervention (four years after the asset transfer). Households not only earned and saved more but also diversified their assets and income sources: the value of productive assets tripled (Bandiera et al. 2016). Impacts were observed to be even larger seven years after the asset transfer, and five years after the end of the program (the change in spending on nondurables was 2.5 times higher after seven years than after four, and the increase in land access doubled). Further, since CFPR/TUP targeted women in extreme poor households, it allowed for women's increased control over household economic resources and greater power in decision making.

To test whether the BRAC model could achieve similar results in other contexts beyond Bangladesh, CGAP and the Ford Foundation launched a partnership in 2006 to adapt and evaluate the approach through 10 pilot programs in eight countries (Ethiopia, Ghana, Haiti, Honduras, India, Pakistan, Peru, and Yemen), largely in rural settings.

The graduation approach brings together several components that have proven necessary for sustained upwards economic mobility for the poorest and most vulnerable. It begins with **consumption assistance** (food and/or cash assistance), mindful that part of what it means to be extremely poor is the food insecurity that inhibits households from taking on any meaningful longer-term livelihood strategy. This is typically offered

<sup>1</sup> On 25 September 2015, countries adopted a set of goals to end poverty, protect the planet, and ensure prosperity for all as part of a new sustainable development agenda. Goal No. 1.1 is to eradicate extreme poverty for all people everywhere by 2030. Extreme poor households are typically those living under US\$1.90 a day in purchasing power parity.

**Figure 1. The Graduation into Sustainable Livelihoods Approach: Integrated and Carefully Sequenced**



through a pre-existing government safety net program (e.g., cash transfer, public works program). With these basic needs met, participants then gain **access to financial services** with basic financial education and support in saving money. Savings with a formal, or community-based, financial institution are a vital tool for risk management. Regular savings help build assets, instill financial discipline, and strengthen cash and financial management skills. Participants also get simple **technical skills training** and **seed capital** grants (or in-kind assets such as livestock) to jump-start small businesses. In some cases, especially in urban and peri-urban areas, participants are linked to **employment opportunities** instead. Finally regular, intensive one-on-one **mentoring** over the program duration of 24 to 36 months helps build participants' confidence and the persistence necessary to stay on the trajectory of improved social and economic well-being.

## Strong Positive Impacts Sustained over Time

Rigorous impact assessments through randomized control trials (RCTs) were conducted at six pilot sites by Innovations for Poverty Action between 2006 and 2014. The researchers documented increased incomes and household consumption at all but one graduation site (Banerjee et al. 2015b).<sup>2</sup> Graduation programs have statistically significant impact on consumption (7.5 percent increase in food consumption), beneficiaries' productive assets (15 percent increase), and savings (96 percent increase) one year after the program ended (that is, three years after the assets are transferred

and training is conducted). Impact assessments also show that beneficiaries spent more time working, went hungry on fewer days, experienced lower levels of stress, and reported improved physical health. New results from one of the CGAP–Ford Foundation sites in India almost six years after the end of the program revealed even greater impact, with a doubling in per capita consumption compared with the three-year mark (The Economist 2015). The RCTs tested the graduation approach as a package and generally did not assess the relative importance of each of the components. Additional research in Ghana compared the transfer of assets alone (goats) to the receipt of the full package of graduation components; after three years, the value of the assets held by households that received the full package was significantly higher and more diversified than for the goats-only households whose livestock value and total consumption did not increase.

## A Cost-Effective Approach

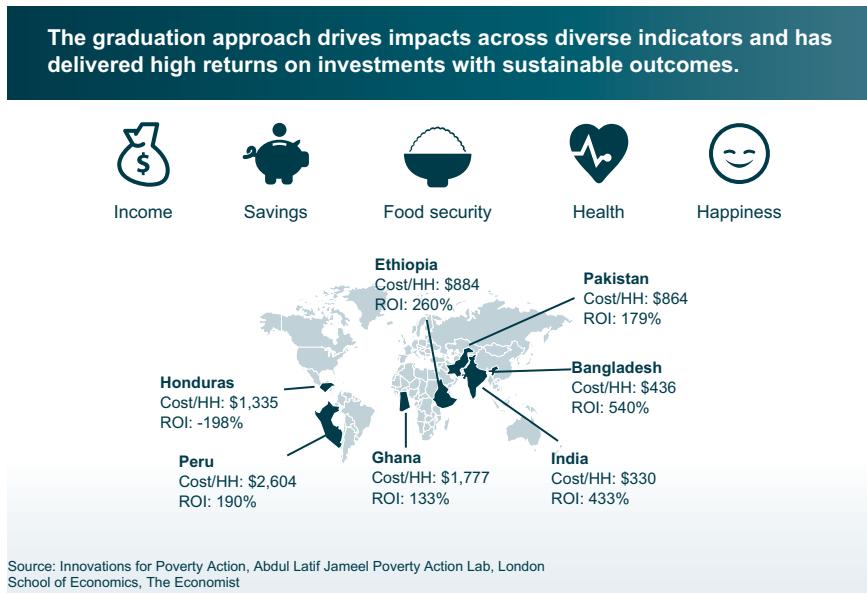
The total per household cost of the programs (including consumption assistance, seed capital, training, mentoring, staffing, monitoring, and office overhead), over the entire duration of the programs, ranged from US\$330 to US\$700 in Bangladesh, India, Yemen, Ethiopia, and Pakistan to approximately US\$1,250 in Honduras and US\$1,750 to US\$2,500 in Ghana, Haiti, and Peru.<sup>3</sup> (See Figure 2.)

