

# Transforming Livelihoods for Resilient Futures: How to Facilitate Graduation in Social Protection Programmes

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## Introduction

It is frequently claimed that the most innovative feature of social protection, in contrast to safety nets, is that it has the potential to reduce the vulnerability of poor people to the extent that they can manage moderate risk without external support. This has led to an expansion of large-scale 'productive safety net' programmes. The potential to reduce vulnerability so that people can move off social protection provision is popularly termed 'graduation'.<sup>1</sup> However, the vision for graduation rests on the assumption of the existence of a large population of low-productivity, risk-prone and often poor households. Under this scenario, if risk can be underwritten through appropriate social protection then significant numbers of poor people have the potential to move out of vulnerability and extreme poverty into more productive and resilient livelihoods.

These claims for the livelihood 'promoting' functions of social protection and the graduation agenda, lead an enquiring mind to ask, what is the theory of change behind this graduation vision and under what conditions will this theory of change lead to improved outcomes for the poor? At the centre of this vision there typically exists a focus on resource accumulation and house-hold level assets. Surprisingly, we see numerous programmes built on this concept, yet little analysis or understanding of the requirements and constraints to building sustainable pathways to graduation.

The ambition of this paper is to map out the theory of change underpinning the notion of graduation and to set out, conceptually and empirically, the range of enabling and constraining factors that facilitate or undermine this change process. We distinguish 'threshold' graduation (an administrative benchmark that signals the point at which a beneficiary is no longer eligible for the programme) from 'sustainable' graduation (a state in which livelihoods have been fundamentally transformed through social protection interventions). Furthermore, in keeping with recent work by the authors and others (Dorward et al, 2006; Sabates-Wheeler, Devereux and Guenther, 2008), we emphasise the existence of multiple factors working at different levels, beyond the household, such as market conditions, community investment and scale effects that work to constrain or complement each other, and asset usage.

The notion of development coordination (Dorward and Kydd, 2004) requires that these different levels and initiatives are not analysed in isolation from each other. Consider an asset transfer targeted at poor farmers. This package may bring them above a specified asset threshold, but local markets may be so thin and imperfect that any productivity gains are not translated into higher incomes because of adverse scale effects. In other words, without development coordination (or some way of enabling sustainable graduation) the tendency is towards a stable low-productivity equilibrium only. A related point is the scale of the programme – the size of the livelihood package and of the target group. Even if local markets function well and are able to absorb increases in production, if the livelihood package does not bring enough households above a critical threshold there will be negligible multiplier effects and farmers may be unable to take advantage of potential economies of scale (see

Dercon, 2004). These considerations are central to this paper and to a full understanding of the process of graduation.

This paper is structured as follows. In the following section we reflect on the genesis of graduation, in particular the theories of asset accumulation and asset thresholds which provide the basis of support for graduation. After providing some concrete and current examples of large-scale programmes built on this concept, we derive a 'theory of change' that is common to these programmes. In the latter part of the paper we critique this theory of change by drawing on a variety of literatures and programme experience that enables us to lay out a range of conditions under which graduation is more or less likely to occur. We conclude by highlighting some basic considerations that need to be taken into account in future social protection programming.

## Pathways out of poverty in social protection programming

### The foundations of asset-based graduation

Concern with moving poor and vulnerable people out of extreme poverty by helping them to cross 'asset thresholds' has received substantial attention in social protection programming in the last 6-8 years. This has been driven primarily by the perennial development concern about bringing large numbers of poor people to a position where they can productively sustain their own livelihoods.

Asset-based approaches to poverty reduction and growth emerged primarily from debate in the 1990s that challenged conventional measurements of poverty based on income, expenditure and consumption aggregates. The debate, and accompanying empirical research, redefined the meaning of poverty by placing assets, entitlements and livelihood systems at the centre of analysis (Sen, 1997; Ellis, 2000). From this foundation, a plethora of theoretical models and empirical research has emerged. Asset accumulation models focus on the acquisition, retention and transmission of assets as fundamental to wellbeing. Some proponents of graduation have suggested that the pathway to productive livelihoods is linear and incremental, such that increasing households' income over time, through incrementally increasing their assets will have the required effect (Moser, 1998). The core idea is to use short-term asset transfers as a vehicle for sustained economic empowerment for economically insecure and marginal households. Others believe that certain asset thresholds exist that need to be crossed if households are to have a chance of living poverty-free and productive lives. This implies that households living a long way below the critical level will require much more provision than those living just below it and that incrementalism will not necessarily work.

A more sophisticated approach to asset accumulation is found in 'asset threshold' models, which argue that due to the lumpiness of assets and non-linearities in asset accumulation, thresholds exist that need to be crossed if households are to graduate from poverty and

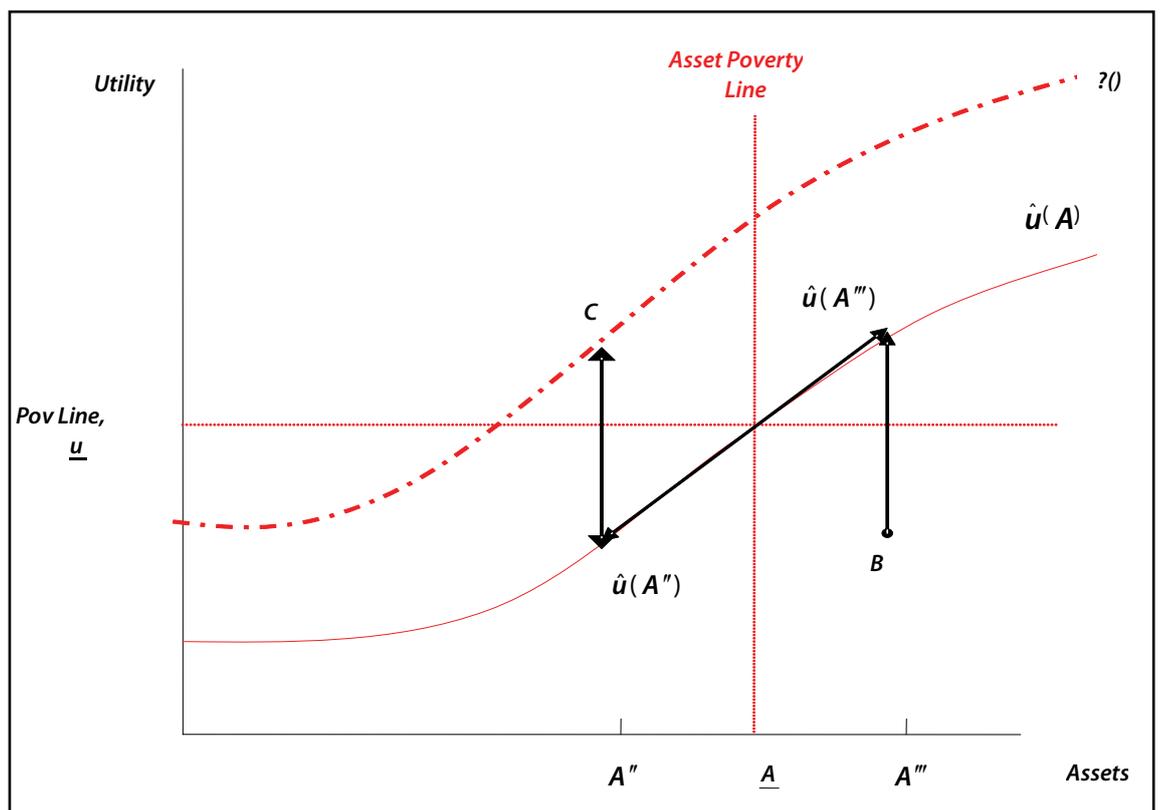
dependence. So for instance, if a farmer needs two oxen to make productive use of his plough there is little point transferring just one ox to him. Limited empirical work supports this threshold argument (Carter et al., 2008). Furthermore, this latter work argues that the process of asset accumulation and dis-accumulation is dynamic with stable and unstable equilibria (Lybbert et al., 2004; McPeak, 2004). Once over a threshold the dynamic is to move up to a high productivity equilibrium, once below the threshold the tendency is to move down to a low-productivity, subsistence-level equilibrium.

