Targeting the Ultra Poor[1]

Jonathan **Morduch**
New York University

The Financial Access Initiative is a consortium of researchers at New York University, Harvard, Yale and Innovations for Poverty Action.

1. This note draws on research and writing by Pia Saunders and Catherine Burns.

FAI IMPACT THROUGH RESEARCH
financial access initiative
www.financialaccess.org

NYU Wagner
Robert F. Wagner Graduate School of Public Service
www.wagner.nyu.edu

What Happened to the Poorest?

CGAP, the international microfinance consortium, started off its life as the Consultative Group to Assist the Poorest. After five years, it dropped that claim, acknowledging that most of what it was doing failed to assist the poorest. While Muhammad Yunus has continued to push for attention to the lower rungs (e.g., Yunus 2006), most of the industry has pushed back. Most microfinance institutions serve poor and lower-income customers, but not the poorest.

For the sake of concreteness, we define the "poorest" as households living on under $1.25 a day per person (in purchasing-power parity adjusted dollars). The World Bank counted roughly 1.4 billion people living below that line in 2005 (World Bank 2010).

Our best count of the number of unbanked adults worldwide gets us to 2.5 billion people, about half the adult population (Dalal et al. 2009). The number of unbanked adults living on under $1 a day per person is much harder to pin down, but rough estimates from Peru, Kazakhstan and Uganda count that only 15% of all microfinance clients earn less than $1 per day (Zeller et al. 2005; Zeller and Alcarez 2005a and 2005b). If we turn the question around and ask the percentage of adults below $1/day poverty lines with access to banks or microfinance, the result will be very low, especially outside of South Asia.

Can the poorest be reached with finance? If yes, there are two main routes. The first option is for institutions to extend existing products and services to even poorer customers. The other is to design independent approaches that target the particular challenges faced by the ultra poor. While the first has potential to reach massive scale, the second route holds greater promise to reach very poor and marginalized households, including widows and members of historically excluded ethnic groups. A series of new studies are testing that proposition.

Can the poorest be reached with finance? If yes, there are two main routes. The first option is for institutions to extend existing products and services to even poorer customers. The other is to design independent approaches that target the particular challenges faced by the ultra poor.

Going Deeper: The Promise of "Ultra Poor" Programs

Reaching the poorest citizens requires rethinking two fundamental tenets that have shaped microfinance advocacy strategies.

The first tenet is that microcredit entails making small loans to "micro-entrepreneurs" (Yunus 1999). While the sector has expanded into new products like saving and insurance, it hasn't fully embraced the notion that mainstream credit products can be a good fit for financing household expenditures, as well as for business investment. Yet many of the poorest families earn income by working for others. They want and need reliable financial services, but they don't necessarily want and need a loan to run a business. Families demand credit products to pay for health care, schooling, home repair, major purchases like appliances, and simply to manage irregular and unpredictable incomes among relatively richer and poorer households alike. The evidence so far suggests that general purpose loans are especially valued by the poorest families (Collins et al. 2009). Focusing exclusively on business loans makes it too easy to write off the poorest as not "creditworthy."

The second tenet is that microfinance should aim to maximize scale by limiting the use of subsidy. By attracting commercial capital, the argument goes, microfinance institutions can serve a far greater number of poor households than by relying on subsidy (Otero and Rhyne 1994). But it can be hard for lenders to cover fixed transactions costs when making very small loans, and working in more remote areas can be particularly costly (Cull et al. 2009). Consequently, the institutions that serve the poorest households tend not to be those that are most appealing to investors. Subsidizing the provision of basic financial tools may, in fact, be the most strategic way to reach more of the poorest, but it means going against the "principles" of microfinance.

...The institutions that serve the poorest households tend not to be those that are most appealing as primarily financial investments. Subsidizing the provision of basic financial tools may, in fact, be the most strategic way to reach more of the poorest citizens, but it means going against the "principles" of microfinance.

Given these fundamental tensions, it's not surprising that conversations about reaching poorer customers often take an entirely different direction—one that threatens neither of the two tenets. This alternative path entails "graduation" programs (Hashemi 2006). This is not graduation in the sense used in the 1980's—i.e., not the prospect that established microfinance customers will graduate from NGO-run microfinance into commercially-provided banking. Instead, it is the prospect that people who currently aren't viable as customers can graduate from targeted training and asset-transfer programs into mainstream microfinance.

The best-known graduation program of this sort was developed by BRAC,

an NGO that started in Bangladesh in 1974. The original version was called IGVGD (Income Generation for Vulnerable Groups Development); in its current form it's known as TUP (Targeting the Ultra Poor). Often, programs that replicate the TUP model are simply called "ultra poor" programs.[2]

Who Do TUP Programs Target & How Do They Work?

