Pakistan Microfinance Network

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MicroNOTE

TARGETED INTERVENTIONS IN THE PUBLIC & PRIVATE SECTOR

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Introduction and Background

Governments around the world use social protection programs to achieve various welfare objectives. Such programs are built off of policies that are applied to a wide range of contexts ranging from food stamps to aid for disaster rehabilitation. These programs have a broad objective of protecting vulnerable segments from livelihood risks and maintaining their standard of living to enable them to participate as engaged and productive citizens in society.

As an example, Pakistan Government established the Benazir Income Support Program (BISP) in 2009 to provide unconditional cash transfers to chronically poor families that were living below the poverty line. The immediate objective of the program is to help approximately 5.2 million families to afford basic necessities such as food and fuel and moderate the effects of inflation on their daily living. Indeed, just when the program began in 2009/10, Pakistan had already made considerable progress in reducing poverty as the sharing of people living under a globally established poverty line of US $ 1.25 had fallen from fallen from 64.7% in 1990 to 12.7% in 2010.[1]

BISP's success in targeting, monitoring and effective service delivery is a success by the most developmental benchmarks. However, before the advent of BISP, Microfinance was seen as an effective tool to alleviate poverty. In the late 90s, Microfinance Practitioners in Pakistan adopted a pro working-poor approach like BISP, albeit in the form of loans (primarily based on social collateral) instead of cash transfers. Since then, it has grown in large proportion – from just over 0.5 million borrowers and less than 10 providers in 2005, it has reached 4.3 million borrowers in 2016 and more than 50 Microfinance Practitioners. The increase in the trend in (real and nominal) average loan sizes shows that Microfinance is as much about social inclusion as it is about financial inclusion.

The current government has also introduced subsidized lending programs administered by provincial and federal authorities. In some instances, they have even co-opted with MFPs to take advantage of

1 World Bank, 2015a

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their experience and infrastructure. This can potentially distort the existing microfinance market in areas where there is a geographical overlap between programs. Indeed, some government programs also cross-cut each other. For instance, there are two youth loan schemes, one each at the provincial and federal level that are not very different from each other. Potential borrowers when faced with a choice will have a preference for cheaper loans. Even though multiple streams of employment promoting schemes present more choices to middle and low income households, careful planning of state initiatives can offer social and economic mobility to poor households. For instance, interest free loan schemes can be targeted at those households that have graduated out of a cash transfer program like BISP.

The objective of this paper is to analyze select social protection and loan-related employment generation programs that are geared to improve social welfare and economic outcomes of low and middle income households. A review of some programs and initiatives is done in Section 1. Section 2 will offer a case study on Bangladesh Rural Advancement Committee's (BRAC) graduation model. This model offers a compelling case demonstrating the need for harmonizing programs to track beneficiaries and offer them social and economic mobility. Section 3 is a discussion on the scope of harmonization and coordination within the programs discussed with some specific examples from the international context. Section 4 will provide Key Recommendations.

Section 1 – Program Mapping

This section analyzes different social safety and employment generation programs. There were three reasons for selecting these programs[2] . First, the magnitude and size in terms of the number of beneficiaries served and potential beneficiaries that can be served. The second reason was to be able to demonstrate overlap between certain initiatives at different levels of the government. Some programs also have a direct geographical and beneficiary overlap with private sector initiatives resulting in duplication of resources that could be curbed. Third, the programs in some categories have opportunities for linkages that are discussed in Section 3.

Loan related Employment Schemes

Prime Minister Interest Free Loan Scheme (PMIFL)

The Prime Minister's Interest Free Loan (PMIFL) Scheme was launched in 2014 by the Government of Pakistan to help eradicate extreme poverty in the country, and to directly address the issue of rising unemployment by leveraging local investments in livelihoods and enterprise development.

2 An exhaustive list of social safety programs can be found in Ministry of Finance's 2015 Social Safety Task Force Paper

Productive micro-enterprise activities under this scheme are being supported by a maximum loan of Rs. 50,000 for individuals living in households falling in score of up to 40 on the National Poverty Score Card (PSC), with at least 50 per cent of the loans mandated to be disbursed to women. The PMIFL aims to reach out to 1 million borrowers over a period of 4 years in 63 priority districts having low indicators of human development and food security and low or no access to microfinance. The provincial breakup of these priority districts shows that 13 are in Punjab, 11 in Sindh, 15 each in KP and Balochistan, 5 in Azad Jammu and Kashmir and 4 in Gilgit Baltistan.

The Pakistan Poverty Alleviation Fund (PPAF) was chosen to implement this scheme through its network of credible Partner Organizations (POs). As of end August 2016, the PPAF through its participating 27 POs[3] has managed to disburse 207,720 loans throughout 287 union councils in 44 districts across Pakistan.