The literature on poverty traps also emphasizes the importance of accumulation of assets as necessary for sustainable mobility out of poverty (Carter and Barrett, 2006; Carter and May, 2001; Adato et al, 2006). Barrett et al (2006) argue that because assets generate incomes for households, asset dynamics underpin structural income dynamics. Carter and Barrett (2006) argue that low asset households earn low returns on their asset holdings, which perpetuates their poverty because they earn less investible surplus after meeting their immediate consumption needs. This then suggests that thresholds for achieving independent sustainable livelihoods cannot be defined in terms of (essentially arbitrary) income poverty lines, as suggested above, but by the crossing of asset and income thresholds associated with poverty traps. These are likely to vary with household structures (for example gender composition and dependency ratios), with socio-economic and cultural context, with livelihood strategies and opportunities, and with complex interactions between the different forms of capital listed above.

Figure 1 and figure 2 below provide a basic illustration of asset accumulation and asset thresholds. In figure 1 we see income and assets plotted against each other. One can think of a level of wellbeing/utility associated with different levels of each, but with a high correlation between the two (explaining the upward curve of the utility function). A move from B to  $\hat{u}(A''')$  would represent a stochastic transition in income, due to say a windfall (if upwards), or climatic shock or a price shock (if downwards). A shift from  $A'$  to  $A''$  represents a structural transition in livelihood due to an accumulation of assets. This might come about through an asset transfer or social protection programme. The shift from  $\hat{u}(A')$  to  $\hat{u}(A''')$  comes about due to a structural transition through high returns to assets. So as assets increase and returns to assets increase this is manifest in higher incomes and a positive accumulation path, which has obvious dynamic implications. This relationship between asset accumulation, higher productivity and income growth is the basis for the graduation vision as described above. The second element for this graduation vision is illustrated in figure 2.

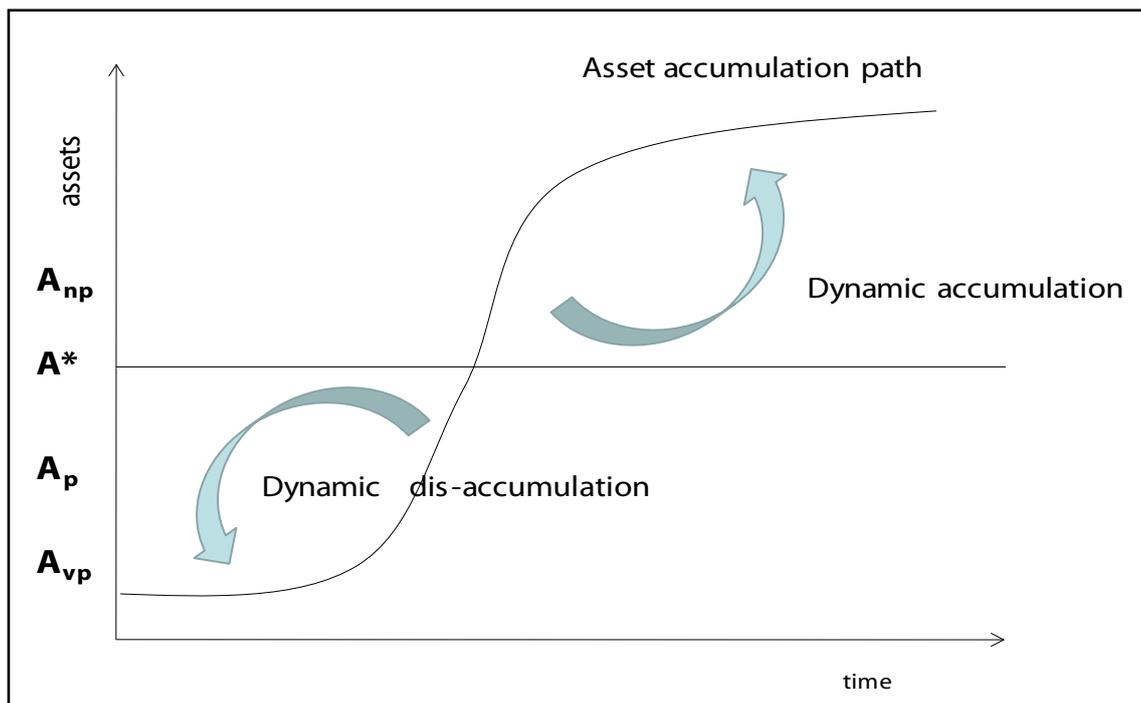
In our simplified figure 2,  $A^*$  refers to the threshold or benchmark above which households or individuals are no longer considered in need of social protection support.  $A_{np}$  denotes the resource base of a non-poor household,  $A_p$  and  $A_{vp}$  the resource base of a poor and very poor household, respectively. Once above threshold  $A^*$ , Carter and others theorise a dynamic accumulation of assets such that a household will move on an upwards trajectory. Below  $A^*$  and a downward trajectory is dominant. Thus, moving a household from  $A_{vp}$  to  $A_p$  through an asset transfer will not move the household into a

Figure 1. Single-period income and asset poverty lines



Sources: Michael Carter, presentation made at IDS on 10 October 2005.

