



Palli Karma-Sahayak Foundation (PKSF)

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**Graduation from Extreme Poverty: Evidence from Ultra
Poor Programme and Programmed Initiatives for
Monga Eradication**

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Executive Summary

1. Introduction

Palli Karma-Sahayak Foundation (PKSF) has been working in microfinance sector nearly for two and a half decades with the objective to reduce poverty through employment generation. Along with other programmes, PKSF has been implementing two special programmes - Ultra Poor Programme (UPP) and Programmed Initiatives for *Monga* Eradication (PRIME) since 2004 and 2006 respectively. Both the programmes provide flexible microfinance support to the ultra poor. In addition to this, PRIME provides special inputs on training, primary health care services, education, etc. to the participant households. PKSF has been implementing UPP and PRIME according to its formulated policy, but the specific criteria of member graduation from UPP and PRIME were not mentioned at the beginning in this policy. In 2012, 7 indicators were included in the policy to assess the graduation status of the participant households. But these indicators are not yet properly executed at field level. Partner Organisations (POs) of PKSF consider those members as a graduate who have taken at least 3 loans as UPP or PRIME members and fully repaid the loans and the same members are operating a bigger size of loan. Accordingly, up to June 2012, cumulative enrolment under Ultra Poor Programme (UPP) was 2.38 million, of which 28.88 percent graduated to Rural Microcredit (RMC) or Urban Microcredit (UMC). Similarly, a total of 0.23 million ultra poor households were cumulatively enrolled under PRIME, of which 5.5 percent graduated by the same time. Graduation of the vast majority of the enrolled members particularly under UPP has raised a question -- have they really graduated? On the other hand, about 8 years experience of UPP and experimentation of PRIME in the most poverty-stricken areas since 2006 demand an acceptable assessment of the members' graduation. In this context, PKSF has conducted a study with the main objective to understand the processes of graduation and compare the socio-economic status of non-graduated members with graduated members under UPP and PRIME interventions.

2. Scope of the Study

Except Sylhet, the study has covered 6 divisions, which includes the geographic variations within the country. The major areas covered under the study are demographic characteristics, socio-economic characteristics, access to credit, utilisation of credit, return from credit, access to training, effectiveness of training, changes in economic indicators of graduation,

changes in social indicators of graduation, factors contributing to graduation, perception of households regarding their changes in socio-economic status. On the basis of these economic and social indicators, PO declared graduated households are assessed regarding the changes in socio-economic status. Through review of different indicators of graduation, a set of refined indicators for assessing graduation status of the participant households have been recommended in this study. Finally, based on these recommended indicators, real graduation status of the participant households along with changes in their socio-economic status has been assessed.

3. Study Methods

The study has been conducted in 11 districts, 6 of UPP and 5 of PRIME, from 6 divisions. A total of 50 branches from the selected 11 districts -- 25 from each of UPP and PRIME having at least 50 graduated and 50 non-graduated members -- were selected using stratified random sampling technique with proportional allocation. This process has covered 16 POs in 34 Upazilas. Of the 34 Upazilas, 16 are under UPP and 18 are under PRIME. Using the standard statistical formula with 95 percent confidence level and 8 percent error the sample size for questionnaire survey has been estimated at 900 households. Out of these households, 225 are from each of graduated and non-graduated households under UPP and PRIME. Primary data have been collected through pre-coded structured questionnaire survey, FGDs, KIIs and case studies.