Prime Minister Youth Loan Scheme

The Prime Minister Youth Loan Scheme is loan scheme introduced by the government 2013 for promoting small businesses and providing entrepreneurial opportunities to unemployed and educated individuals between the age of 21 and 45. A ceiling of Rs 2 Million has been set on the loan amount and a quota of 50 per cent has been assigned for women borrowers.

The program is dissimilar to PMIFL in the sense that the borrower has to pay interest on the loan (6 per cent annual rate of interest), contribute 10 per cent equity and demonstrate a viable business case for the loan application to be successful. In that sense, this scheme is more goal-oriented than PMIFL.

However, there are two similarities between this scheme and PMIFL. First, this is also a subsidized loan scheme although the subsidy is not 100 per cent - the government bears the difference between full cost of the loan and what the borrower is charged (6 per cent). Second, the government has co-opted commercials banks as implementing partners. One of those banks, the state owned National Bank of Pakistan has formed partnerships with corporate entities such as Nestle Ltd. to enhance outreach of this program.

As of 2017, 272,092 loans have been disbursed under this scheme with a recovery rate of 99 per cent.

3 Out of these 27 POs, 7 are not members of the Pakistan Microfinance Network that accounted for over 49,000 of the loans disbursed under this scheme, as of end August 2016.

CM Punjab E-Credit Scheme (Provincial Program)

The Punjab E-Credit Scheme was initiated in 2016 to provide support to small farmers with interest free loan of up to Rs. 325,000 payable in three installments on a seasonal basis. The program's secondary objective is to increase the outreach of formal and digital financial services to expand financial inclusion. Besides the loan, the scheme also ensures that farmers are provided with weather updates and other crop related information on their smart phones through real-time monitoring and performance evaluation by Telenor, the program's Telecommunication Partner.

The land threshold for small farmers is set between 2.5 and 12 acres; therefore, farmers falling outside the threshold do not qualify for this loan. The eligibility criterion is not restricted to land owners; instead, the scope is broadened to include share croppers and tenants as well. The loans are disbursed through open mobile wallet accounts that are linked with "Asaan Account", an actual bank account with simple account opening requirements.

The Government has 5 implementing partners for this scheme namely Akhuwat, National Rural Support Program (NRSP), Zarai Taraqiati Bank Limited (ZTBL), Tameer Microfinance Bank and National Bank of Pakistan (NBP). The target is to disburse over Rs. 50 Billion over 5 years.

So far over Rs 16.5 billion have been disbursed to 310,000 farmers since the start of this scheme. Of these farmers, 172,000 were financed in Rabi (2016) season, while 138,000 farmers were financed in Karif (2017) season.

CM Punjab Self Employment Scheme (Provincial Program)

The motivation for this scheme is similar to the PM's Youth Loan Scheme – to provide interest free loans to aspiring entrepreneurs and micro/small businesses to expand their operations, except this scheme does not focus exclusively on youth. However, graduates of vocational institutes like Punjab Vocational Training Council (PVTC) and Technical and Vocational Education and Training Authority (TEVTA) are given preference. The program was started in 2011 through one microfinance practitioner, Akhuwat, as the only implementing partner. To date, over 1,350,000 loans have been disbursed amounting to Rs. 28 Billion. Over half the beneficiaries of the loan scheme are women.

Social Safety Programs

Benazir Income Support Program (BISP)

Benazir Income Support Program (BISP) is Pakistan's main social safety net program providing cash transfers to over 5.4 million families (first quarter 2017). It was started in 2008/9 to protect poor families from the negative effects of inflation in the prices of food and fuel. Beyond the immediate short term objective of maintaining the standard of living of poor families, its medium to long-term objective is reduce poverty and pull low-income families above the poverty threshold. A cash transfer of Rs. 4,800 is disbursed on a quarterly basis to a female member of the target household. This female is usually the woman head of the household. The general idea behind this strategy is to support women empowerment in the country.

A subset of beneficiaries from this program is also chosen for subsidiary programs namely Waseela-e-Haq (entrepreneurship scheme), Waseela-e-Rozgar (technical and vocational initiatives), Waseela-e-Sehat (health insurance program) and Waseela-Taleem (children's education program).[4]

The targeting mechanism of BISP has been significantly strengthened over the past few years. At inception, parliamentarians were given the responsibility of disbursing the loans to members of their respective constituencies. After some time, the program's administration adopted a more systematic approach to identify eligible households by using a poverty scorecard approach. This approach involves assigning a 'score' to each household based on some measureable characteristics such as household roster, age, and education, employment and asset accumulation. The scorecard was applied in a door-to-door country wide survey covering 27 million households (covering almost the entire population in Pakistan) and based on a cut-off score, 7.7 million households were identified as eligible for BISP cash transfers. These data were turned into a registry named "National Socio-Economic Registry (NSER) which is the country's most comprehensive and reliable database on low-income households.