Figure 2. Asset thresholds, poverty traps and accumulation



positive, dynamic accumulation path, but over time the household will return to a low-level equilibrium point.

**The practice of programming for graduation**

The theories discussed above have increasingly influenced the design of large-scale social protection programmes worldwide. In this section we describe three well-known large-scale social protection programmes, in order to illustrate the graduation visions underpinning these programmes and to highlight the similarities in vision across programmes and with the thinking described above. The examples we draw on are:

1. Challenging the Frontiers of Poverty Reduction: Targeting the Ultra Poor (CFPR/TUP) in Bangladesh
2. The Productive Safety Net Programme (PSNP) in Ethiopia
3. Vision 2020 Umurenge Programme (VUP) in Rwanda

Interestingly, the three programmes all aim at graduation of beneficiaries out of extreme poverty, but each defines graduation in different ways. In Bangladesh, graduation is defined in relation to different poverty lines – participants graduate when they cross the line from ‘extreme poverty’ to ‘moderate poverty’. In Ethiopia, graduation is benchmarked against productive assets – when the value of household assets exceeds a threshold that is set in each region, the household is deemed to be ‘self-reliant’ and is graduated off the programme. In Rwanda, eligibility is defined in ‘social poverty’ terms – households graduate when they move from one community-defined wealth category to a higher category. Although they monitor different indicators, all three approaches benchmark graduation against complementary measures of poverty – income poverty, asset poverty and social poverty, respectively.

The fact that two of the three country programmes choose to benchmark graduation against a continuous

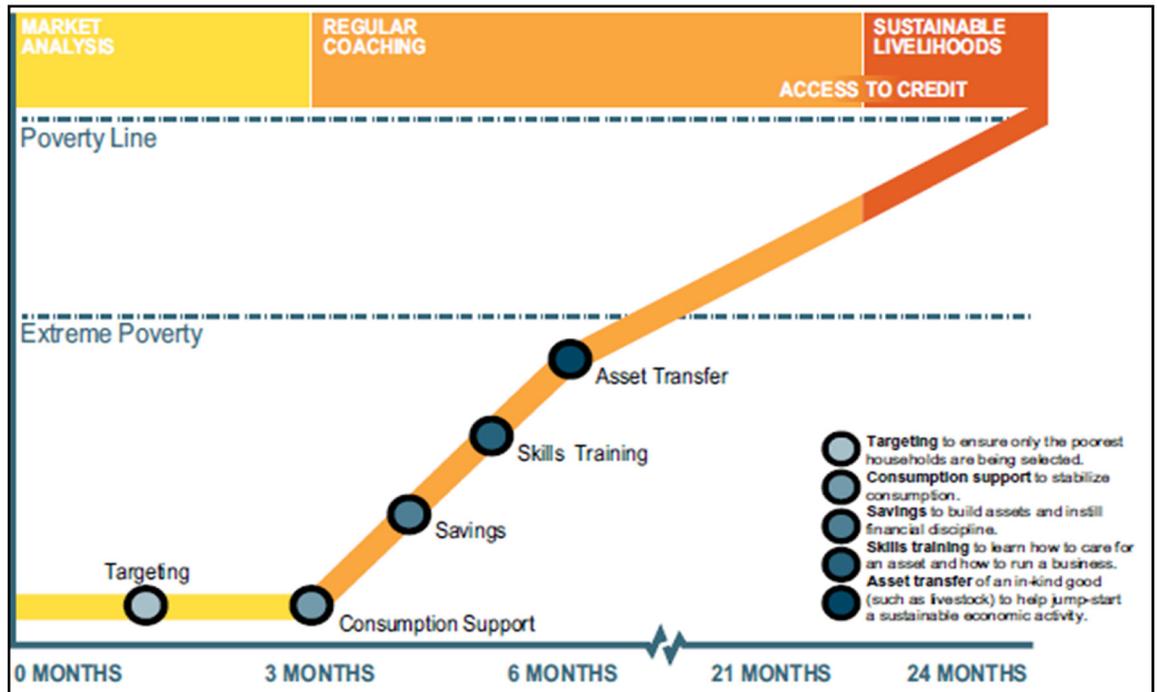
variable – income or asset values – highlights the essentially arbitrary nature of these definitions, and raises questions about the sustainability of graduation defined against a continuous variable. Only in Rwanda is there a discrete categorical separation between eligible and ineligible households, so graduation is more intuitively logical in this context than in the Bangladesh and Ethiopia programmes.

**Bangladesh: ‘Challenging the Frontiers of Poverty Reduction: Targeting the Ultra Poor’ (CFPR/TUP)**

Asset transfers are the central feature of two large-scale programmes in Bangladesh: ‘Challenging the Frontiers of Poverty Reduction: Targeting the Ultra-Poor’ (CFPR/TUP), and the ‘Chars Livelihood Programme’. The thinking underpinning both programmes is that productive assets can generate future streams of income, so asset transfers to asset-poor households could reduce poverty more sustainably than food or cash transfers. BRAC’s CFPR/TUP programme recognised the limitations of market-based mechanisms, such as microcredit, in reaching the chronic poor, and instead offered assets (livestock, leased land, tools, seeds) to rural women for use in income-generating activities, including agriculture (vegetable gardening or nursery cultivation).

Two features of the programme contributed to its reported success. Firstly, along with the asset, the programme also provided a ‘subsistence allowance’ for 18 months, which was intended to cover part of the household’s subsistence food needs until the asset transfer started to generate regular streams of income. Secondly, the asset transfers were linked to carefully selected income-generating enterprises, and skills training was provided (Matin et al, 2008; Hashemi and Umaira, 2010). The cash transfers ensured that the asset was retained rather than being sold to meet pressing needs, while skills training ensured that the asset was effectively used.

Figure 3. The BRAC graduation model



Sources: Hashemi and de Montesquiou (2011: 3)

Figure 3 illustrates how this holistic approach, combining 'livelihood protection' (consumption support, savings services) with 'livelihood promotion' (skills training, asset transfer, access to credit), should in principle graduate households from extreme poverty towards sustainable livelihoods. This stylised representation can be criticised for its assumed linearity – programme participants proceed smoothly up the graduation 'ladder' like an escalator. In reality, livelihoods are unpredictable and erratic, especially for the poor, and subject to setbacks and shocks. Nonetheless, the project completion report concluded that the asset transfers had resulted in rapid, significant improvement in the livelihoods of extremely poor households, who now enjoy more diversified and stable incomes (DFID Bangladesh, 2006). Between 2002 and 2005, participants living in extreme poverty (<\$1/day) fell from 89% to 59% (Matin et al., 2008: 26).