The cost-effectiveness of the program is high, with annual household income gains as a percentage of total program costs ranging from about 7 percent

<sup>2</sup> In the Honduras pilot, the livelihood component of the program did not pay off—the asset selected by most participants (a new chicken breed) failed to translate into sustainable livelihoods illustrating the importance of getting this component of the graduation approach right.

<sup>3</sup> Differences stem mainly from program's emphasis on each of the building blocks (e.g., size and duration of consumption support) and from local salary scales, population density, and status of infrastructure.

**Figure 2. A Cost-Effective Model**



to 25 percent in the five sites where the program had positive impact. At BRAC, the initial investment of US\$365 was estimated to yield total benefits of US\$1,168 over a projected span of 20 years (the discounted sum of consumption and asset gains in 2007 U.S. dollars). This would amount to a benefit-cost ratio of 3.2—or US\$3.20 in benefits for every US\$1 spent on the BRAC program.<sup>4</sup> Sulaiman, Goldberg, Karlan, and de Montesquieu (2016) suggest that among programs that target the extreme poor (livelihood development, lump-sum cash transfers, or graduation) and for which there is long-term evidence, the graduation approach has the greatest impact per dollar of cost, with positive impact on economic indicators that persists over time (Sulaiman, Goldberg, Karlan, and de Montesquieu 2016).<sup>5</sup>

## Governments: Key to Scaling Up and Adapting Graduation Programs

Nearly 60 “second generation” graduation programs are now being implemented. Approximately one-third of these are being carried out by governments, typically as part of their national social protection strategies. While a handful of programs are small, there are several large programs designed to serve hundreds of thousands and even millions of households: Ethiopia’s Productive Safety Net Program, Pakistan’s Benazir Income Support Program, Indonesia’s Kelompok Usaha Bersama Program and Keluarga Harapan Program, and

the Department of Social Welfare and Development’s Convergence strategy in the Philippines. See Figure 3, which illustrates scaling of various graduation programs.

These new programs typically share core characteristics with and offer a similar package of assistance to that of BRAC and the CGAP-Ford Foundation pilots:

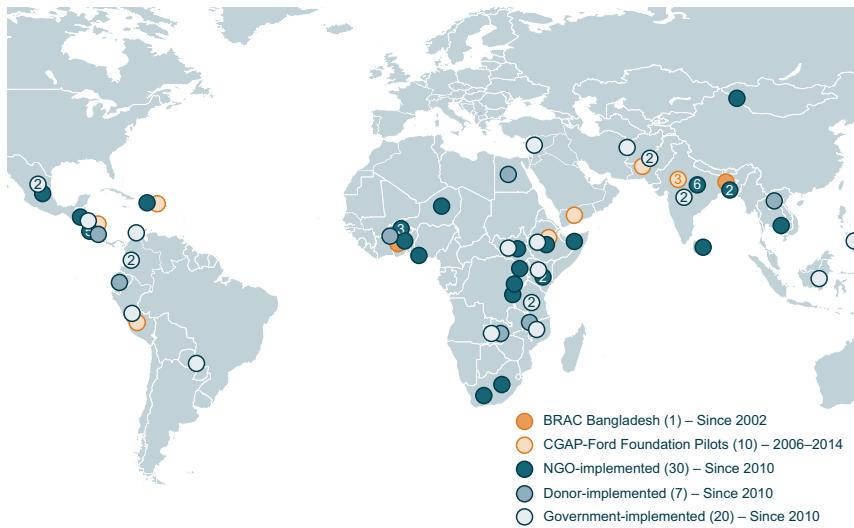
- They are time-bound, household-level interventions deliberately targeting the **extreme poor**, either those under the \$1.90-per-day line and/or those identified as the poorest and most marginalized.
- They are **holistic** in order to tackle the multifaceted constraints of extreme poverty.
- They offer a “**big push**” based on the idea that a large investment to kick-start an economic activity will really make a meaningful change.
- They include some form of **mentoring** to help participants overcome not only their economic constraints but also the many social barriers they face.
- They facilitate access to a wider social protection regime (health, education, etc.) and formal or semi-formal **financial services** as a way to build resilience, deepen economic inclusion, and continue upward mobility.

The graduation approach is expected to grow in scale and influence, with strong demand from governments to create nationally scaled programs. Governments and other implementers are showing keen interest

<sup>4</sup> US\$1,363 total cost (in purchasing power parity) for the CFPR/TUP program in 2007, covering the cost of assets, training, and program administration.

<sup>5</sup> For example, in Sri Lanka, Ghana, and Kenya, studies show positive impacts from cash transfers on consumption, assets, and food security, but preliminary evidence in Kenya suggests that the impacts may dissipate relatively quickly (Sulaiman 2016).

**Figure 3. Graduation Programming Growing Rapidly: 58 projects ongoing in 37 countries (September 2016)**



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in innovations to (1) adapt the approach to additional vulnerable segments, such as refugees, extreme poor urban households, or disadvantaged youth; (2) expand the range of income-earning options beyond rural livelihoods; and (3) improve cost-effectiveness through measures such as digitization of transfers and financial services or group-based delivery of coaching and social support. There is widespread interest to build from the graduation experience and explore other promising economic inclusion interventions that target vulnerable populations and provide holistic support to households and individuals to strengthen income earning and asset building.

CGAP is now actively exploring options for a dedicated platform to support demand from governments and others for interventions for the economic inclusion of those currently left behind—a vision where improved economic participation, income gains, and increased and diversified assets lead to sustained upward mobility for the poorest households and most vulnerable groups.

## Resources

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