Pakistan Bait-ul-Maal

Pakistan Bail-ul-Maal (PBM) is a social safety program that is run by an autonomous body empowered through an act of legislation in 1991. Under the umbrella of this program, various pro-poor services are provided to destitutes, widows, orphans and disabled persons. Aside from monetary assistance in the form of stipends, PBM also facilitates students in need as well as medical and diagnostic check-ups for the poor. Its multiple projects include:

4 Waseela-e-Haq and Waseela-e-Rozgar have been discontinued

1) PBM Great Home: This is a Senior Citizens Facility in Lahore with plans of expansion to other districts;

2) PBM Thalassemia Centre: In collaboration with Novartis Pharma, a Thalassemia centre has been established was established in 2015 in Islamabad. Through this program, PBM has also provided assistance to over 1500 Thalassemia patients in Pakistan;

3) Special Friends of PBM: In addition to a yearly stipend of Rs. 25,000 to a "Special Family" (a family that has 2 or more disabled children), wheelchairs, hearing aids and walking canes are distributed to eligible persons.

4) Pakistan Sweet Homes: 33 orphanages were set up as part of the pilot program. In these homes, children are not only provided with meals and lodging but education as well.

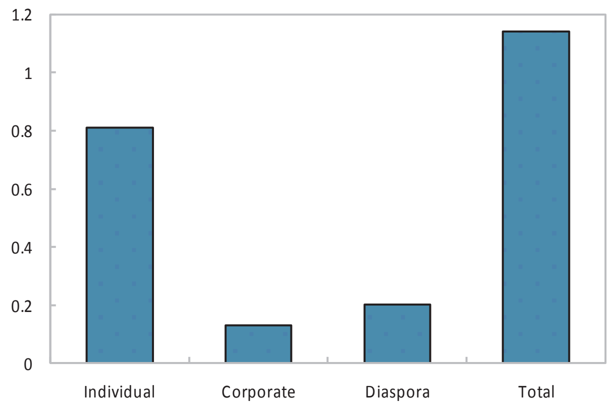
PBM also has a cash transfer program – Individual Financial Assistance (IFA) that targets individuals with a monthly income of Rs. 10,000 or less. This program is federally administered and financed with provincial administration and district governments playing the roles of coordination and targeting.

Zakat

Zakat is a cash transfer program established in the 1980s based on the Islamic principles of wealth distribution and social justice. It is overseen by the Ministry of Religious Affairs and is reliant on voluntary private contributions. Its mandate is similar to that of Bait ul Mal (PBM) – to provide financial support to the poor and needy. It differs from PBM in that its patronage is targeted towards Muslims. Zakat stipends are given for household expenditure, education and health support.

Philanthropy is sizable in Pakistan

(disbursments under philantropic initiatives; percent of GDP)



Sources: Pakistan Centre for Philantrophy (2016).

Disbursements for under this program are done through local zakat committees as well as indirectly through educational, vocational and health institutions. In a vein similar to PBM, Zakat suffers from a weak targeting mechanism and high degree of subjectivity in provision. Moreover, disbursements through the formal Zakat program have also been declining with the number of beneficiaries going down from 0.8 million to 2.5 million in the mid-2000s. It must be mentioned that private contributions strongly support philanthropic initiatives and charities like the Edhi Foundation under Zakat. These are discussed in the following section.

Private Initiatives for Charity

In addition to public social safety nets, sizable private philanthropic initiatives are also an important part of the welfare system in the country. Private philanthropy in Pakistan stands at 1.1 per cent of the GDP, which is more than twice the size of BISP. In particular, individual philanthropic initiatives are 0.8 percent of the GDP while philanthropy by Pakistani diaspora is 0.2 per cent of GDP.

The total magnitude of philanthropy in Pakistan was Rs. 240 billion in 2014. In terms of total size, monetary and time donations (volunteering) constitute the bulk of donations. The provinces with the greatest contribution are Punjab and Sindh.

State Bank Initiatives

Credit Guarantee Scheme for Small and Marginalized Farmers

Credit Guarantee Schemes are state initiatives that provide third-party credit risk mitigation to lenders through the absorption of a portion of lender's losses in the event of a default. This particular scheme is aimed at encouraging lending to commercially viable Small and Marginalized Farmers that would otherwise be unable to avail financing through conventional means, due to small landholdings and lack of collateral

The facility was launched to assist small farmers holding 5 acres for irrigated land and 10 acres for rain-fed land, in obtaining loans of up to Rs. 100,000. The Government of Pakistan through the State Bank of Pakistan (SBP) provides a credit guarantee of up to 50 per cent of the loss. To date, this scheme has facilitated nearly 50,000 farmers.