The 'Chars Livelihood Programme' gave capital investment grants to 55,000 poor households in Bangladesh, targeted because they were 'jobless, assetless and landless', to purchase income-generating assets of their choice (usually livestock). The asset transfer was complemented with capacity building training sessions and a cash stipend for 18 months, partly to support household consumption and partly for asset-related costs. Purchases of cattle generated a 30% return, contributing to higher incomes and livelihood diversification (Marks, 2007). The first cohort of beneficiaries increased their average asset value from <Tk.2000 to Tk.46,000, and their average monthly income by 66%, between 2006 and 2009 (Conroy and Vignon, 2011). These gains were assessed as sustainable because beneficiaries had stopped receiving support from CLP two years earlier.

#### Ethiopia: 'Productive Safety Net Programme' (PSNP)

The objective of the PSNP, which is a core component of the Government of Ethiopia's 'Food Security Programme' (FSP), is "to provide transfers to the food insecure population in chronically food insecure *Woredas* [districts] in a way that prevents asset depletion at the household level and creates assets at the community level" (Government of Ethiopia, 2004). Unlike the annual emergency appeals, it was conceived as a multi-year programme (initially for five years but subsequently extended) so as to provide recipients with predictable and reliable transfers. Geographic and community-based targeting are used to select beneficiaries. The programme operates in the 282 most food insecure *Woredas* in rural Ethiopia, defined in terms of their past history of food aid needs. Within these localities, local committees called 'Kebele Food Security Task Forces' choose beneficiaries. Most beneficiary households do Public Works (PW): criteria for selection into these are that these households are poor (for example, they have low holdings of land and/or cattle) and food insecure but they also have able-bodied labour power. A much smaller proportion of beneficiaries receive Direct Support (DS): these households are poorer than those receiving public works employment and lack labour power; this includes those whose primary income earners are elderly or disabled. From 2005-2007, the PW component paid beneficiaries either 6 birr per day (0.35 USD) (increased to 8 birr in 2008 and 10 birr in 2010) in cash or 3 kilograms of cereals in return for working, depending on where they lived, on labour-intensive projects building community assets. These activities are supposed to occur between the months of January and June so as not to interfere with farming activities which, in most regions, occur in the second half of the year.

The notion of graduation has been integral to thinking around the PSNP since its inception. Graduation describes a process whereby recipients of support move from a

position of depending on external assistance to a condition where they no longer need this support, and can therefore exit the programme. A 'Graduation Guidance Note' (FSCB, 2007) describes graduation from the PSNP as a transition from 'chronically food insecure' to 'food sufficient', defined as follows:

"A household has graduated when, in the absence of receiving PSNP transfers, it can meet its food needs for all 12 months and is able to withstand modest shocks" (FSCB, 2007: 1).

Under the umbrella of the Food Security Programme sits four separate components, three of which contribute directly to the graduation vision. These are the PSNP, the Household Asset Building Programme (HABP) (formerly the Other Food Security Programmes - OFSP) and the Complementary Community Investments (CCI) programme. While the PSNP is designed to protect existing assets and ensure a minimum level of food consumption, the OFSP, and more recently HABP, are designed to encourage households to increase incomes generated from agricultural activities and to build up assets through extension and credit services. Furthermore, the newer CCI programme has been designed specifically for pastoralist regions to provide an enabling environment that is intended to facilitate widespread graduation. For instance, provision of large-scale community-wide irrigation systems is provided with the purpose of supporting ex-pastoralists' livelihoods. There are two types of graduation in the FSP. The first is graduation off the PSNP transfer, after which households are entitled to a further year of support through the HABP programme, at which point they graduate from the FSP programme.

The figure below, taken from the PSNP 2010-2014 plan illustrates the theory behind the two stages of graduation. Starting at the lower left hand quadrant of the

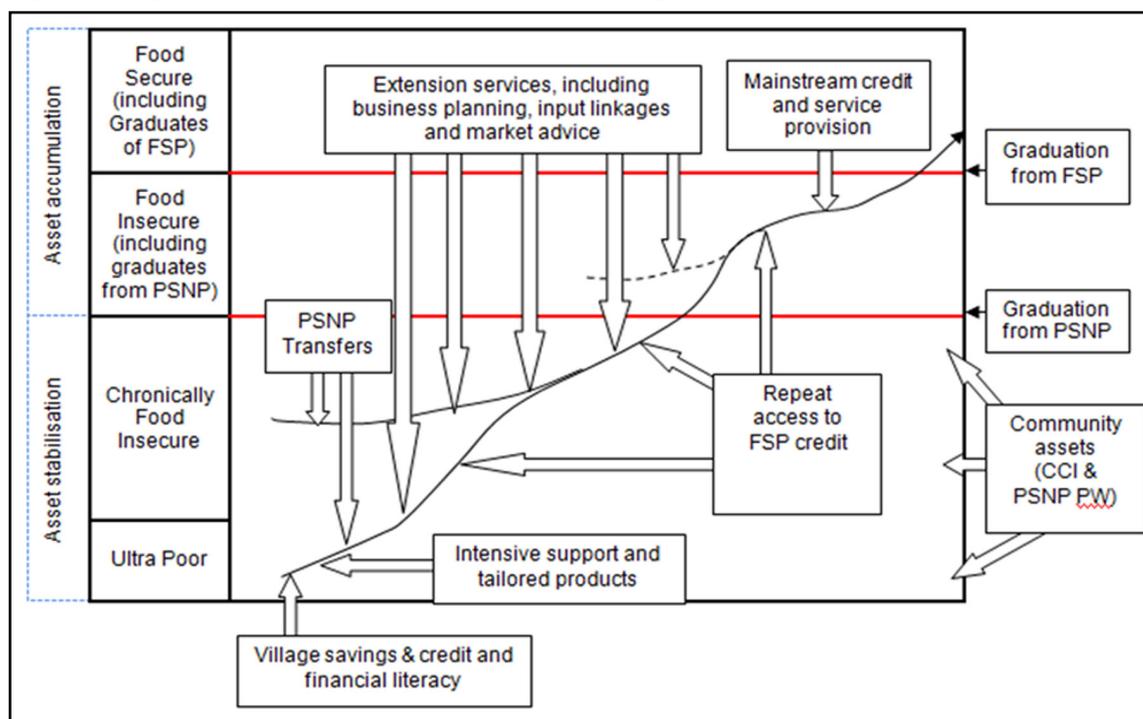
diagram, ultra-poor and chronically food insecure households are targeted with PSNP transfers. Simultaneously, intensive support in the form of tailored products and financial literacy and savings facilities are encouraged and provided so that households can stabilise assets and over time move out of poverty. As households become less vulnerable and poor, extension services, CCI (where appropriate) and business advice (OFSP and HABP) are provided. As 'households' economic base become stronger they reach the first threshold for graduation – the first red line denoting graduation from the PSNP. These households will likely need further support through extension and credit provision, provided under the FSP. This will enable them to accumulate assets. At some point the households should become resilient enough to support themselves and will graduate off the FSP altogether. This is the second level of graduation.

