



# The Impact of Variations of Ultra-Poor Graduation Programming in Uganda



Helping the ultra-poor develop sustainable livelihoods is a global priority, but policymakers, practitioners, and funders are faced with competing ideas about the best way to reduce extreme poverty. Innovations for Poverty Action conducted a randomized evaluation to test the impacts of diverse components and variants of the Village Enterprise microenterprise program, an integrated poverty alleviation intervention that provides poor households with a combination of cash transfers, mentorship, business training, and support with the formation of savings groups, over a one-year period.

## Key Findings

- » Village Enterprise's microenterprise development program led to increased consumption, assets, and income, as well as improvements in nutrition and subjective well-being.
- » Cost-effectiveness appears high: researchers estimate a full cost recovery within three to four years.
- » A cost-equivalent cash transfer appeared to have less promising medium-term impacts on poverty reduction and subjective well-being than the microenterprise program, though estimates are more ambiguous.
- » Adding a light-touch behavior change component to the cash transfer changed the investment patterns of cash transfer recipients and improved subjective well-being somewhat, but cannot be characterized as a substitute for the much more heavy-touch training and mentorship interventions of the microenterprise program.
- » Overall, the results suggest that training and mentorship components of integrated poverty alleviation programs are sensible and cannot simply be removed (or substituted for cash transfers). But as they are complex, more research is needed on the issue of scaling them while maintaining their quality.

### RESEARCHERS

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### PARTNER

Village Enterprise

### TIMELINE

2013-2016

### SAMPLE

6,378 households

### COUNTRY

Uganda

### TYPE OF STUDY

Randomized controlled trial (RCT)

### SOURCE

Sedlmayr, Richard, Anuj Shah, and Munshi Sulaiman. "Cash-plus: Poverty impacts of alternative transfer-based approaches." *Journal of Development Economics* (2019): 102418.

# The Challenge

**Finding cost-effective ways to reduce poverty for the poorest households continues to be a major policy challenge.** According to the World Bank, approximately 10 percent of the world's population lives on less than 2011 PPP US\$1.90 a day<sup>1</sup>, and finding more secure and sustainable livelihoods is crucial for these households. Microenterprise development is one key avenue for helping these ultra-poor families develop livelihoods, but some approaches that policymakers had hoped would help—such as microfinance services—have not substantially improved the living standards of small business owners or their families.

One approach that has recently shown greater promise across contexts on average is the graduation model, a

package of sequenced interventions intended to help the ultra-poor develop stable and sustainable livelihoods. But measured effects are quite diverse and current implementations are expensive and very high touch, which raises the question about the drivers of effects, and whether they continue to be present as such programs get promoted to larger scale.

Given these concerns, it is important to better understand how a more streamlined model stands up to the current model, as a simpler program would be less costly and would also likely scale with greater fidelity. It's also important to “unpack” the program to better understand if individual components are driving the impacts, and if so, what they are.

## The Program

**Working exclusively in rural, remote areas of sub-Saharan Africa, Village Enterprise provides very poor households with a combination of cash transfers, mentorship, business and financial literacy training, and support for the formation of savings groups over a one-year period.**

The program is meant to help ultra-poor households in East Africa develop sustainable livelihoods. It looks a lot like ultra-poor graduation, but is less intensive, and therefore, less expensive. Group-based and shorter in duration (one year vs. two), the Village Enterprise program costs roughly a third of the cost (in USD PPP terms) of the least costly graduation program evaluated in a six-country study.<sup>2</sup>

The program is comprised of the following four components, sequenced over 12 months:

- » **Training**—A business mentor leads sessions for groups of around 30 participants. The training consists of 16 sessions on topics such as record keeping, business planning, marketing, the importance of savings, and financial management.<sup>3</sup> Participants form small groups of three people each; these groups are expected to write a business plan and work on starting a small business together.
- » **Capital grants**—Three months after trainings begin, each small business group that attended the trainings

receives a grant to start their enterprise. A second grant is provided six months later; the second grant is conditional on the group's proper utilization of the start-up capital and regular participation in the savings groups. Grants are disbursed in UGX, and adjusted for inflation annually.

- » The first grant disbursement is targeted at US\$100. In the evaluation below, this was converted to 240k UGX (2016 PPP US\$227.27).
- » The second grant disbursement is targeted at US\$50. This was converted to 120k UGX (2016 PPP US\$113.63).
- » **Mentoring**—Business mentors recruited locally as well as Village Enterprise field coordinators provide on-going mentoring and coaching, monitor the small business groups' use of the capital, and advise them on specific challenges they encounter.
- » **Business savings group (BSG)**—BSGs function similarly to Village Savings and Loans Associations in that members make contributions to the group's savings pool, and can also borrow from it. The goal of forming a BSG is to create a sustainable way for participants to access financial services and support each other after the program is over. The same group of 30 participants that attends the training forms the BSG together.

<sup>1</sup> Purchasing power parity (PPP) is an economic term that indicates the equivalent of what the amount would purchase in the U.S.

<sup>2</sup> Banerjee, Abhijit, Esther Duflo, Nathanael Goldberg, Dean Karlan, Robert Osei, William Parienté, Jeremy Shapiro, Bram Thuysbaert, and Christopher Udry. “A multifaceted program causes lasting progress for the very poor: Evidence from six countries.” *Science* 348, no. 6236 (2015): 1260799.

<sup>3</sup> Each session took one to three hours (excluding travel time). Of these, the first was an introduction to the program. Another session involved the formation of microenterprises. Six sessions dealt with savings and the formation, functioning, and governance of savings groups. Seven sessions dealt with microenterprise administration; and one dealt with conservation.