The implementing partners for this scheme are Microfinance as well as Commercial Banks.

Credit Guarantee Scheme for Small and Rural Enterprise

This is another state initiative that ensures partial repayment of a loan in order to motivate lenders to lend to borrowers which would not have access to credit under normal circumstances. In this case, these borrowers are ones aiming to run small and rural enterprises and rural farmers.

The Scheme shares risk with Participating Financial Institutions (PFIs) by guaranteeing up to 40% of PFIs' fresh portfolio of financing to Small and Rural Enterprises. This type of facility addresses two barriers – 1) inadequacy of collateral and 2) businesses that operate in industries considered to be "high risk" are able to avail credit.

Crop Loan Insurance and Livestock Insurance Scheme

State Bank of Pakistan, in collaboration with SECP, banks, insurance companies and provincial livestock and dairy departments developed these schemes for agricultural borrowers.

The Crop Loan Insurance Scheme provides insurance to farmers (having a landholding of 25 acres) against natural calamities, climate change and plant diseases. Similarly, the Livestock Insurance Scheme provides coverage to farmers who have got financing for up to 10 cattle. Even though the cost of the premium is open to negotiation, the burden of paying the premium will be borne by the Government through budgetary support.

Livestock, in particular, contributes around 58.5 per cent of the agriculture's share in GDP and over 11 per cent of the overall GDP.[5] It is an important means of subsistence in the rural areas for the low and medium income households. According to State Bank of Pakistan, despite its importance to livelihoods and share in the economy, only about 17 (proportion from total available lending budget) per cent of the agricultural lending was directed towards livestock in 2013.[6] However, it should be noted that for fiscal year 15-16, livestock sector grew by 3.6 per cent and it started getting more attention from banks. One of the major reasons for the limited uptake of credit in this sector is the lack of insurance cover for livestock. Through this scheme, an impetus in the credit uptake is expected as the scheme provides coverage against disease, accident and natural disasters.

State Bank of India has launched a program to get its small borrowers, mostly those in the Small and Medium Enterprises Sector (SME), to earn loyalty points on timely repayment of loans. The policy was introduced to provide incentives to SMEs and strengthen the financial sector's ties with the SME sector. Moreover, this benefit is not only

5
6 State Bank of Pakistan, 2014

Microfinance Credit Guarantee Facility (MCGF)

In 2008/9, SBP introduced a credit guarantee facility to encourage Commercial Banks and Development Finance Institutions (DFIs) to lend to both Microfinance Banks and Non-Bank Microfinance Institutions (NBMFIs). This facility was introduced to ease the finance constraints of the Microfinance Industry and help the institutions expand outreach.

Under this facility, SBP provides a guarantee of 40% of the principal amount in default in case of Partial Guarantee or up to 25% of disbursed amount in case of First Loss Default Guarantee on the credit facility extended by the lending institution to an eligible MFP. To promote lending to medium and small institutes, credit guarantee coverage has been extended to 60 % of the principal amount. Guarantees such as the MCGF minimize the risk that Commercial Banks face when lending to MFPs. Even though Banks follow their own due diligence criteria for evaluating lending prospects, leveraging this guarantee has proved to be successful for the Industry.

The facility has played a crucial role in promoting commercial lending to the microfinance sector. As the microfinance sector represented a newer segment for commercial lenders and many of them were not familiar with the dynamics of the industry, the guarantee provided the necessary comfort to the lenders. A number of MFBs as well as MFIs availed funding lines secured by the guarantee with one player also issuing bonds secured by MCGF. As a result of today, a number of Tier 1 MFPs have now been able to graduate to avail clean lines from various commercial lenders and tap debt capital markets.

limited to urban enterprises only but has been extended to the rural sector as well with beneficiaries in the agricultural sector. The broad objective of India's State Bank is to create an environment where the focus would be on increasing the penetration of technology and electronic services in the provision of financial services coupled with a reduction in the pace of opening new physical locations of banks.

Microfinance as a Private Sector Initiative

Microfinance Industry in Pakistan has over 50 providers that have disbursed 1.4 million loans to 4.5 million borrowers.[7] At its inception in the late 90s, a handful organizations were providing small loans to the poor with a mission of alleviating poverty. Since then, the industry has

7 Pakistan MicroWatch Q3, 2016

grown in large proportion – from just over 0.5 million borrowers and less than 10 providers in 2005, it has reached more than 4.5 million borrowers in 2016 and over 50 Microfinance Practitioners. The increase in the trend in (real and nominal) average loan sizes shows that Microfinance is as much about social inclusion as it is about financial inclusion.

