USAID
FROM THE AMERICAN PEOPLE

PATHWAYS OUT OF POVERTY

CASE STUDY

LIVELIHOOD PATHWAYS: SEQUENCING FOR SUSTAINABLE MARKET INTEGRATION OF THE POOREST[1]

INTRODUCTION

Grameen Foundation (GF) is working with almost two hundred of the poorest households in Bihar, one of India's poorest states, to test an integrated financial services and livelihood development approach. In the Livelihood Pathways for the Poorest project GF partners with The Livelihoods School (TLS), a training institute of the BASIX Group (a leading Indian microfinance institution), to provide customized savings tools and loan products to support entrepreneurial activities, livelihood education and market linkages, and women's empowerment activities to lead to sustained movement out of poverty.

While the BASIX group of companies already delivers a comprehensive range of livelihood and financial services to its clients through its TRIAD Livelihoods strategy, this project builds on that expertise to test how to tailor these services to the very poorest households—particularly through female heads of households—while also making sound business sense for the institution. Core activities under the institutional development, livelihood promotion, and financial inclusion pillars are sequenced to take households from a current position of cash-flow deficit and low skills/confidence to surplus income through their engagement in stable, higher-value livelihood activities. Sequencing ensures that a participant does not move from one step on the pathway to another until she has acquired the skills, confidence and appropriate support networks to do so. The financial services are also tailored to this population and their capacity to repay, and thus differ from the traditional BASIX financial product offerings. These services will make the model scalable by building a business model that would make sense for any double bottom line enterprise to implement. This case study explores the methodology being tested, focusing on the sequencing of activities and those elements that promote market linkages and build cost recovery components. The project is midway through implementation as of December 2011, and lessons learned are still in an early stage, however, this study further highlights the data needs and questions to be considered through project end.

THE INTEGRATED LIVELIHOODS METHODOLOGY

The aim of the project is to design and sequence an appropriate set of products and services to enable extremely poor clients to engage in productive, stable livelihoods and generate increased income in a sustainable manner. The Integrated Livelihoods Model for the Poorest (ILM) developed through the Livelihood Pathways pilot project offers a suite of strategically sequenced products and services to facilitate household elevation out of poverty through a gradual approach (see Appendix A). These include institutional development, psychosocial support, livelihood promotion, and livelihood financing.

TARGETING

Through the Livelihood Pathways pilot project, the GF and TLS team have developed and tested a composite poverty assessment and targeting tool to facilitate the identification and inclusion of the poorest households currently excluded from microfinance services and government social welfare schemes. The process and tools incorporate methods to contextualize poverty and the way it is assessed by using Participatory Wealth Ranking (PWR) and GF's Progress out of Poverty Index®

[1] This paper was written by Luckshmi Sivalingam and Kate Griffin of Grameen Foundation (acknowledging Dhruv Sengupta and Avinash Kumar from TLS for their contributions) for ACDI/VOCA with funding from USAID under the Accelerated Microenterprise Advancement Project (AMAP) Knowledge and Practice II task order. The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

(PPI®). In the case of the Livelihood Pathways project, PPI criteria aligned with an eligible household having a 65.2 percent or greater likelihood of falling below the international $1.25/day poverty line (in purchasing power parity). Additional filtering methods were used to ensure that interventions would reach households not only living on less than $1.25/day, but living well below *localized* definitions of poverty. This methodology has been documented in a use case[2] to demonstrate *one* way for institutions to identify and thus engage the poorest households in an area in an efficient and replicable way. Of the 197 households who met the selection criteria, 187 have been successfully mobilized into the project.

INSTITUTIONAL DEVELOPMENT

Through the first phase of institutional development, project field staff formed clients into Adapted Self-Help Groups (ASHGs). ASHGs typically have no more than 8 to 10 members and serve as an efficient conduit for the delivery of livelihood and formal financial services to individual clients. The project provides training on institutional strengthening at the ASHG level as well as on a client-focused basis to prepare individual members to successfully engage in the sequence of interventions. TLS orients clients on the value and purpose of an ASHG, the benefits of aggregation through group association, and engagement as a means for peer-to-peer support, learning, and effecting change in the community. Clients are trained in financial literacy to strengthen their understanding of the importance of household cash flow management. ASHGs also serve as a forum for engaging in voluntary group savings as a risk management tool. This, along with inter-group lending and facilitating the opening of group bank accounts, has inculcated both group and individual financial discipline and further enhanced financial literacy. Finally, the ASHGs emphasize livelihood promotion and serve as a space to introduce and train clients in new income-generating activities. This is done by a Livelihood Service Provider, employed by the servicing institution, who helps anchor livelihood support mechanisms to sustain clients' successful engagement in these activities. At the time of writing this study, the project is testing the appropriateness of utilizing the ASHG as a platform for formal loan appraisals, disbursement, and repayment.