# The Evaluation

IPA conducted a randomized evaluation to test the impacts of diverse components and variants of Village Enterprise's program, which provides poor households with a combination of cash transfers, mentorship, business training, and support for the formation of savings groups over a one-year period.

To identify the extreme poor, Village Enterprise independently conducted a participatory wealth ranking exercise, followed by a quantitative means test using Poverty Probability Index (PPI) survey data, to validate eligibility.<sup>4</sup>

The poorest 6,378 households across 138 villages were selected for participation. Researchers then randomly assigned selected households to one of six groups:

1. **Full graduation program:** Participants in this group received the full Village Enterprise graduation program: the four components previously described, sequenced over 12 months.
2. **Business-in-a-Box (BIAB):** In a small pilot, participants in this group received all components of the Village Enterprise program except the capital grants (training, BSG formation, and mentoring). Instead of capital grants, small business groups received all necessary inputs to start a business (for example, all the materials one would need to start growing sesame seeds or raising chickens). This group was not designed to yield experimental results, and the 210 households assigned to the BIAB treatment are not included in the research sample size.
3. **Graduation program without BSG:** Participants in this group received the training, capital grants, and mentoring components of the Village Enterprise program, but not the BSG.
4. **Unconditional cash transfers:** Each participant in this group received 2016 PPP US\$295.45 (312k UGX) as an unconditional cash disbursement. To enhance the comparison of the graduation program to the cash transfer, this amount was approximately equivalent to the per-person cost of delivering the Village Enterprise graduation program.
5. **Unconditional cash transfer combined with a behavioral/mindset intervention:** Each participant in this group received a cash transfer of 2016 PPP US\$295.45 (312k UGX), and was also invited to participate in an intervention intended to prepare participants psychologically to make the most of the transfer. This intervention builds on existing research on goal setting and self-affirmation.
6. **Comparison:** Households in this group were not offered the graduation program, the cash transfer, or a BIAB.

Researchers ran comparisons to evaluate effects of the components and variants of the program on households' consumption, occupational choice, assets, access to financial services, and savings.

<sup>4</sup> Baseline data suggests Village Enterprise successfully targets people whose consumption is below the international poverty line of 2011 PPP US\$1.90 per capita per day. This data was collected and analyzed by the Independent Research and Evaluation Cell at BRAC Uganda.





# Results

- » Overall, the full microenterprise development program (mentorship + training + savings groups + transfers) led to increased annual consumption of 2016 PPP US\$23.82 (26,061 UGX) per capita, assets 2016 PPP \$14.94 (16,343 UGX) and greater cash inflows of 2016 PPP \$12.32 (13,483 UGX).<sup>5</sup>
  - » **Higher consumption included greater food security and dietary diversity**, which was corroborated by nutritional impacts. No meaningful impacts emerge on other health related outcomes.
  - » Improved assets were driven primarily by greater livestock ownership.
  - » Greater cash inflows were driven by an increase in self-employment activities.
  - » **Subjective well-being improved** and, unlike the other impacts, appeared to increase over time.
  - » **Cost-effectiveness appears high:** the cost of the microenterprise program, as incurred by Village Enterprise over the course of the roll-out, amounted to roughly 101k UGX per capita under very conservative assumptions (e.g., including international overhead). The scale of consumption effects, at roughly 26k UGX per year, implies a payback period below 4 years. Accounting additionally for the residual asset stock of 16k UGX, it comes closer to three years. In other words, a full cost recovery was plausibly achieved not far beyond the measurement period.
- » **The savings groups did not lead to an increase in consumption or total assets, but did lead to an expansion in microenterprise activity and some improvements in the standing of women.**
- » **The cash transfer programs (with and without the behavioral change component) did not appear to have meaningful impacts on poverty outcomes, but these results are somewhat ambiguous.** Based on one estimate, cash transfers led to an increase in assets. However, results are insignificant or negative under other specifications.
  - » Given ambiguity of these results, policymakers should not draw conclusions based on the cash transfer findings alone. More research is needed.
- » **The behavioral/mindset intervention had similar impacts on psychological well-being and assets as the microenterprise program;** however, the program did not lead to increases in consumption.

## Conclusion

**Results suggest that the integrated microenterprise program—comprised of training, mentorship, savings groups, and a cash transfer—can increase sustained asset holdings and consumption, as well as subjective well-being and nutrition.** These findings are consistent with previous research on ultra-poor graduation programs, and thus lead to a greater overall confidence in the graduation model in reducing poverty.

The findings also suggest the Village Enterprise model is cost-effective, given that the full costs of the program appear to be recoverable within three to four years, and direct costs are recoverable within two to three years.

In terms of how the program compares to the unconditional cash transfer<sup>6</sup>, researchers did not detect any sustained,

positive impacts on poverty outcomes from the transfer-only, but this part of the study had some limitations. The simple behavioral intervention, with the cash transfer, was able to achieve a somewhat similar profile on psychological and asset effects as the microenterprise program; however, the expected consumption effects did not follow. More and larger studies are needed to benchmark cash against integrated social protection programs, to more fully understand and compare their impacts on poverty outcomes.

Overall, the results support the notion that extensions to cash transfers can help beneficiaries get more value out of their newly acquired assets, but more research is needed, particularly on how such a package might be effectively delivered at larger scale.

<sup>5</sup> For reference, average annual per capita consumption among the eligible population was 624,072 UGX (2016 PPP US\$587) at baseline.

<sup>6</sup> It should be noted that the cash transfer amount was relatively small compared to unconditional transfers evaluated by Haushofer et. al. 2015.