The growth in the industry has made it diverse as Microfinance Banks and Rural Support Programs exist as members of a strong industry association in Pakistan Microfinance Network (PMN). The industry is also well regulated with Banks coming under the domain of SBP and Non-Bank entities under the NBMFI Regulation of the SECP. Pakistan's regulatory framework has been acknowledged and received international acclaim for the past several years.[8] The addition of digital delivery channels through branchless banking has led CGAP to label the country's microfinance sector as the "laboratory of innovation".

Microfinance Providers in Pakistan have always positioned themselves as operators of a double bottom line industry where the social returns of providing access to financial services are just as valued as the revenue objective. They have been extending unsecured loans and operating on social collateral for more than two decades now. Moreover, the operators also have the field infrastructure to identify passive borrowers and unfold latent entrepreneurial skills. For instance, most microfinance borrowers run informal enterprises with little or no documentation of the business or source of income. More so, their previous interactions with financial institutions like banks are also limited. Therefore, targeting this self-employed-working-poor niche through commercial banks would probably not be ideal if the government wants to run its own employment and social programs on the side without including MFPs.

Positive Spillovers of Microfinance

Employment generation programs like microfinance can have spillover effects in other sectors as well.[9] Pakistan has witnessed a widespread increase in the presence of low cost private schools in the past decade, in both urban and rural areas. However, there have been limitations in terms of the level and type of support (both financial and technical) available to these schools. In 2014, it was estimated that the sector's requirement of funding exceeds PKR 77 billion for over 70,000 low cost private schools operating in the country.[10]

8 Economist Intelligence Unit

9 "Financing Low Cost Private Schools (LCPS) Through Microfinance", Pakistan Microfinance Network, 2014

10 'Access to Finance for Low Cost Private Schools in Pakistan', 2014

In recent years, enterprise lending is a segment that microfinance providers are tapping into, as a way of achieving further growth and creating product diversification. There is room for MFIs to step into the education sector and cater to the financial needs of these schools. The initial financial requirements of these low cost private schools are less than PKR 300k, which is typical of the SME sector. This amount falls within the range of enterprise lending guidelines set by SBP, which allow MFBs to lend up to PKR 500,000 for this sector.

Several MFPs, especially the microfinance banks, have already begun taking steps that will enable them to reach out to the higher end of the microfinance market (the MSMEs) by creating enterprise loan products and employing the individual lending methodology for higher loan amounts. However, given the size of the potential microfinance market within the LCPS sector, there is scope for MFPs to introduce a sector-specific microcredit product or modify their existing microenterprise loans, to effectively engage with the low cost private schools.

The availability of loan products, with appropriate loan amounts and terms and conditions that address the specific needs of this sector would allow school owners to achieve the type of growth their enterprise has the potential to achieve.

Donor Interventions

Pakistan Poverty Alleviation Fund (PPAF) has been a provider of wholesale funds for microfinance operations for the more than a decade. Its focus has been to provide credit to partner organizations with a focus on lending below the prime lending of banks. Even though microfinance operations in PPAF have been spun off into a new for-profit entity name Pakistan Microfinance Investment Company (PMIC), PPAF's achievements as an enabler and partner merit a mention.

In 2008, in partnership with International Fund for Agricultural Development (IFAD), PPAF introduced the Programme for Increasing Sustainable Microfinance (PRISM). The primary goal of this programme was to reduce poverty, promote economic growth and improve the livelihoods of rural households. The means of achieving these objectives was not only through grants, but also through equity injections and credit guarantees to ensure on-lending by commercial organizations to PPAF's partner organizations.

A similar programme was introduced 2 years prior to PRISM and had welfare objectives that were not to dissimilar. This programme was called Microfinance Innovation & Outreach Programme (MIOP) and was introduced with the aim of improving the lives of rural poor by encouraging the PPAF's partners to experiment with different approaches to financial services that included livestock insurance, leasing arrangements and equity partnerships.

Section 2
Graduation Approach of BRAC
A Case Study

Bangladesh Rural Advancement Committee (BRAC) developed an extremely successful 'graduation model' in 2002. This graduation model is based on the premise that low-income households need a sequenced or tiered level of intervention to graduate out of poverty and transition into sustainable livelihoods. The model is structured around five core building blocks that involve targeting, consumption support, savings, skills training and asset transfer:

- **Targeting:** Poverty maps are used to select areas with high incidence of poverty. It should be noted that households with access to microfinance are excluded since the target population has to be financially excluded.

- **Enterprise selection and training:** The program supports a range of enterprises which differ in terms of cash flow, risk factors and intensity of time, effort and skills required to meet the varying needs of clients. Participants and staff collectively decide which economic activities to pursue. Program staff provides participants with 3-5 day orientation training. This is followed by frequent visits and cluster meetings to monitor progress and provide technical advice.

- **Asset transfer:** Once the training is provided, program staff purchases livelihood assets for the women. This could be a small cow, a couple of goats or a small investment to start some small trade.