Graduation arises from the combined effect of the FSP components and other development processes. All of these components are required for graduation. Therefore, the success of the PSNP cannot be judged by graduation rates from the PSNP alone. Whether this positive process of graduation actually occurs in practice is an empirical question and one that is being evaluated in ongoing work (Berhane et al, 2011; Sandler et al., 2010). Evaluations of the first phase of the PSNP (2005-2009) suggested that there has been minimal graduation of beneficiaries. The PSNP has now entered its second phase, from 2010-2014, with an expectation by the government of Ethiopia that it will end in 2014 with most participants no longer needing support.

#### Rwanda: 'Vision 2020 Umurenge Programme' (VUP)

The 'Vision 2020 Umurenge Programme' was launched 2-3 years after the PSNP, and to a large extent builds on the same basic design. The VUP aims to reduce extreme

Figure 4. The graduation pathway from the Food Security Programme, Ethiopia



Source: Food Security Programme 2010-2014: Productive Safety Net Programme, MoARD, August 2009, page 17

poverty in Rwanda through three components. (1) Public Works offers short-term employment on community infrastructure projects to extremely poor households that have adult labour capacity. (2) Direct Support provides regular unconditional cash transfers to extremely poor households with no adult member who is able to work. (3) Financial Services offers low-interest loans for productive enterprises, to individuals or borrower groups that must include Public Works participants or Direct Support beneficiaries. All VUP households have bank accounts opened for them and are encouraged to save.

Households eligible for VUP are identified through a community-based social mapping exercise called 'Ubudehe' that classifies local households into 5-7 wealth groups. All households allocated to the bottom two wealth categories are eligible for the VUP – Public Works if they have adult labour capacity, Direct Support if they do not. Retargeting occurs every 12 months; any household that has moved out of the bottom two 'Ubudehe' categories during the year is deemed to have graduated and leaves the VUP.

There is political pressure to graduate households quickly, partly to release resources for expanded coverage to other sectors, and partly to demonstrate the success of the programme. A Household Poverty Survey found that 26.2% of households had 'graduated' out of the bottom two 'Ubudehe' categories in sectors where the VUP was operational between 2006 and 2009, compared to 17.8% in non-VUP sectors, implying that 8.4% of the observed graduation was attributable to the VUP (Asselin, 2010). Ironically, receipt of Direct Support transfers or Public Works wages is often sufficient in itself to 'graduate' beneficiaries within a single annual cycle. However, this typically constitutes 'threshold' graduation rather than 'sustainable' graduation. Anecdotal evidence suggests

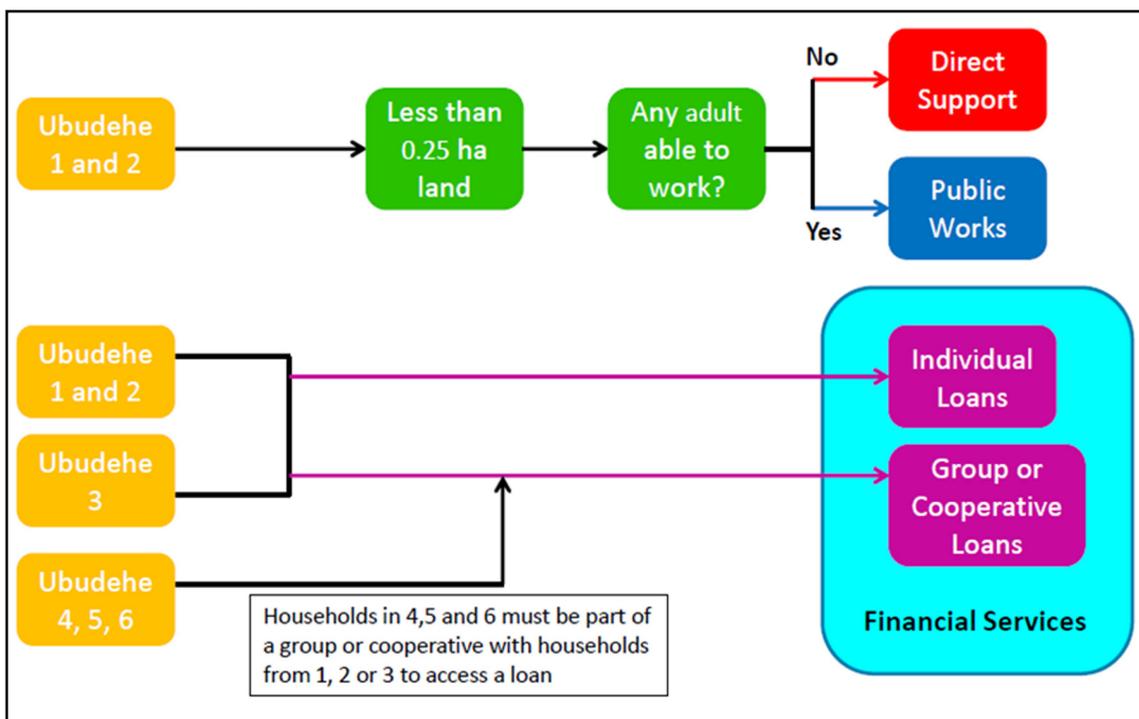
that many households – especially Direct Support beneficiaries with low independent income-generating potential – are graduated prematurely and, one year later, fall back into 'Ubudehe' category 1 or 2, becoming eligible for the VUP once again (Devereux, 2010).