The $1 a day poverty line puts a focus on the poorest households. But the conception (and targeting) of the "ultra poor" relies less on mechanical income cut-offs than on specific challenges facing the most disadvantaged. Practitioners note that in addition to having low, irregular and unpredictable incomes, the ultra poor typically cope with related challenges like seasonal hunger, illiteracy, and poor health. These challenges not only result from poverty, they can also perpetuate it.

The ultra poor have far fewer assets and own less land than the relatively less poor, so they generally live on other people's land or with relatives and are in dependent relationships (Matin et al. 2008). In Bangladesh, many ultra poor households are headed by divorced or widowed women, adding social exclusion to their burdens. These households also tend to lack able-bodied men, which further compounds their income problems. One of the few industries in which the ultra poor find work is agricultural labor, where income is seasonal and tied to uncertain conditions. Together, these challenges most often translate into chronic poverty.

Ultra poor programs address the self-reinforcing conditions of extreme poverty. Interventions generally provide income-generating assets alongside food aid, health services, and skills training. The hope is that the combination will boost participants' productivity so they can eventually participate in conventional microfinance programs.

The programs bridge traditional redistribution programs and microfinance programs. They also can serve as alternatives to pure redistribution programs, allowing families that have been dependent on charity to achieve greater self-sufficiency. Recently, CGAP and the Ford Foundation have promoted replications of BRAC's program in Sudan, India, Haiti, Honduras, Pakistan, Peru, Ethiopia, and Yemen.

This paper reports on the evolution of ultra poor programs. The next section describes BRAC's program in greater detail. It is followed by a discussion of the tensions underlying ultra poor programs. Section 3 describes program replications in India and Haiti, and Section 4 discusses an ongoing

[Ultra poor programs] also can serve as alternatives to pure redistribution programs, allowing families that have been dependent on charity to achieve greater self-sufficiency.

2. SKS Ultra Poor Program identifies this population as "destitute." Others have referred to the groups as "the poorest of the poor," "the poorer" or "the extreme poor."

evaluation of one of these programs. Section 5 concludes with a review of the early insights from these programs and ways forward.

BRAC, Bangladesh: Tackling Vulnerability

The first programs to target the ultra poor were based on the idea that food insecurity was the greatest constraint trapping the poor in a chronic state of poverty. In the wake of the Bangladesh famine of 1974, the World Food Programme (WFP) initiated its Vulnerable Group Feeding (VGF) program to provide relief to the hungry in food-insecure areas. This program was the foundation of a partnership between the WFP and BRAC, a large NGO in Bangladesh. The organizations joined forces in 1985 to develop an extreme poverty relief program that coupled classic livelihood protection—namely, food transfers—with livelihood promotion though human and physical capital development.

The pilot initiative evolved into BRAC's Income Generation for Vulnerable Group Development (IGVGD) program. The idea behind the combination was that while food transfers provide only short-term relief, supplementing food aid with training and other financial services could sustain livelihood improvements into the long term. The program provided 24 months of access to health care and food support through a monthly wheat ration, creating space for participants to focus on productive activities. To support participants' productivity, it included a skills training program. The program also included a modest savings requirement, since food aid allowed recipients to save money they otherwise would have spent on food. Later, to help reinforce skills training, BRAC extended small loans to IGVGD program participants.

About 75% of program participants moved on to become clients of BRAC's microfinance program. The high "graduation" rate speaks to an important success, but the IGVGD program did not achieve a different objective: targeting the ultra poor. The 25% of IGVGD participants who did not move on to BRAC's mainstream microfinance programs were "among the poorest and most vulnerable" (Matin and Alam 2002, 6). In response, BRAC reconceived its program and rebranded it Challenging the Frontiers of Poverty Reduction: Targeting the Ultra Poor (CFPR-TUP).

BRAC initiated CFPR-TUP in early 2001 with two goals: to *push down* the intervention to effectively reach the ultra poor and to *spread out* the intervention to address the structural causes of poverty.

CFPR-TUP focuses on diminishing participants' vulnerability to shocks. It targets the most marginalized women in the areas of greatest food insecurity in Bangladesh and maintains strict eligibility requirements. Participants receive a host of services such as asset transfers and grants, individual and group mentoring, financial literacy training, and health services. It was launched in 2002 and is being rolled out in five phases, the first of which targeted 100,000 women.

Like other global TUP programs, the goal of the SKS Ultra Poor Program is to provide sustainable change beyond the short-term relief offered by food transfers alone.