ASHGs are graded on a scale of A (strongest) to C (weakest) using criteria that reflect the regularity of meeting attendance, savings, inter-loan disbursements and repayment, and record-keeping. The grading system allows the project to measure a group's preparedness, and that of its individual members, to manage formal livelihood financing introduced later in the sequence.

LIVELIHOOD PROMOTION

The program development phase involved an extensive local market situation analysis (MSA) to determine the best opportunities to reduce household deficits and generate new sources of income for these households. This information was triangulated to generate a shortlist of viable, relatively low-skill activities that are supported by favorable market conditions[3] and local resource availability. This exercise revealed that most households were already engaged in many of the viable livelihood activities identified through the MSA, but their engagement was largely confined within local structures that were unfavorable to the very poor. Livelihood promotion services have been designed to help this segment add value to these existing activities through the facilitation of stronger, direct market linkages, negotiation of higher, industry standard wages, and upgrading of skills and quality production. Over two years, participating households are expected to generate additional incomes from new livelihood activities of at least $520[4] and build a minimum productive asset worth of $200.

Livelihood promotion is sequenced to first enhance existing or introduce new supplemental income-generating (SIG) activities requiring nominal investment before introducing entrepreneurial income-generating (EIG) activities that require greater investment, training, and external financing to implement. Before engaging households in new activities, livelihood plans

---

[2] Sivalingam, L. Grameen Foundation. "Targeting the Poorest: A Solutions for the Poorest Use Case," 2011: http://grameenfoundation.org/sites/default/files/Targeting_the_Poorest-A_Use_Case_FINAL.pdf

[3] Unlike a standard market research, which responds predominantly to demand, the MSA additionally reveals which activities/industries already exist in a market and the extent to which increased supply will not adversely affect market prices or surpass existing demand.

[4] Amounts are in USD, converted from INR using the exchange rate of INR 50 to USD 1 (as of November 26, 2011).

are collaboratively developed for each household that outline existing livelihood activities, skill sets and cash flows, which are subsequently matched to viable new activities. This incremental upgrading from lower skill/lower income to higher skill/higher income activities is one of the most noteworthy and unique sequences of the project design.

At baseline, the average annual household deficit was $23 (ranging, however, from $4 to $200), largely due to outstanding loans from local moneylenders at interest rates as high as 120 percent. Before SIG activities are introduced, the project facilitates linkages to government welfare schemes that offer subsidies, access to employment, and other services that help to reduce household cash deficits. This sequence helps to rapidly increase household income while enhancing clients' self-confidence and trust in the implementing institution. This approach also moves away from creating an immediate dependence on credit to meet daily consumption needs and avoids disrupting clients' existing income-generating activities without requiring the program to put in a cash subsidy. SIG activities are chosen based on their low barriers to entry, low skill requirement, and access to local viable markets. Examples include incense stick rolling and gunney bag gardening. Once SIG activities are established, household and individual client confidence are significantly enhanced through increased skills and income and a developing sense of achievement and financial security.

Once ASHGs graduate into the 'A' grade category, members' household livelihood portfolios expand into EIG activities requiring comparatively higher, longer-term investment capital. At this juncture, households are well-prepared to service formal loans to help finance their engagement in EIG activities. Should the household face a shock, the client can mobilize her newly established savings fund or an inter-group loan as two risk management options. EIG activities primarily focus on livestock, such as goat rearing and pig and poultry farming, a familiar activity in demand throughout the year, and backyard kitchen gardening, which requires little land. To assist clients in understanding the gains and challenges of each activity and in choosing an appropriate bundle of livelihoods for their households, the project engages the clients in exposure visits that demonstrate each supply chain. Clients also observe the sales of the end products and learn how to assess the quality of produce, pricing, costing and revenue margins, and in the case of livestock, health and feed management. The combination of exposure visits and livelihood promotion services trains them on value addition methods and processes to ensure higher end-product quality and market value. Households are better capacitated to transition to EIG activities that generate higher incomes and sufficiently fill gaps in income flows throughout the year.