4. Major Findings

4.1 Demographic and Socio-economic Characteristics of PO-declared Graduated and Non-graduated Households

All the respondents of the study are females with an average age of about 37 years for both UPP graduated and non-graduated members, while it is 38 years for both PRIME graduated and non-graduated members. More than 60 percent of the total population of the participant households is in the economically active population age group of 15-64 years indicating huge potential of demographic dividend. About 95 percent members of UPP and PRIME are married. About 40 percent of UPP and 36 percent of PRIME graduated members have no formal schooling, while it is about 44 and 53 percent for non-graduated UPP and PRIME members respectively. Educational level of the graduated UPP and PRIME households is higher than that of non-graduated households. A trend of graduation of main occupation from

housewife to income earning has been found particularly among the UPP households. An overall comparison between the occupational pattern of the borrowing members and the heads of the household reveals that there is a positive change in occupation of both the persons. The main reason for the changing occupational pattern of heads of the household is that though credit is taken by the female members, the income generating activities are initiated mainly by the male members; particularly by the head of the households.

4.2 Access to Credit of PO-declared Graduated and Non-graduated Households

The average number of loan received by graduated UPP and PRIME households is around 5, while the same for non-graduated UPP and PRIME households are 3 and 4 respectively. There is a positive relationship between the number of loans and the ultra poor households' graduation. The graduated UPP and PRIME households received an average of 2 and 1 loan more than the non-graduated UPP and PRIME households respectively. An average of around 3 years is required to become graduated for both UPP and PRIME households, if other factors remain constant.

4.3 Changes in Economic Indicators of PO-declared Graduated Households

Income and Expenditure: The average annual real income of UPP and PRIME graduated households increased about 53 and 30 percent respectively since their enrolment time, while the same increased about 14 and 22 percent for non-graduated UPP and PRIME households respectively. About 24 percent of UPP and 36 percent of PRIME graduated households increased their number of income sources from 2 to more than 2. On the other hand, the same increased 16 percent for UPP and 29 percent for PRIME non-graduated households. The household annual expenditures of graduated UPP and PRIME members became about double to that of non-graduated households since enrolment. Proportion of expenditure on food declined more for graduated households than that of non-graduated households.

Employment: On the basis of employment of the total number of PO declared graduated households, 39 percent of UPP and 65 percent of PRIME households were graduated. The higher rate of employment under PRIME may be due to its more comprehensive nature of activities compared to that of UPP. Around one-fourth of UPP and half of PRIME graduated households fulfilled the employment criteria of graduation before their enrolment. The net increases of employment of graduated UPP and PRIME households compared to the time of

their enrolment are 13 and 11 percentage points respectively, while the same for non-graduated UPP and PRIME households are 13 and 9 percentage points respectively. Applying the difference-in-difference method, the annual net employment of graduated UPP and PRIME households compared to non-graduated UPP and PRIME households increased 4 and 11 man days higher respectively. It has also been found that percentages of households having more than one earning member are higher for PRIME than UPP both at the time of enrolment and at present.

Value of Assets: The increased value of assets of UPP graduated households is 27 percentage points higher than non-graduated households, while it is 8 percentage points lower for PRIME graduated households than non-graduated households. On an average, microcredit has generated 3 percent of total value of household assets at constant price considering the base year 2005-06.

Food Security: Food affordability of UPP graduated and non-graduated households increased about 20 and 7 percentage points respectively compared to their enrolment time. In case of PRIME, it has increased 46 percentage points for graduated and 33 percentage points for non-graduated households.

Resilience to Risk: It has been found that both UPP and PRIME graduated households are better off than the non-graduated households at the post-disaster period. Major strategies adopted by the graduated and non-graduated households to cope with disasters are using own resources; receiving loan from relatives, other POs and moneylenders; emergency loans and selling assets.

4.4 Changes in Social Indicators of PO Declared Graduated Households

Access to Dwelling House and its Standard: Households having tin-roofed dwelling house increased from 68 to 71 percent for UPP graduated households and 88 to 98 percent for PRIME graduated households. Proportion of households having hygienic dwelling house increased about 4 and 32 percentage points for UPP and PRIME graduated households respectively.

Clothing: Presently, about 98 percent of UPP and 99 percent of PRIME graduated households are able to arrange minimum required winter clothes with an increase of 10 and 4 percentage points for UPP and PRIME respectively compared to the time of their enrolment. In case of non-graduated households, the same is 4 percentage points for UPP and 3 percentage points for PRIME.