Global Replication

Wide replication of CFPR-TUP will depend on the results of ongoing evaluations, but there are already some programs modeled after it in different countries and contexts.

SKS, India

Swayam Krishi Sangam (SKS), a leading microfinance institution in India, modeled its ultra poor program after CFPR-TUP. The SKS Ultra Poor Program (UPP) takes a holistic approach to poverty alleviation, combining economic, social, and health development programs to help participants become self-sufficient. Like other global TUP programs, the goal of the SKS Ultra Poor Program is to provide sustainable change beyond the short-term relief offered by food transfers alone. The UPP was piloted in 2007 in Andhra Pradesh, India. It targets very poor women who are their households' sole wage earners and consists of three components.[3]

The first component is economic development. SKS offers its UPP clients, or "members," saving, skills training, and financial education programs. The program also includes enterprise selection, or the opportunity for members to choose an income-generating asset from a number of options, such as livestock or a small goods shop equipped with a telephone.

The second component, health development, addresses the prevention and treatment of illness. SKS delivers a range of services from basic home care to informational sessions on a variety of health-related issues. SKS also partners with existing health care providers to host medical screenings and awareness raising camps. In addition, a health point person is established in each village involved in the UPP program. These women are UPP program members who are trained to dispense free, government-provided medicines and to provide information about common illnesses like dysentery, dehydration, and fever.

3 Some of the women live with parents or other relatives who also earn income, but these women are responsible for their own expenses.

The final component, social development, supports members' integration into the mainstream community and economy. Members take part in weekly group meetings and are connected to a support network of governmental and nongovernmental bodies. These supports help them become more confident as wage earners and money managers.

Bandhan, India

Bandhan, a Kolkata-based microfinance institution, initiated its TUP program in 2006: the Chartering into Unventured Frontiers–Targeting the Hard Core Poor (CUF–THP) Program. Its goal is to enable ultra poor citizens to lift themselves out of extreme poverty, attain food security, and graduate into a conventional microfinance program. By offering participants income-generating assets and technical support, Bandhan hopes to expand its client base for microfinance services. The CUF–THP program, funded by CGAP and supported by the Centre for Microfinance (CMF) and BRAC, is introduced in three phases: extending assets and grants, providing access to a health care fund, and offering 24 months of business training.

Each CUF–THP participant receives a productive asset, such as a cow, as well as an allowance to maintain the asset. The value of these transfers is about $100, and they provide participants with a regular source of income. Although the allowance is intended to support productive activities, Bandhan acknowledges that participants sometimes use it to meet household consumption needs.

Fonkoze, Haiti[4]

In Haiti, the microfinance institution Fonkoze caters to the poor with a variety of products designed to meet the particular needs of individuals and households at various levels of poverty. Targeting women, Fonkoze's poverty alleviation program takes a step approach in which participants move through a series of poverty alleviation products and services designed to complement and build on one another. The goal of the program is for participants to achieve food security and literacy, start accumulating assets, enroll their children in school, and improve their homes with cement floors, tin roofs, and latrines within five years (Imp-Act Consortium 2008).

The first step, Chemen Lavi Miyò (CLM)—the Road to a Better Life—is a two-year program that targets ultra poor clients, defined by Fonkoze as

4. This information pertains to the program as conceived and implemented prior to the devastating January 2010 earthquake in Haiti.

individuals who lack any productive asset (Imp-Act Consortium 2008). CLM is administered like a TUP program: it consists of security and social protection mechanisms such as health care services, training, one-on-one supervision and encouragement, confidence building exercises, and assistance with home repair. Participants who successfully complete CLM may self-select into one of the next programs offered by Fonkoze: Ti Kredi—a small credit program—or solidarity group lending.

Both Ti Kredi and the solidarity lending groups are designed to graduate participants to the final level—the business development program. Ti Kredi targets women described by Fonkoze as "very poor" and identified as those living on $1 per day or less. It offers an initial loan of $25 with shorter repayment periods, extra support from the loan officer, and literacy training. Its aim is to prepare participants to enter Fonkoze's mainstream solidarity lending program.

The solidarity lending program targets women described by Fonkoze as "poor" and identified as those living on $1 to $2 per day. Participants in the solidarity lending program form a borrowing group of five people, and then six or seven groups join to form credit centers of 30 to 40 people. Participants receive loans that range in size and duration from $75 payable over 3 months to $1,300 payable over 6 months. The loans are accompanied by literacy and business training programs. The product is designed for clients who are ready to open an individual savings account, able to pay a small membership fee, and engaged in commercial activity.