- **Consumption support:** The program provides a cash stipend until returns from the asset transferred start flowing in. The stipend encourages the investment of more time and effort towards the assets, regular participation in meetings, a higher tendency for saving, and ensuring basic consumption levels are met till the new stream of income kicks in.

- **Savings:** BRAC motivates the beneficiaries to develop a savings culture. They institute a mandatory savings of 10 takas per week so that members can accumulate savings that can be used in emergencies.

This program has successfully covered over 800,000 households since it started in 2002.[11] After its success in Bangladesh, this approach has been adopted in slightly varying forms in different countries across the developing world.[12] This includes countries like Ethiopia, India and Pakistan. In fact, Ethiopia plans to expand the program and make it part of its social safety net program to benefit over three million people.

Studies conducted on the impact of this program have showed impressive results. Randomized Control Trials (RCTs) from 2007 to 2014 were carried out tracking 21,000 people—both graduation participants and control groups—in six countries: Ethiopia, Ghana, Pakistan, Honduras, India and Peru. The return on investment was positive in nearly every case (The only exception was the program in Honduras, where the imported chickens intended as an income-generating asset died from illness). Compared with the control groups, graduation participants demonstrated higher income, improved health and happiness, increased rates of savings and greater food security. Increased consumption was not only achieved, but also maintained one year after the program's end. In some cases, gains in areas like food security and household assets remained for as long as three years after "graduation".[13]

The success of the graduation approach can be gauged by its adoption and uptake across the developing world. Its example is particularly relevant to the discussion on social interventions in the public and private sector because aside from successful targeting and measuring of outcomes, the sequenced or tiered approach is useful from a public finance point of view.

While it is important that steps for improving a socio-economic progress of a household are clearly laid and outcomes are measured, it is not important that these are achieved through a ubiquitous social program or a private sector initiative. Even in the instance where different components of socio-economic progression of households are carried out by different entities, it is important that resources allocated are effectively utilized, there is differentiation between program objectives and most importantly, for sequencing to take place, program administrators have to engage in information sharing and coordination. As an example, BISP and Microfinance have somewhat different delineations – the former targets households in poverty while the latter is more geared towards low-income households and micro-entrepreneurs.

11 New Pathways for the Poorest: The Graduation Model from BRAC, BRAC Development Institute, 2010

12 "Anti-Poverty Strategy Offers Sustained Benefit for World's Ultra-Poor", CGAP, 2015

13 "The Graduation Model, Part 1: Putting the Ultra-Poor on the Path Toward Financial Stability", The Wall Street Journal

Application of BRAC's Graduation Model: Ethiopia

With the help of a local implementing organization Relief Society of Tigray (REST) and the Debit Credit and Savings Institution (DECSI), researchers in Ethiopia conducted a randomized evaluation to test the impact of a two-year Graduation Model on the lives of the ultra-poor.[14] The sample size was 925 households, of which half were randomly assigned to the treatment group, and half to the control group.

The intervention consisted of five complementary components:

1. **Productive asset transfer:** One-time transfer of a productive asset valued at 2014 PPP US$1,228. Most participants chose sheep and goats, while 24 percent selected oxen and 10 percent selected bees.

2. **Technical skills training:** Training on running a business and managing their chosen livelihood. For example, households who selected livestock were taught how to rear the livestock, including vaccinations, feed and treatment of diseases.

3. **Consumption support:** The entire sample, both treatment and control, received food support (valued at a maximum 2014 PPP US$26 per month) through a separate food-for-work program.

4. **Savings:** Households had to regularly deposit savings in their DECSI bank accounts, totaling 2014 PPP US$1,228 over the two years of the program.

5. **Home visits:** The REST staff made weekly home visits to check up on the participants and to provide them with accountability, coaching, and encouragement. The program ran between 2010 and 2012. The first endline survey was conducted as soon as the program finished, while the second one was carried out around one year later.

Results:

A year after the program ended, average total monthly consumption among treatment households was 18.2 percent higher than the households in the comparison group. Food

14 "Graduating the Ultra Poor in Ethiopia" http://www.poverty-action.org/study/graduating-ultra-poor-ethiopia
"Reaching the Poorest"

and durable goods spending were also higher than in the comparison group. An asset analysis showed that treatment households 68 percent more assets in value than comparison group households. Graduation program households also reported borrowing and saving at higher rates than comparison[10] group households.

One year after the program ended, treatment group households reported spending additional 43 minutes per day on productive activities as compared to the comparison group. The livestock revenue also increased two-fold for treatment households, relative to comparison group households.

Cost-benefit analysis:

In a cost-benefit analysis, it was seen that while the total implementation and program costs came up to be US$884 per household (2014 PPP US$4,157), the estimated benefits of consumption and assets growth amounted to 2014 PPP US$10,805 per household. This showed an overall 260 percent return on investment, making it very beneficial.