The recent addition of Financial Services as the third component of the VUP offers more potential for sustainable graduation. Loans are invested in approved income-earning activities – agriculture, handicrafts, small businesses – that should generate sufficient profit to repay the loan as well as streams of sufficient income. Independent income is vital for ensuring that the benefits of the VUP persist after direct transfers stop. For this reason, an evaluation of the VUP argued that indicators of resilience and self-reliance should be added to the operational definition of graduation – being assigned by one's neighbours to a certain wealth category at a point in time is not sufficient (Devereux, 2010).

Figure 5 illustrates the targeting process for selection onto the three components of the VUP. Higher 'Ubudehe' categories are wealthier than lower categories, so the assumption is that households eligible for Financial Services have more graduation potential than Direct Support beneficiaries. Another innovative feature is that households from 'Ubudehe' categories >3 (i.e. not eligible for Direct Support or Public Works) can apply for VUP loans, but only if they form groups or cooperatives with households from lower Ubudehe categories. The thinking is that the greater resources and entrepreneurial abilities of wealthier households will enhance the chances of poorer households to generate income and pull them up towards graduation, rather than going it alone with loans that risk indebting them and impoverishing them further.

We see from the examples above very consistent visions of pathways to graduation and the building of

Figure 5. Targeting for graduation on the VUP



Sources: MINALOC, 2010

resilient livelihoods for targeted populations. All programmes have initiated complementary measures such as training of beneficiaries, extension programmes (PSNP), access to microfinance (TUP) and bank accounts (VUP). The vision of graduation involves a process of building sufficient assets for the poor to enable them to participate more actively in productive activities.

## A Common Theory of Change?

The above examples were chosen to demonstrate the commonality across programmes in assumptions around how asset accumulation through targeted income and/or asset transfers can enhance the productive capacity of farmers who are otherwise constrained from engaging in market-based initiatives. Common themes are readily identifiable in the three separate programmes – poverty targeting, transfers to protect subsistence and support livelihoods, complementary activities to enable further accumulation and increased productivity, pathways and linkages between different interventions, clearly defined thresholds for graduation, and coherent visions for sustainable poverty reduction. All of these elements resonate strongly with the asset accumulation path presented earlier and with the threshold stories that suggest a point at which households are no longer dependent upon external help. The extent to which the theoretical approach developed by Moser, Carter, Barrett and others has influenced, even initiated, large-scale social protection programmes is difficult to establish. But it seems more than coincidence that the rise of asset-based poverty measures in the 1990s and the discourse of poverty and asset thresholds just preceded the genesis of large-scale social provisioning based exactly on these theories.

The three programmes described above are indicative of many other social protection programmes that are predicated on very similar assumptions. These range from emerging national programmes such as ‘Livelihood Empowerment Against Poverty’ (LEAP) in Ghana and numerous conditional cash transfers (CCTs) in Latin America and elsewhere, to a range of NGO interventions that simultaneously protect and promote livelihoods. We can posit a typically held theory of change uniting the majority of these programmes, as follows.

1. There exists a substantial proportion of poor people/households who are more risk-averse and less productive than they could be, due to a) lack of resources (income and assets); b) high-risk environments; c) lack of credit; d) lack of know-how.
2. If income/assets/resources are provided, individuals/households will be able to build their asset base, thus building resilience to future shocks (enabling the first structural transition in Figure 1 and minimising negative stochastic transitions as in Figure 1).
3. Furthermore, the regularity of predictable payments will insure against downside risk and enable beneficiaries to move into activities with a higher return/higher productivity (enabling the second structural transition in Figure 1).

4. Over time beneficiaries’ lives and livelihoods will be transformed in a sustainable way, allowing them to support themselves so they are able to ‘graduate’ off external support (Figure 2).
5. Local multiplier and spill-over effects from more productive and market-engaged households will have a positive aggregate effect that is bigger than the sum of all the individual household effects.
6. This type of transformation will be ‘virtuous’, in the sense that strengthened, more resilient livelihoods characterised by higher levels of productivity will have a self-sustaining momentum with pro-poor growth effects.

### ‘Threshold graduation’ and ‘sustainable graduation’

All social protection programmes that we are aware of usually stop at stage 4 of the process in terms of supported interventions – with households graduating off the programme as an indicator of success – i.e. *threshold graduation*. The later stages (5) and (6) – *sustainable graduation* – are assumed but not programme-supported or empirically tested. Much of the discussion in social protection programming refers to graduation in relation to a fixed point, usually defined by the programme and at which point social protection (or transfers) is withdrawn. The PSNP is the most progressive programme we are aware of in terms of the 2-stage notion of graduation, however the two levels are still defined in respect to benchmarks and thresholds. But what we are interested in, as reflected in the definition of graduation within the PSNP documents, is sustained positive change in livelihoods over time, and livelihoods that are able to withstand some level of negative shock. It is sensible, then, to distinguish *threshold/benchmark graduation* (a static programme-defined benchmark) from *sustainable graduation* (the ability of the household to remain above the benchmark in the medium- to long-term via a transformed livelihood).

*Threshold graduation* describes a process whereby recipients of support move from a position of depending on external assistance to a condition where they theoretically no longer need this support, and can therefore exit the programme. This type of graduation reflects a concern for social protection programming, because policy-makers strive to avoid ‘dependency’ and because financial constraints mean that social transfer programmes often have limited timeframes and budgets. Attempts to operationalise threshold graduation are difficult, and benchmarks for graduation can be administratively complex and/or unrealistically high (Devereux, 2010).

*Sustainable graduation* clearly requires threshold graduation to be met, however this does not hold in the reverse case. This is because sustainability of a strengthened livelihood is time-dependent and requires a measure of resilience in the face of a negative change. We make this distinction because identifying households according to a benchmark will attract different questions and throw up different constraints (such as hidden information and administrative problems) than those enabling longer term fulfilment of that benchmark (such as weather shocks and access to markets).

While critical for programming and budgetary purposes, the 'threshold' emphasis within the graduation discussion is somewhat of a 'red herring', as a national or regional (even district) threshold for graduation will be extremely difficult to apply uniformly across the beneficiary population given the massive range in different resources and livelihoods pursued. We know from evidence that such benchmarks, once attempts are made to apply them, become malleable and locally-specific for this reason (Berhane et al (2011); Sandford et al. (2010)). Therefore, the point of reference in relation to long-term outcomes of social protection should be whether households are generally experiencing a positive transformation in their livelihoods such that over time livelihoods are strengthened and become more resilient. Here we lay out the factors that are likely to constrain (and by deduction, enable) sustainable graduation – or transformed, strengthened livelihoods. While critical in programme design, we do not focus on threshold graduation as it is subsumed under sustainable graduation. Furthermore, threshold graduation, while important for programme monitoring and budgeting, is primarily an administrative issue.<sup>2</sup> Here we are concerned with the concept of sustainable graduation and the conditions under which it is most likely to be achieved. If a case can be made for this, then, and only then, setting thresholds becomes relevant.