Once participants have demonstrated capability in the solidarity lending program, they graduate into the business development program. Participants receive year-long loans that start at $1,300 to help them transition into the formal economy (Fonkonze n.d.).

Preliminary Assessment

BRAC's program holds great promise, and evaluation results are much-awaited. The programs hold risks as well, however, underscoring the drive to replicate and evaluate the program in many countries and sites.

One risk involves asset transfers. Asset transfers are a core feature of TUP programs. They serve as the tangible foundation of the economic independence TUP programs hope to bring about. Acquiring new assets, however, entails new responsibilities. They can create a burden for the owner (or

steward) of the asset. Taking charge of a plot of land, a cow, a rickshaw, or a taxi cab means taking responsibility for making the land productive, feeding the cow, or maintaining a machine or vehicle. Managing the resource properly requires money, time, and land.

Some TUP programs, such as that of Bandhan in West Bengal, India (described below), offer an allowance as part of the assistance package to maintain the asset. Others offer individuals, or groups that may jointly receive an asset, support in the form or education, or training to make the asset productive. Nonetheless, the fact remains that having an asset creates both a positive opportunity and a burden of responsibility that changes its recipients' way of life.

While access to conventional microfinance is not an option for the ultra poor, the hope is that access becomes possible through TUP programs. In this way, by providing the necessary social services, ultra poor programs can expand the client base of the sponsoring MFI and break the cycle of poverty for the very poorest.

While access to conventional microfinance is not an option for the ultra poor, the hope is that access becomes possible through TUP programs. In this way, by providing the necessary social services, ultra poor programs can expand the client base of the sponsoring MFI and break the cycle of poverty for the very poorest.

Graduation to microfinance is possible when program participants have developed skills and security, acclimated to living with some "breathing room," and explored livelihood opportunities. To achieve this, TUP programs sequence financial products deliberately: they first extend grants, then savings, and finally small amounts of credit. Offering savings products early and in conjunction with safety net assistance is important to making the changes brought about by TUP programs sustainable. So is the opportunity for TUP program participants to gain confidence as wage earners. The ultra poor often are hesitant to borrow, because they lack regular sources of income from which to make loan repayments. Experience with earning regular income, borrowing, and repaying loans helps them not only become creditworthy, but also consider themselves to be creditworthy.

As TUP programs are phased out, the goal is that participants will be prepared to pursue independent economic activities. The early insights from TUP programs indicate that consumption stabilization, close monitoring, and an incremental transfer of knowledge are essential to producing sustainable results. However, the idea that people can move from chronic poverty to productive entrepreneurship remains untested. Moreover, the question of how to effectively and sustainably support the financial integration of the ultra poor remains unanswered. The rigorous, ongoing evaluations of TUP programs are thus vital.

Appendix: TUP Program Evaluations

Researchers are evaluating TUP programs in the hope of identifying what works and how. When complete, these evaluations will provide important evidence on the programs' impacts, which can inform decisions about potential changes and further replication.

The Financial Access Initiative and Innovations for Poverty Action

The Financial Access Initiative (FAI) and Innovations for Poverty Action (IPA) have jointly embarked on evaluating several TUP programs in various geographic locations. FAI director Jonathan Morduch and Shamika Ravi of the Indian School of Business are evaluating the SKS pilot discussed above. The first phase of the pilot began in April 2007 and included 426 members in 100 villages. Although the evaluation is ongoing and it is too soon to draw any final conclusions about the program, mid-term results suggest that the program is well-designed and while not all participants are making significant progress, some are making important gains (Huda 2008).

FAI and IPA researchers are also investigating the viability of graduation from TUP programs to traditional microfinance programs in Peru and in Honduras. In 2009, FAI and IPA researchers launched an evaluation of a TUP program in 80 communities in Peru. IPA is also evaluating a TUP program in Honduras, in partnership with the local branch of Plan International, a large international NGO, and ODEF Financiera, a microfinance institution. Data collection for the baseline survey began in October 2008, and program implementation is set to continue through mid-2010.

Finally, IPA and FAI are evaluating an ultra poor program in Pakistan in partnership with Aga Khan Planning and Building Services, Badin Rural Development Society, Sinidh Agricultural, and the Forestry Workers' Coordinating Organization. The evaluation encompasses 1,600 households, half of which received the program. Baseline data collection is complete, and evaluation activities are ongoing.

London School of Economics and University College London

The phased implementation of BRAC's CFPR-TUP program was designed to accommodate an evaluation by researchers from the London School of Economics and University College London. The researchers are evaluating

CFPR-TUP, as well as BRAC-replication programs in Sudan. The baseline survey was administered in 2007 and follow-up surveys will be administered through 2011. At that point, researchers will conduct an impact evaluation, and access to the program will be opened up to control groups.