Limitations of BRAC's Graduation Model

It is important to point out that there are various challenges, both at the macro and micro level, that accompany BRACs approach, which need to be considered before implementing the program in any region.[15]

- Importance of selecting the right asset, the right livelihood, and have the right infrastructure in place to secure the asset:
    - For example, in one of the country programs, they chose a variety of chicken that had to be imported from a large distance. The chickens died in this process, so the program was not successful.
- Important to consider the local context:
    - In the mountainous Gilgit-Baltistan of Pakistan, the main economic activity has been the rearing of yaks so the program should focus on that. It is important for the program staff to have local expertise and knowledge to identify opportunities and limitations.
- Relatively expensive to administer:
    - The program staff must be trained and equipped with necessary and intensive life coaching skills which they can then train the program participants in.

15 "Reaching the Poorest: Lessons from the Graduation Model", CGAP, 2011

- Family structures have an impact on the returns of the program:
    - o A household where the men are not contributing to the income would not fare as well as a household where both members work.
- Absence of markets:
    - o Without any major public or private sector intervention to help create new markets, household-level enterprises can be severely constrained.
    - o Low market absorptive capacity may lead to enterprise failure.
- Environmentally-challenged or disaster-prone places also tend to lack proper physical infrastructure:
    - o For example, some parts of costal Sindh in Pakistan are barely cultivable because of soil salinity. In such a situation of restricted grazing ground and expensive fodder, raising livestock is not an option.
- Health and school facilities:
    - o Access to these are necessary for graduation out of poverty. Good health services can protect people from shocks that can pull them back into poverty, while schooling can create human capital development and encourage intergenerational mobility. Many of poorest regions face a lack of these facilities, not just in quantity but quality as well.
- Macro-level constraints:
    - o Economic factors such as inflation are hard to control and can significantly affect the poorest households.

Section 3 - Importance of Harmonization and Coordination

Besides BISP, Zakat and Bait-ul-Mal, there are several social protection programs functioning at the provincial levels.[16] However, these programs are being implemented in isolation using different targeting approaches and data. There is very little coordination and cohesion between the administrative authorities for achieving optimization.

Targeting methodology and socio-economic data are vital to the success of any social protection program. This is because the data used by social protection programs need to be authentic and evidence based. BISP started the National Socio-Economic Registry in 2010/11. This registry was the outcome of data compiled from a survey of over 90% of the households in Pakistan. It is the largest registry containing

16 Social Safety Nets in Pakistan: A Way Forward, Government of Pakistan, 2015

the most authentic data needed for efficiently targeting households for a social protection and welfare program. Recently, BISP administration has decided to update this registry to make it dynamic and increase the accuracy of its socio-economic data.

The fact that BISP uses a scientific method of targeting that moves away from the community based methods of identifying beneficiaries, the degree of subjectivity within the program is removed. This subjectivity relates to the variance in implementation of such programs; and exclusion and inclusion errors within the framework. BISP's NSER makes application of the targeting methodology stronger and more valid. A case, therefore, can be made to create a centralized pool at the federal level and an institution like BISP (preferably BISP) declared as the custodian of all federal (and even provincial level) data. In fact, BISP engages with other social safety programs on data sharing arrangements and there might be an arrangement whereby the programs to report their beneficiaries to BISP as well e.g.:

Step 1) A certain program wants to target beneficiaries below a certain proxy means threshold in district A;

Step 2) BISP shares data applying the proxy means and geography parameters;

Step 3) The program effectively targets beneficiaries using BISP's data;

Step 4) The program reports its beneficiaries to BISP increasing the size of its registry

Step 4 can also lead to a reduction or avoidance in duplications and reduce wastage of resources, enhancing the optimality and efficiency of such programs. In continuation of this example, when another NGO or government authority wants to enter this area for developmental reasons, BISP will be able to share the list of individuals or households already benefitting from certain programs.

Steps can also be taken to make the social protection programs in Pakistan more "graduated" and establish clear-cut linkages between them. In the case of the programs that were discussed in this paper, a case can be made to ensure that administrations are well-coordinated and are sharing information to offer mobility to beneficiaries. For instance, NSER's very rich directory can be used to target beneficiaries through the BISP program and some households can be identified on a periodic basis for employment and loan schemes. Tiers can even be formed within employment and loan schemes where certain clients would merit interest free loans while others are charged a partial amount against loan servicing or interest payment. SBP and commercial bank initiatives on insurance can further consolidate SMEs operations to make the owners' income more sustainable and reduce risk and vulnerabilities.