#### Factors that enable/constrain the theory of change

Based on the theory of change presented above and on the graduation pathways diagrams presented earlier we can expound a set of factors that may serve to enable or to constrain movement along a pathway to sustainable graduation. Our interest here is to understand the dynamics underlying the theory of change. To recap from figure 1 (and replicated below)  $A^*$  refers to the threshold or benchmark that households or individuals, once above, are no longer considered in need of social

protection support.  $A_{np}$  denotes the resource base of a non-poor household,  $A_p$  and  $A_{vp}$  the resource base of a poor and very poor household, respectively.

We frame the following discussion around 5 factors that are likely to enable/constrain the process by which any one household can move along the productivity-enhancing pathway. These are:

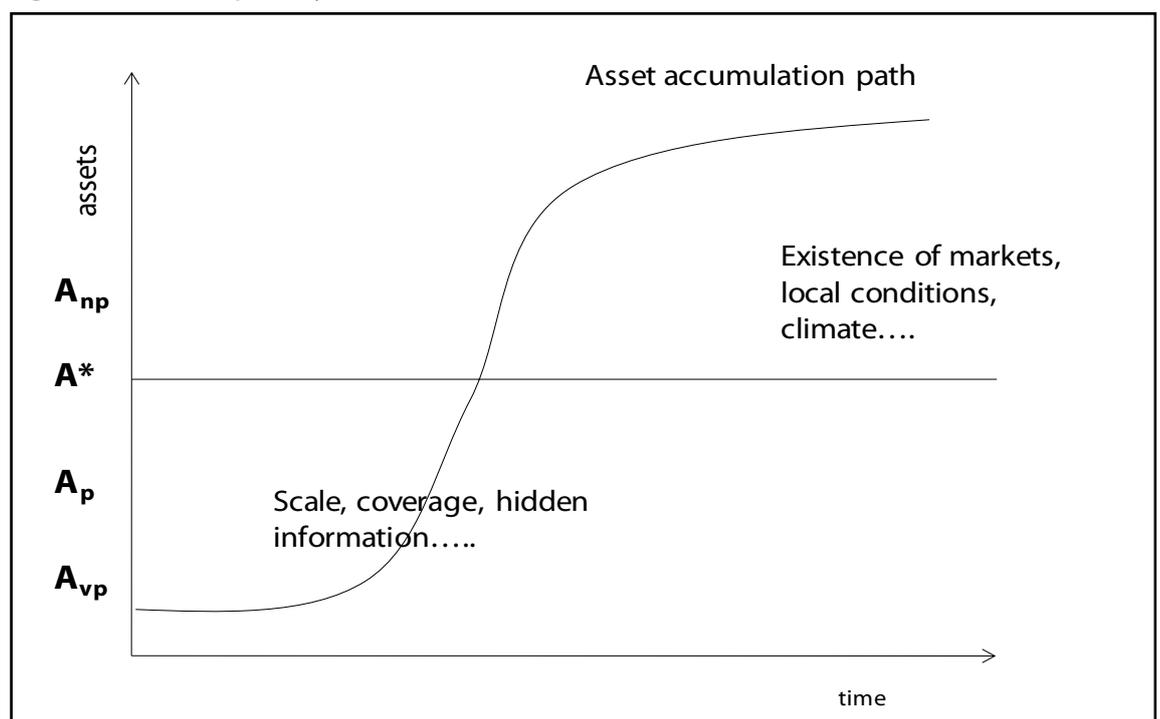
- 1) The *market context* into which households move upwards, particularly post- $A^*$  (that is, after the asset threshold has been reached)
- 2) The *initial resource conditions and efficiency of existing assets* (moving the function  $A^*$ )
- 3) The *scale of transfer and coverage* (and associated dilution effects)
- 4) *Household level incentives* (and associated dilution effects) for moving beyond  $A^*$
- 5) *Environmental context* (and natural shocks)

These factors may be programme-specific, beneficiary specific, community-specific or market-specific. For instance, the size of the transfer and the scale of coverage is programme-specific, whereas the household incentive to share any transfer and thus 'dilute' the graduation potential is household specific. We talk more about the specificity of these factors in the last section.

#### 1. The market context

As discussed in the brief review of programmes, many programmes claim that a package of activities is required to enable graduation, as for instance the FSP in Ethiopia and the VUP in Rwanda. These complementary activities typically include one or more of the following: credit facilities, training for households, business plan development, public works activities. In all the programmes that we are aware of the complementary actions are household-specific and aim at enabling the household to make the best use of the transfer as possible.

Figure 6. Graduation pathways – enablers and constrainters



This complementary activity focus is refreshing and important, and it is clear that the comprehensive programmes have greater potential for building resilient livelihoods than a pure cash transfer approach. But what is missing from all of these efforts and the theory of change is a bigger view of how transformation and strengthening of livelihoods can be sustained over time. The answer to this question requires a broadening out of the unit of analysis for social protection programming. It is not enough just to focus on individuals and households moving and transforming. Rather, there is a need to locate these individuals within a transforming and strengthened context so that beneficiary graduation is supported within a strengthened context.

To elaborate this point conceptually, take the simplified graduation pathway as laid out in figure 6. Imagine person A, living in the following context: lack of credit market, thin labour and land markets and no thriving business context, who, over time moves upwards to above point A\* - a graduation benchmark. Once at A\*, whatever support (s)he received is stopped and (s)he is left to secure an independent livelihood, as depicted by the upper right quadrant of figure 3. What is the probability of being able to do this in the context just described? The answer is close to 0. Very quickly the individual will fall below A\* and again qualify for support. In other words what is the point of moving people/households up and removing support if they will be left within a void? What then would be needed to support a transformed livelihood in a sustainable way? It is obvious from this simple case that local conditions – that is the thickness of markets, the natural resource base, whether the labour market and business sector are thriving – will strongly predict the likelihood of sustaining a transformed livelihood (this links to our second critique - 'initial conditions' - below). Thus there will be differential graduation success rates depending on the context.