FINANCIAL INCLUSION

To support clients' uptake of EIG activities, a series of in-kind credit and microinsurance products are extended as part of the financial inclusion services. The Livelihood Pathways project will test innovative loan products that utilize indigenous methods of financing livestock and could help the program recover the cost of implementation and support systems. Assets are loaned in-kind and bundled with livelihood promotion services. Repayment schedules are matched to household cash flows and timed to sync with projected returns on the loans, taking into account adjusted income patterns due to SIG activities and projected inflows from EIG activities over the course of the loan term. In most cases, the loan product is designed (amount, term, repayments) to account for the livestock and poultry production and marketing cycles. Households are able to pay the interest payments from the income from the SIG activities and other government safety net programs.

ENTREPRENEURIAL DEVELOPMENT AND CONFIDENCE-BUILDING

Confidence building and entrepreneurial development services, which cut across the entire program and are embedded in the other three services, are ongoing to strengthen the confidence levels and entrepreneurial inclination of the clients. The project provides counseling, both at the ASHG and individual household levels, and exposure visits to interact with members of more mature groups. A critical element of these services is to clarify negative, pre-conceived notions of savings and credit that the extreme poor often have. Addressing psychosocial constraints, facilitating the realization of one's potential, and nurturing a sense of empowerment and self-confidence helps to change the mindset of the extreme poor and garner their commitment to engage in program interventions and to take the necessary steps to ascend out of poverty.

MEASUREMENT AND SUSTAINABILITY

THE BUSINESS CASE AND THE POTENTIAL TO SCALE

A key element of the Livelihood Pathways project is the shift away from serving the poorest through grants or subsidy-driven approaches and towards one that can be integrated within a viable business model. This demonstrates that an institution can serve this population through a customized suite of products as part of its core business and still achieve a double bottom line. Through the pilot project, GF and TLS are developing the tools, training modules, and guidelines to support the institutionalization of the model as a standard product offering of BASIX with the goal of replicating the approach with other services providers in the industry.

There are a number of high-cost elements to the model as well as anticipated revenues to cover these costs. Livelihood promotion services and operational costs to service clients with customized loan products are expected to be recovered through interest payments on the loans. At this stage, it remains unclear whether cost recovery of more labor-intensive interventions such as household livelihood planning, institutional strengthening, and household trust-building is possible in the model. The business model will forecast projections over approximately a five-year period to assess long-term client profitability based on scale of operations, product types, loan features, and channel of lending. Reaching the breakeven point will depend on whether there is a net cost to serve clients or whether it is a fully cost-recoverable model, which can be determined once actual costs to deliver and repayment rates are understood over the following 12-18 months. If there is a net cost to the service provider, several options will be considered to create the business model:

- Cross-subsidization (e.g., how many mainstream clients the institution must serve in order to serve a client in this program)
- Customer acquisition costing (e.g., the cost to recruit and retain a customer of this poverty level)
- Long-term customer profitability (e.g., how long this person must remain a client in the mainstream program to recoup the cost of this initial program)

This will, in turn, be used in assessing the merit of scaling up and replicating the approach tested in the pilot.

HOUSEHOLD MONITORING AND EVALUATION

The project monitors (proxy) indicators on a monthly and/or quarterly basis to assess impact and inform any modifications to the model throughout the course of the project. Outcomes and indicators include improved household financial position (income, cash flow deficits, savings, PPI scores, assets, change in income from new livelihood activities); increased household food/nutrition security (changes in quantity and quality of food consumption); improved household creditworthiness (timely repayment of loans); and improved household entrepreneurial capacity/confidence (changes in capability to demonstrate initiative; number of livelihood activities household engaged in).

LESSONS LEARNED AND CONCLUSION

In attempting to provide a sustainable combination of financial and livelihood development services to the poorest populations to propel them on a pathway out of poverty, the GF-TLS team has been rigorous in its efforts to learn and understand what perpetuates poverty, the attributes of poverty, the minimum needs of the poorest, and how to translate this knowledge into effective products and services. Key lessons learned to date are outlined below.

