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Guest editorial: Reaching the poorest with finance and enterprise support

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This special issue focuses on the ways in which microfinance and enterprise development initiatives do and do not help very poor people – that is, their capacity to 'reach the poorest'.

This may seem to be redundant to some of our readers; they may ask 'is that not what this journal, and the whole endeavour of which it is a part, are about?' Many of us, I believe, work in 'development', the 'aid trade', or whatever we call it at least in part because we want to contribute to the alleviation of poverty. We may make a decent living out of it, and our paymasters may be more interested in keeping out refugees, or creating new export markets, or in maintaining their country's reputation as generous donors, but poverty alleviation lies at the root of it, and it should surely be the focus of every issue of a journal such as this. It should not need a 'special issue' at all, because it *is* the overarching issue.

The rhetoric of development speaks to the same agenda. Muhammad Yunus, Nobel Laureate and founder of Grameen Bank, said that microfinance would end poverty so that we would have to "create a poverty museum in 2030" (quoted in Tharoor, 2006). He hoped that even or particularly the poorest people could escape from poverty by becoming 'micro-entrepreneurs'). Does this promise appear likely to be realized, and has or will microfinance and enterprise development play a significant part?

The jury is still out on this issue. Poverty has been massively reduced, indeed the proportion of the world's population who live in poverty has been halved since 1990, but almost 800 million people must still get by on well under two dollars a day. Inequity is not of course the same as poverty, and nor is wealth the same as income, but we are told that half the world's wealth is owned by 1 per cent of the world's population.

Have microfinance and enterprise development failed to live up to their promise, or is it too early to say? We must conclude that the expectations were too high, and it should in any case have been clear from the outset that these two approaches, together or separately, could not be a panacea. Decent health care, education, and perhaps most critically and least conveniently for external agencies, good governance and the rule of law are much more important and far harder to promote.

Access to some form of financial service from a formal provider, however inferior the service may be to what our readers expect from their banks, is usually better than no such access, although many of the innumerable evaluations of microfinance suggest that the poorest people benefit the least or are actually injured by the debt and the group obligations.

Ownership or informal employment in a microenterprise, part of the 'informal sector' which we hailed in Kenya as a potential remedy for poverty in 1972, is generally preferable to begging. The evidence is anecdotal, but most owners of

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microenterprises to whom I have spoken would prefer a secure job. We may call them 'micro-entrepreneurs', but they are very different from people who have chosen to start their own businesses rather than to have a job. They are 'entrepreneurially motivated' because there are no alternatives.

The popular message for fund-raising for development is that it alleviates poverty, including or particularly the poverty of the poorest, but development practice has moved beyond this. It is recognized that traditional microfinance benefits 'the economically active poor', who are almost by definition not the 'poorest of the poor'. This issue of *EDM* describes a few programmes which have been designed to overcome the obstacles which prevent very poor people from benefitting from more conventional initiatives.

Considered a silver bullet for achieving poverty reduction and women's empowerment in the first two decades of its development, microfinance came under serious review only in the late 1990s, when its impact was first studied objectively and comprehensively. It took another few years to design programmes for those who could not benefit from microcredit. In 2001, BRAC in Bangladesh launched the first programme targeting the ultra-poor: Challenging Frontiers of Poverty Reduction (CFPR). As the origin of programmes for the ultra-poor lay in the failure of microfinance programmes to reach the poor, the first limited objective of these programmes was to graduate the ultra-poor to become customers of regular microfinance programmes, resulting in the concept of 'graduation'. Later, graduation was also framed in terms of sustainably moving out of ultra-poverty, for which both economic and social indicators were then developed.

As the programmes progressed and proliferated across the world, the names have changed too. The target group is called ultra-poor, extreme poor, or the hard core poor in different programmes. We have opted to keep the earliest name, ultra-poor, and refer to other names only when we refer to programmes that use those latter names for their targeted beneficiaries.

Further, as the targeted ultra-poor receive grants, stipends, trainings, and so on, the programmes lie in the welfare domain rather than being financially viable interventions such as microfinance claims to be. Therefore, we refer to the targeted ultra-poor as beneficiaries throughout, instead of the term clients which is used by microfinance institutions.

The experiences in this issue are drawn from many very different parts of the world. The issue opens with a Crossfire, with a debate between Rabeya Yasmin, who headed BRAC's CFPR, took it to scale, and led many of its adaptations and replications around the world, and Frances Sinha, a director and co-founder of M-Cril, the international financial services and social business rating and research agency, who has several years of experience in conducting trainings of staff of microfinance institutions (MFIs) and has been part of the social performance assessment of MFIs. They raise issues of outreach to the poor and design of financial services and products suited to different market segments.