School Enrolment: There is no remarkable variation between the primary and secondary school enrolment rates of graduated and non-graduated household members. The main reason is that this rate was very high at the time of enrollment and it has a little scope for further increase.

Access to Sanitation: Access to safe drinking water of UPP graduated households increased from 90 to 91 percent; while the same for PRIME graduated households remains unchanged at 98 percent. In case of non-graduated households, similar trend has also been observed. There is a higher declining trend of *kancha* premises and increasing trend of *pucca* premises of tube well of PRIME households compared to UPP households.

Access to sanitary latrine is limited to a few households. There is no significant difference between the percentages of UPP graduated and non-graduated households having access to sanitary latrine, but the percentage of PRIME graduated households having access to sanitary latrine is significantly higher than that of non-graduated households. This may be the effect of health intervention of PRIME.

Ability to Spend a Portion of Household Income for Health: About 7 percent of UPP and 6 percent of PRIME graduated households have increased their ability to spend a portion of income on treatment at present.

Social Dignity: About 31 percent of UPP and 51 percent of PRIME graduated households perceive that their social dignity has increased due to the involvement in UPP and PRIME interventions.

4.5 Perception of the Respondents About Their Changes

Around 90 percent of the respondents said that they achieved a positive change in their socio-economic condition, which is notably higher for graduated households compared to the non-

graduated households. The important areas of change include economic status, social status, and both economic and social status. Both graduated and non-graduated households pointed out the positive contribution of microcredit to their socio-economic development along with self-initiated business, service and agriculture.

4.6 Proposed Graduation Indicators, Status and Process

Graduation Indicators: The study reviewed different indicators of graduation suggested by different organisations, practiced by POs, mentioned in UPP policy and brain storming at the designing stage of the study. Finally, the study recommended a set of 9 indicators to assess the graduation status of the participant households. Of these 9 indicators, 4 are economic and 5 are social. Here, a household needs to satisfy all the 4 economic indicators as necessary conditions and out of 5 social indicators, at least 3 need to be satisfied as sufficient conditions of graduation.

Real Graduation Rate of PO Declared Graduated Households: It has been found that among the PO declared graduated households about 38 percent of UPP and 57 percent of PRIME with an average of 47 percent are graduated. On the other hand, among the PO declared non-graduated households about 25 per cent of UPP and 27 percent of PRIME with an average of 26 percent are also graduated. It has been found that about 12 percent households under this study fulfilled both economic and social indicators of graduation at the time of their enrolment. This indicates that these 12 percent households were not among the target households.

Graduation Status of Households Who Were Non-Graduated at the Time of Enrolment: About 31 percent of the total households, who were non-graduated at the time of their enrolment on the basis of proposed indicators, have been graduated at present; of which about 27 percent are of UPP and 35 percent are of PRIME households. These are the rates of real graduation. Overall per annum real graduation rate is 6.22 percent -- 5.4 percent for UPP and 7.0 percent for PRIME. The main reason for higher graduation rate of PRIME households is its comprehensive approach as has been mentioned earlier.

4.7 Changes in Assets, Employment, Income and Ability to Cope with Shocks After Graduation

Value of productive assets increased about 88 percent of the graduated households against 69 percent of the non-graduated households since enrolment. The Chi-square test shows that there is a significant association between the graduation of households and increase of productive assets, which means formation of asset helps the process of graduation of households from extreme poverty. Percentage of increasing employment is about 14 percentage points higher among the graduated households than that of non-graduated households indicating employment is one of the important factors of graduation. Per capita annual income of the graduated households is about 45 percent higher than that of non-graduated households, whereas it is 73 percent for UPP and 23 percent for PRIME. Percentage of households able to cope with disaster is about 5 percentage points higher among the graduated households than that of non-graduated households.