Institutional Efforts

Punjab Social Protection Authority was established by the provincial government in 2013 to harmonize efforts for not only existing social sector interventions but also those planned in the future. This authority has clearly identified the areas in which policy frameworks need to be developed:

- Food;
- Education;
- Health and social assistance; and
- Labour market regulations.

The Government of Khyber Pakhtunkhwa has also conducted a mapping exercise. Based on this exercise, a draft social protection policy has been prepared with plans of a pilot in two districts.

Health Planning, Systems Strengthening and Information Analysis Unit (HPSIU) was set up in 2015 in Islamabad to formulate health policies, set national regulatory standards and facilitate country wide coordination. The Unit acts as a knowledge management hub to produce reliable information on indicators such as health determinants, population's status and health care system performance. It also maintains a dashboards that links to the information systems and dashboards of the provinces. Even though health is a provincial subject, the data gathered by the Unit will provide valuable insights for centralized policy planning undertaken by federal authorities. In addition, the Unit's dissemination function will also assist the government officials and health care practitioners at the provincial level to assign priorities and optimize efforts.

International Evidence

There are international examples of how countries have conducted mapping exercises to consolidate programs, reduce fragmentation and duplication of efforts.

In Romania, the Social Assistance Reform Strategy and Action Plan 2011-13 consolidated all means-tested safety nets into a single program targeting low income households. National Reform Program (2011-13) by Romania included several targets for the year 2020 which were aligned with Europe 2020 strategy. The strategy aimed to reduce the number of people facing the risk of poverty and social exclusion by 580,000, in comparison to figure in 2008. By the end of 2013, it was predicted that there will be a reduction of 100,000 working persons who are dependent on social assistance, as well as the corrective measures leading to fiscal savings of approximately 0.78% of GDP.[17]

Mexican Progresa-Oportunidades program replaced 15 existing inefficient and ineffective programs with a single, effective and integrated conditional cash transfer initiative.[18] Oportunidades, now known as Prospera, is a government social assistance program founded in 2002. It was based on a previous program called Progresa, created in 1997. It aims to alleviate poverty through the provision of cash transfers to families' conditional on regular school attendance, health clinic visits, and nutrition support. Oportunidades has been found to have positive effects in the regions where it was implemented, leading to a reduction in poverty and improving health and educational attainment of children (measured by nutrition levels and school enrollment, respectively). Its initial success meant that it got implemented all over the country, and it currently benefits 5.8 million families – a fourth of the country's total population.

Brazil addressed fragmentation by creating a registry similar to NSER - Cadastro Unico. The reform process in Brazil, Mexico and Romania has provided validation that structural consolidation supported by technical innovations and evidence-based programming results in an effective safety net infrastructure.

Section 4 – Key Recommendations

1. Loan Schemes that are intended to boost employment in micro and small enterprises need to be implemented in conjunction with social safety programs. The starting point for doing this could be tracing out the economic mobility of low income households. For instance, progressive approach of the BRAC's model could be used to graduate households through various stages of subsistence and self-reliance. In doing so, it could be ensured that beneficiaries have a minimum level of consumption, can productively use an asset or have acquired a vocational skill and have the knowledge needed to save effectively. Different programs within the social safety and employment domain can then be used to target different facets of the graduation approach.

17 National Reform Programme (2011 – 2013), Government of Romania, 2011
18 Mexico-Progresa: Breaking the Cycle of Poverty, International Food Policy Research Institute, 2000

2. To reduce overlaps, there needs to be information sharing and increased coordination between administrative authorities. As a start, beneficiary information could be shared by strengthening the role of credit bureau and NSER database. While a credit bureau could enhance coordination between loan related schemes, the NSER could potentially enable efficient targeting between the social safety and employment schemes. Indeed, programs such as Prime Minister Interest Free Loan Scheme (PMIFL) are following BISP's scorecard approach for a clearer distinction with the latter (PMIFL targets beneficiaries up to a poverty score of 40 while BISP has a significantly lower threshold), such approach needs to be followed at not only different levels of the government but by private sector as well.

3. There is no shortage of international evidence showing how welfare programs have been consolidated leading to better targeting and improvement in the general socio-economic indicators. Since BISP's beneficiary coverage is expanding and it is moving towards more efficient disbursement mechanisms such as biometrics, programs such as Zakat and Bait ul Mal could be rolled into its general administration. BISP's scientific mechanism of targeting and its registry make it an ideal institution to administer large social safety programs.

4. BISP's NSER can be used to effectively target low-income beneficiaries. The size of this registry is big enough to turn it into a central repository for beneficiary targeting by not only social safety by also employment related schemes. While BISP engages with other state authorities and non-profit organizations on data sharing, the scope for such engagement could be broadened such that data is also fed into the registry by other organizations whereby NSER contains beneficiary information as well. Using NSER for these programs will reduce subjectivity in targeting and ensure accuracy and transparency.

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