Yasmin poses the challenge that ultra-poor people cannot comply with the basic methodologies of microfinance, whereby very poor people are required to save and take loans, especially loans of a size they find scary to repay in short repayment

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cycles. Microfinance for the ultra-poor is therefore posed as risky and not cost-efficient. She reiterates the need for very small loans (a view which we later find reinforced in the paper by Yaron et al).

Sinha highlights that MFIs, while watching and aiming for financial profits, have also begun to measure their social performance. She further argues for providing transformative inputs such as wage employment, affordable health care, education, sanitation, housing, energy, and direct benefit transfers.

Yasmin then directs attention to features of Village Savings and Loan Associations (VSLAs), community-based savings and credit associations, which have been able to provide opportunities to the ultra-poor for small savings and small loans, at very low costs of operation. She demands that even when looking for profit, MFI leaders need to be innovative, and learn from grassroots organizations like VSLAs.

Following this debate, the issue presents detailed articles on projects and programmes that focus on the ultra-poor. Microfinance institutions usually aim to be profitable, or to be 'sustainable', and many of them make very significant profits which substantially enrich their promoters and shareholders. Programmes which target the 'hard core poor' or the 'ultra-poor' do not aim to cover their costs. They are usually based on some form of 'graduation', where the beneficiaries (rather than 'clients') go through a two- to three-year process which may involve savings, some form of asset transfer, and counselling or training, usually through a group mechanism to mobilize mutual encouragement and support. The costs vary, but it appears to cost something between US$300 and 400 to bring someone to the stage where she or he can 'graduate' from extreme poverty, and, it is hoped, be permanently relieved from extreme poverty. Graduation can mean that a person becomes able to be a 'normal' client of a microfinance institution, without special subsidy or other benefits, and ultra-poor programmes which are run by microfinance institutions, such as BRAC in Bangladesh or Bandhan in India, presumably benefit through the addition of newly qualified customers of this kind. Much more important, however, is the overall reduction in hard core poverty.

The paper by Premchander, Dutta, and Mokkapati describes the key features of programmes addressing the ultra-poor, based on BRAC's CFPR project in Bangladesh. The Targeting the Hard core Poor (THP) programme of Bandhan Konnagar in India, which started as a replication of BRAC's programme, has grown to be one of the largest replications anywhere. The paper, based on a participatory review of the THP programme, examines the innovations in design and implementation as the programme has expanded and developed, and supplements these with similar changes made internationally in ultra-poor programmes. The innovations relate the changes in selection criteria with a bias towards inclusion rather than exclusion of the ultra-poor, more flexibility about enterprise combinations, greater attention to graduation, and ensuring financial inclusion so that ultra-poor women have savings options soon after their earnings begin. Innovations also relate to partnerships with the government and other organizations.

The paper by Matin and Rahman highlights that while the headcount measures of both upper and lower poverty in Bangladesh declined at broadly similar rates over the 2000–2010 period, the decline was more consistent for upper poverty relative to

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the decline in lower poverty, which is further attributed to a decline in the pace of reduction of the rural lower poverty headcount. They turn to an examination of the impact of the BRAC-CFPR programme, which halved the incidence of households stuck in long-term extreme poverty and increased the incidence of ultra-poor households that managed sustainably to graduate out of extreme poverty. For achieving better results on reduction of extreme poverty, the authors advocate long-term social protection programmes involving long-term allowances for the aged, widows, those living with disabilities, and others, and innovations to tackle the heterogeneity of needs and aspirations of the poorest. Learning from contextualizing and adapting BRAC's ultra-poor programme, it discusses the broader challenge and tension between the gain of efficiency from standardization and effectiveness from adaptation.

The next two papers illustrate the fact that special categories of ultra-poor need tailor-made approaches. Sanson, Bielsa and Kumar highlight that people with disabilities (PWD) are disproportionately represented among those in extreme poverty and are also excluded or self-exclude from poverty reducing programmes. Their paper on the graduation programme of Trickle Up focuses on PWD, and draws lessons from six projects in Guatemala, Nicaragua, and Mexico. Lessons include how to adapt design to the intersection of poverty and vulnerability, when and how to promote active engagement of PWD as primary programme participants, the advantages and disadvantages of homogeneous versus integrated savings groups, and how 'graduation' itself should be conceptualized when working with people with specific vulnerabilities. The role of field staff in addressing household and community preconceptions and those of PWD themselves are also profiled. Finally, consideration is given to how adapting graduation programmes for people with disabilities contributes to understanding the broader challenges of integrating highly marginalized groups.