4.8 Factors Contributing to the Graduation of Participant Households

The logistic regression analysis reveals that per capita annual income, productive asset, household annual employment, number of loans and PRIME interventions have significant contribution to the graduation process of the ultra poor households. It reveals that with the increase of 10 percent income of the participant households, probability of their graduation from extreme poverty increased by 11 percent. The employment coefficient indicates that with the increase of 10 percent in employment of the participant households, probability of graduation increased by 4 percent. Lower proportion of increase in probability of graduation in relation to increase in employment indicates the present nature of employment is low productive. Ownership of productive assets has a highly significant and positive contribution to the graduation of the participant households. The probability of graduation has increased 6.33 percent with the increase of productive assets of 10 percent. The coefficient of number of loans implies that with 10 percent increase in number of loans, probability of graduation increased by 7.38 percent. The programme coefficient indicates the probability of graduation of PRIME members is about 63 percent higher than that of UPP and this coefficient is statistically significant at 1 percent level of significance. One of the reasons for higher probability of graduation of PRIME members than that of UPP members is more comprehensive support offered by PRIME to the households.

4.9. Graduation Process from Extreme Poverty

It includes 4 major steps -- activities, outputs, outcomes and impact. There is a cause and effect relationship among these 4 steps. If activities are performed, then outputs are achieved. Similarly, if outputs are achieved, then outcomes (economic graduation) are achieved and finally the outcomes contribute to the impact or social indicators of graduation. Graduation process of participant households from extreme poverty is shown in Flow Chart-8.1.

4.10 Reasons for Non-graduation Even Getting Same Financial and Non-financial Services Like Graduated Households

The main reason for non-graduation of the participant households is the inadequate household income. Inadequate income is mainly caused by lack of sustainable employment, inability to utilise bigger size of loan, inadequate loan size for the participant households who are able to utilise bigger size of loan, and inability to increase household productive assets. Particularly in PRIME some of the participant households are unable to increase their productive assets because of their weak economic base and death of livestock. According to the respondents' opinion, lack of treatment facilities is the main cause of death of livestock. Detail reasons for non-graduation after getting same financial and non-financial supports like graduated households are mentioned in Flow Chart-8.2.

5. Recommendations

- i. The study proposed 4 economic indicators namely per capita per day equivalent income of 1.25 USD in PPP, affordability to 3 full meals, multiple source of income and productive assets; and 5 social indicators namely roof materials, access to safe drinking water, access to sanitary latrine, school enrollment and disaster coping ability as necessary and sufficient conditions to measure the graduation status of the participant households.
- ii. The households graduated on the basis of economic indicators, all of them are not graduated on social indicators and vice versa. Therefore, in order to ensure proper targeting of the households, both economic and social indicators should be considered.
- iii. Since PRIME interventions are more effective for socio-economic development as well as graduation from extreme poverty, replication of PRIME interventions should be made

across the country. To make UPP interventions more effective, training to the participant households in all areas available in PRIME needs to be imparted.

- iv. There is huge potential of improving the economic condition of the poor households through developing the earning capacity of economically active population (more than 60%). In this regard, an action research project may be initiated to generate demographic dividend.
- v. A notable percentage of participant households satisfied the graduation criteria at the time of their enrolment indicating the households were not properly selected under the programmes. Therefore, more emphasis should be given on proper targeting of the households.
- vi. Existing ceiling of loan size under UPP and PRIME should be increased on the basis of the utilization capacity of the borrowers.
- vii. Since the household income of coastal region is lagging behind the other regions and characteristics of this region are different, special microcredit programme needs to be designed for this region through need assessment. In this regard, more emphasis should be given to the disaster affected households.
- viii. Attempt should be made to adopt high productive income generating activities through proper identification and capacity development of the households. This will accelerate poverty reduction of the ultra poor households.
- ix. POs need to ensure effective use of loan by the participant households through proper supervision and guidance.