Building Trust and Buy-In: The project team's ability to gain acceptance and transfer knowledge sustainably to the participating households relies heavily on the use of local people who serve as community mobilizers, trainers, and government liaisons. Cultivating relationships with local leaders and community mobilizers for the delivery of services is critical in building trust and buy-in. Routine household visits must also engage all members of the household—not just the client—to collaboratively develop solutions for household concerns preventing engagement in activities.

Gender Balancing: While the project aimed to empower women clients, the ultimate beneficiary is the entire household and support from men is critical to ensure sustainability. Early on in the project, male community members often stormed into ASHG meetings, threatening to beat women for not tending to their household chores. Because the men were unaware of the meeting proceedings and little information had been shared with them, they felt excluded in what appeared to be a zero-sum engagement of women and an effort to enhance their sense of empowerment at the cost of traditional male decision-making. To improve transparency and gain male buy-in, the project adapted to proactively include male members in household activities like livelihood planning and cash flow management, and ensured males were not excluded from interventions directed at mobilizing clients and building their capacity.

Enhancing Confidence: Along with building trust, efforts to tackle psychosocial constraints have involved intense confidence building of the clients. This has been tackled in two key ways:

Savings and Inter-lending. With the poorest, keeping the savings habit flexible is an effective initial strategy. Whereas the first months of ASHG meetings required regular savings, which discouraged members from participating, voluntary saving encouraged broader participation and resulted in three particular savings patterns. While a minority of members are engaged in weekly or monthly *'routine'* savings in standard amounts (on average $0.20), some members deposit *'advanced'* savings if they have cash on hand or will be absent from a future meeting. The third pattern is *'at par'* savings, where members who have built up the confidence and ability to save by watching their peers will make their first contribution 'at par' with the amount regular savers had saved to date to affirm their parity as a member. Cumulative savings in the first six months amounted to $175 deposited by 111 members. Inter-lending within the ASHGs from the savings fund, primarily to help meet health costs, has helped households achieve financial discipline in servicing these loans in a timely manner. Inter-lending in the first three months has amounted to $86 taken out by 14 members and, to date, all interest and principal repayments have been made on schedule. Participating households not only see the value of the flexible individual and group savings and inter-lending, but also have gained confidence in their own capabilities.

Exposure Visits. Exposing the project clients to other group members of similar socio-economic backgrounds increased their acceptance of the ILM approach and confidence to participate, as they saw similar women engaged in common livelihood activities. During the kitchen garden exposure visit, the women quickly found affinity through local folk songs and began relating with others who have traveled a similar life path and could be perceived as "guides" on their own journey. As host group members shared how increased household income allowed them to finance their children's education and other critical needs, project households began to perceive the potential benefits as realistically achievable and worthwhile.

Household Migration: The project team found household migration to be a much greater phenomenon among the participating households than originally anticipated. While some households migrate for a couple of weeks at a time and return fairly frequently, others migrate for up to six months at a time. This affects group formation and the possibility of sequentially implementing program activities. The project team is exploring the option of developing "detour" plans for shorter-term migrating households to assess the possibility of their continued engagement in a sequenced track to enhanced livelihood opportunities. Adapting to socioeconomic phenomena, like household migration, is especially challenging but critical when dealing with vulnerable populations.

Sustainability—Potential and Challenges: Designing the Integrated Livelihoods Model in parallel with implementation of the Livelihood Pathways for the Poorest project has both revealed valuable learning and posed a series of challenges and questions to be rigorously thought through over the remaining 24 months: What is the viability of a market-based solution to serving the poorest? Is sufficient cost recovery feasible given the depth of customization and level of effort required at the household level? Is the efficient delivery of such a wide array of products and services not typically offered by most MFIs possible through a consortium of service providers? Demonstrating the financial viability of serving the poorest segment through standard product offerings provides an opportunity to tip the industry and pave a pathway for practitioners to create sustainable opportunities for those most in need.

APPENDIX A. INTEGRATED LIVELIHOODS MODEL FOR THE POOREST (ILM) 'AT A GLANCE'