Abdul Latif Jameel Poverty Action Lab

Researchers from the Abdul Latif Jameel Poverty Action Lab (J-PAL) are working on an impact evaluation of Bandhan's TUP program. The evaluation is a randomized study of 1,000 ultra poor households that do not have access to substantial government assistance programs. Researchers have completed data collection for the baseline, mid-line, and follow-up surveys, including a "subsistence allowance" survey designed to assess how households respond when the subsistence allowance that accompanies asset transfer ends. The results are forthcoming.

Additional Resources

Armendáriz, Beatriz, and Jonathan Morduch. 2010. *The Economics of Microfinance*, Second Edition. Cambridge, MA: MIT Press. Chapter 10.
El-Zoghbi, Mayada, Aude de Montesquiou, and Syed Hashemi. 2009. "Creating Pathways for the Poorest: Early Lessons on Implementing the Graduation Model." CGAP Brief.
Hashemi, Syed, and Richard Rosenberg. 2006. "Graduating the Poorest into Microfinance: Linking Safety Nets and Financial Services." CGAP Focus Note 34.

References

Collins, Daryl, Jonathan Morduch, Stuart Rutherford, and Orlanda Ruthven. 2009. *Portfolios of the Poor: How the World's Poor Live on $2 a Day*. Princeton, NJ: Princeton University Press.
Cull, Robert, Jonathan Morduch, and Asli Demirgüç-Kunt. 2009. "Microfinance Meets the Market." *Journal of Economic Perspectives* 23 (1) (Winter): 167–192.
Dalal, Aparna, Jonathan Morduch, Alberto Chaia, Tony Goland, Maria Jose Gonzalez, and Robert Schiff. 2009. "Half the World is Unbanked." Financial Access Initiative Framing Note.
Daley-Harris, Sam. 2009. "State of the Microcredit Summit Campaign Report 2009." Washington, DC: Microcredit Summit.
Fonkoze. n.d. "Fonkoze's Fight Against Poverty," About Fonkoze Family, Who We Are, http://fonkoze.org/aboutfonkoze/whoweare/howworks (accessed January 16, 2009).
Hashemi, Syed, and Richard Rosenberg. 2006. "Graduating the Poorest into Microfinance: Linking Safety Nets and Financial Services." CGAP Focus Note 34.
Huda, Karishma. 2008. "Mid-term (12 Month) SKS Ultra Poor Process Evaluation." CGAP and BID.
Imp-Act Consortium. 2008. "SPM in Practice: Fonkoze, Haiti." Available online at www2.ids.ac.uk/impact/news/FONKOZE_SPM_in_Practice.pdf.
Matin, Imran, and Amiul Alam. 2002. "BRAC's Microfinance Canvass: Financial Services and Strategic Linkages." Paper prepared for PKSF-organized International Conference on Microcredit in Bangladesh.
Matin, Imran, Munshi Sulaiman, and Mehnaz Rabbani. 2008. "Crafting a Graduation Pathway for the Ultra Poor: Lessons and Evidence from a BRAC Programme." RED Working Paper, BRAC.
Otero, Maria, and Elizabeth Rhyne. 1994. *The New World of Microenterprise Finance*. West Hartford, CT: Kumarian.
SKS Microfinance. n.d. "Swayam Krishi Sangam and SKS Microfinance Partnership: SKS Ultra Poor Program," http://www.sksindia.com/sksultra poor.htm (accessed March 20, 2009).
World Bank. 2010. *PovcalNet*, http://iresearch.worldbank.org/PovcalNet/povDuplic.html (accessed April 20, 2010).
Yunus, Muhammad, with Alan Jolis. 1999. *Banker to the Poor: Micro-Lending and the Battle Against World Poverty*. New York: PublicAffairs.
Yunus, Muhammad. 2006. *Banker to the Poor: Microlending and the Battle against World Poverty*. New York: PublicAffairs.
Zeller, Manfred, and Gabriela Alcaraz V. 2005a. "Developing and Testing Poverty Assessment Tools: Results from Accuracy Tests in Kazakhstan." United States Agency for International Development.
Zeller, Manfred, and Gabriela Alcaraz V. 2005b. "Developing and Testing Poverty Assessment Tools: Results from Accuracy Tests in Uganda." United States Agency for International Development.
Zeller, Manfred, Julia Johannsen, and Gabriela Alcaraz V. 2005. "Developing and Testing Poverty Assessment Tools: Results from Accuracy Tests in Peru." United States Agency for International Development.