Annie Harper's paper deals with another specific marginalized group, people with mental illnesses in the United States. The first of the 'sustainable development goals' is 'to end poverty in all its forms, everywhere', so it is significant that one paper should be about a programme which reaches people who are very poor in that context; this reminds us that poverty is relative as well as absolute. Harper discusses in detail the financial difficulties faced by people living in the United States who are poor and have mental illness and examines the experiences of a pilot programme in New Haven seeking to help them. The paper highlights the multiple vulnerabilities of mentally ill persons, who are not only unable to retain jobs for long periods, but also face multiple behavioural problems in managing their cash flows and savings. Their social security benefits are contingent on conditions that converge to keeping the beneficiaries dependent on these benefits, hence keeping them in chronic poverty. The pilot project focused on helping people understand and make the best use of financial services and worked with local banks and the government to try to improve locally available financial services. The project helped the clients to open bank accounts, save money, and improve money management, and clients also benefited from the regular one-on-one counselling and the relationship that was created with the counsellor, helping them feel less

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stressed. However, participants remained poor, and were unable to change some spending behaviours, did not trust banks, and could not overcome the structural constraints imposed by banks or government social protection policies. The paper suggests that banks develop and offer products better suited to the needs of the mentally ill, and that the benefits system is reformed to increase people's incomes and reduce disincentives to saving and finding employment, so that they are able to save and invest for their future earnings.

The issue now moves beyond grant-based programmes of the government and NGOs, to a microfinance programme that focuses on the ultra-poor. Yaron, Best, Choudhary, and Gordon describe and assess the impact of the Rojiroti approach to microfinance implemented by an NGO in Bihar, India. It involves formation of women's self-help groups (SHGs), rotating loans from savings, and subsequent credit from the NGO. The programme targets women who are significantly poorer and more marginalized than those typically served by microfinance in India, and offers two types of small loans with flexibility in repayment periods. The impact of the microfinance programme shows significant gains for Rojiroti borrowers relative to a control group in terms of poultry and mobile phone ownership, increased private tuition for primary school children, significant increases in knowledge of household income and expenditure, and a significant decline in domestic violence. After 18 months, further gains were seen in upgrading housing and diversification of income-generating activities. The authors highlight that challenges remain in the areas of cost of group formation, attracting very poor women given the time costs of attending weekly meetings, lack of savings products, the very small size of loans, and its impact in limiting women's ability make larger investments in their income-generating activities. The paper is a reminder that in the absence of asset-transfers, the trajectory for coming out of extreme poverty may well be longer than that of the grants-based programmes such as CFPR and THP.

Over the past 15 years, at the same time as programmes focused on ultra-poor households have expanded, the Indian Government has prioritized financial inclusion for all households as an essential step towards poverty reduction, as recognized also by the Sustainable Development Goals (SDGs). In this context, the paper by Sinha, Pandey, and Madan questions the supply-side pressure for digitizing payments across the board in India. The paper raises issues around mobile phone penetration, low access of women to mobile phones, bank account features, acceptance of digital payments across value chains, and the viability of small transactions. The authors raise concerns on client protection and risk management in digital finance, and advocate a nuanced approach for promoting digital finance, and the establishment of standards to ensure that services protect clients' interests. They suggest investments to promote digital literacy and understanding of the digital financial system among clients and all stakeholders in the value chain.

While this issue has papers from South Asia, Central America, and the United States, Africa is notable for its absence. African microfinance is less 'mature' than in its 'home' in South Asia, but there are many important initiatives for the ultra-poor. It was not possible to include every paper which was submitted, and we hope that this issue will encourage practitioners from Africa to document and share their experiences.

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Together, we hope that these papers contribute to the literature on adaptive programming. Further research is also needed to develop a more nuanced understanding of what works for different ultra-poor populations, in terms of combinations of cash transfers, asset transfer grants, loans, and enterprise escort services. While describing NGO-led programmes, we need to remember that the governments are in theory at least mandated to provide social protection and none of these programmes should absolve the government of this duty. The issue contains papers that discuss how the government has started to learn from NGOs and mainstream the approaches of ultra-poor programmes (Premchander, Dutta, and Mokkapati). The papers highlight that specific categories of chronically poor people (Harper, and Yaron et al.) need programmes designed to their needs. Finally, all papers in this issue point to the need for advocacy for influencing the design and coverage of official social protection programmes in favour of the ultra-poor and most marginalized people.

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