

**Authors**

Nathanael Goldberg  
Senior Director, Sector Programs

# Microfinance "Graduation" pilots are graduating

It's no secret few MFIs have had much success mobilizing the "poorest of the poor" into their programs. This failure has remained a persistent irritant in an otherwise phenomenally successful industry.

Microfinance advocates have generally taken one of two approaches to the problem:

- 1) Press on with the spectacular growth approach, increasing financial access (a good thing) but doing little to help the very poor; or
- 2) Hold up a few shining examples of MFIs that have managed to serve the very poor, hoping that other MFIs will "get it" and start reaching the very poor too.

The problem with the 2<sup>nd</sup> approach is the number of examples is not increasing, despite thousands of deeply committed people in the industry who would like nothing more than to help this population. We've had years of "you can do it" encouragement, but MFIs are just not managing to serve large numbers of the very poor. At some point we have to take a step back and ask ourselves whether there might be some reason, beyond sufficient dedication to the cause, why microfinance isn't working for this group.

Not ones to ignore a problem away, the ever-innovative BRAC in Bangladesh developed its own solution, combining the best parts of microfinance and charity into a hybrid program. BRAC's IGVGD program started with a realization that while microfinance wasn't exactly working for the very poor, it certainly had something to offer. IGVGD became Targeting the Ultra Poor, which has now gone international as the Graduation model, thanks to technical and financial support from CGAP and the Ford Foundation.

The graduation model acknowledges that the poorest households, who aren't always able to put food on the table, may not be able to focus on entrepreneurship. And even though we know the very poor can save, savings alone is unlikely to have a transformative impact on vulnerable households. In the graduation model households are provided a holistic package of consumption support (food aid), a productive asset transfer (e.g., free goats), livelihoods training and ongoing support, and important ancillary services like health training and care. Savings is required or encouraged out of consumption support and enterprise profits.

The idea is to meet as many of the households' needs all at once so they can focus on their

new enterprise, and to ensure they aren't pulled deeper into poverty by shocks.

I've just returned from a global meeting of nine graduation pilots in Dhaka, Bangladesh. The programs are up and running or about to launch in seven countries (Haiti, India, Pakistan, Honduras, Peru, Ethiopia, and Yemen). The program lasts for 18-24 months and the first wave of households, in Haiti and India, have now graduated. There's no formal definition of graduation but generally it is taken to mean into food security. The pilots emphasized in Dhaka that graduation implies in part that the participants should be *ready* to borrow from a microfinance program if they so choose, but that's not a requirement or necessarily a goal of the programs.

IPA is evaluating seven of these pilots with randomized trials. This is a dream approach for us, thanks to the generosity and considerable foresight of the Ford Foundation, along with USAID. It's going to take several years to accomplish, but when we finish we're going to be able say a whole lot about the impact of a very promising anti-poverty program across multiple settings. I know of no other set of rigorous evaluations that has been conducted on this many sites at once.

We'll have the first set of results next year, from the evaluation of the pilot implemented by Bandhan in India. Much more to follow.

More on the graduation model and pilots here: <http://www.cgap.org/graduation>, including a [video](#) of the Fonkoze pilot in Haiti.

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