Recent work (Sabates-Wheeler, Devereux and Guenther, 2008) emphasises the existence of multiple thresholds, such as market thresholds and scale effects (discussed later) that work to constrain or complement each other, and asset usage. Development coordination (Dorward and Kydd, 2004) requires that threshold effects are not analysed in isolation from each other. Consider a 'livelihood package' targeted at poor farmers. This package may bring them above a specified asset threshold, but local markets may be so thin and imperfect that any productivity gains are not translated into higher incomes because of adverse scale effects (i.e. prices collapse because the market is flooded). In other words, without development coordination the tendency is to a stable low-productivity equilibrium only. A related point is the scale of the programme – the size of the livelihood package and of the target group. Even if local markets function well and are able to absorb increases in production, if the livelihood package does not bring enough households above a critical threshold there will be negligible multiplier effects and farmers may be unable to take advantage of potential economies of scale (this is discussed below).

## **2. Initial conditions – local and household**

Related to market context is the ability of households and individuals to take advantage of this market context with a given level of assets (at both household and community/ local levels). The idea that an economy may exhibit endowment sensitivity has roots in the writings of Chayanov (1925), who argued "that farm households with different endowments of productive resources would use those resources in different proportions, with different productivities" (quoted in Zimmerman 2000: 266). Theories of endowment dependency predict that asset accumulation primarily depends on initial endowments, with obvious implications for distributional outcomes (Barham, Takasaki, and Coomes, 2000). For instance, constraints in capital or insurance markets over time interact with poorer landholders' inability to accumulate assets, which leads to poverty traps and livelihood vulnerability. In other words, movements out of poverty appear to be largely determined by initial endowments. The 'fate of initial endowments' can be present at a community (or local) level as well as at a household level – one community may have better quality land, or water supply than another, and this may significantly determine the development pathway of the households in the community.

### **Local conditions**

Dercon (2003: 9) writes, "if growth requires a certain threshold of local endowments to take off, then poorly endowed areas may well find it hard to escape poverty." In a similar way, distributing (or redistributing) assets more equitably in regions that have a very low resource base and are densely populated is unlikely to have a significant effect on productivity and poverty reduction. Evidence from China in the 1980s indicates that community characteristics affect the living standards of otherwise identical households. Geographic poverty traps result from initial community characteristics. Unlocking the growth potential of asset-poor areas or regions is likely to be related to a variety of policy responses, such as irrigation provision or health and education provision (and other issues to do with market failures). Clearly, any programme of asset redistribution or distribution will depend on the initial conditions/context.

### **Household conditions**

The implications for graduation of low levels of local endowments similarly hold for poorly endowed households. With a low physical asset base, a solution for households is often perceived to be provision of a more diverse menu of assets or technical packages to choose from. But governments or donors may have limited options, and extension officers might not be trained to deliver advice on a wide array of livelihood activities. Furthermore, beneficiary households may not be knowledgeable enough, or have inadequate human capital assets to sustain a positive change. A related 'lesson learnt' is that asset transfers need to be accompanied by adequate capacity building. It is not just human capital, but physical and natural capital that may be lacking. For instance, if a beneficiary takes a credit for a seed package but does not have the adequate irrigation or land quality to

support the package then clearly the investment will fail.

A crucial lesson from endowment dependency work (as reviewed by Sabates-Wheeler (2005)) is that any policy addressing the links between inequality, persistent poverty, and agriculture must pay careful consideration to various asset portfolios of both households and communities and must consider the nature of the activity itself.

### The efficiency of existing assets

An overlooked consideration for moving households towards sustainable change is by shifting the line A\* downwards. In other words, rather than distributing assets and incomes, efforts could be placed on increasing the productivity of existing assets.

## 3. The scale and coverage of transfer

### Size of transfer per capita and dilution

The issue of the size of transfer to beneficiaries is critical to the vision of a graduation pathway. There are two separate, but related, points here. The first relates to the programme-specific problem of 'transfer dilution' whereby less than the originally planned per capita transfer reaches the intended beneficiary, in the interests of including more beneficiaries in the programme. If a household or individual receives less than the full amount, and the transfer becomes 'diluted' across more household members or more households than it is supposed to be, then the impetus for building livelihood sustainability will be weakened and the potential for graduation will similarly be weakened. In other words, there is a trade-off between covering many households with smaller amounts of transfer per household member, versus targeting less households with higher (and appropriately calculated) levels of transfer for all household members.

A second problem of dilution is beneficiary-specific and presents the same outcome as that just described. This is when transfers are shared across households or individuals by the beneficiaries themselves. For instance, if a beneficiary household shares its transfer with a non-beneficiary household then the anticipated effect of the

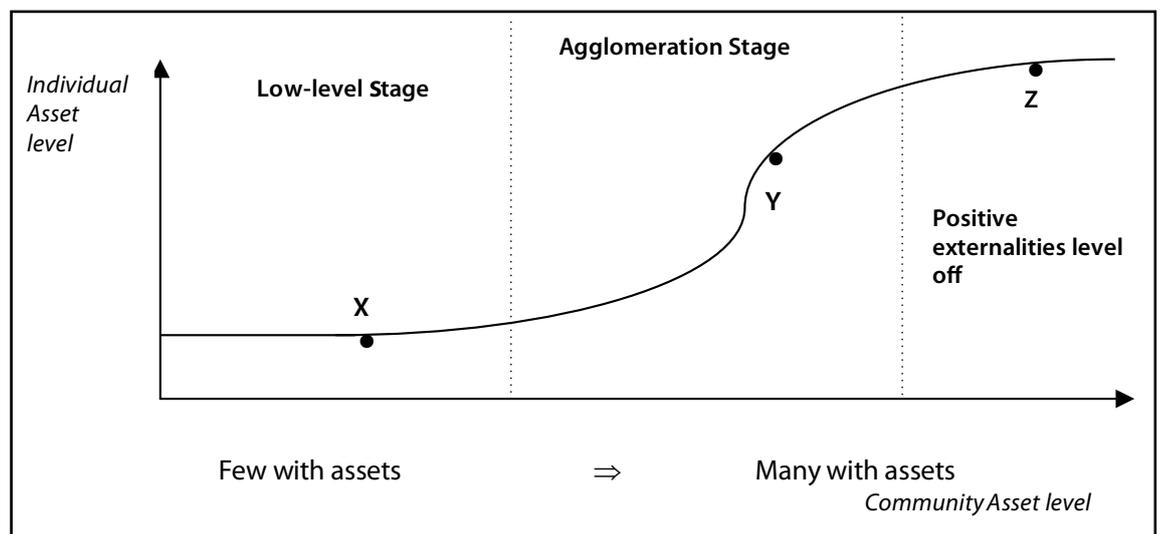
transfer is diluted and is equivalent to partial family targeting.

What are the implications of partial targeting and sharing of transfers for the theory of change? If the transfer/ asset value has been calculated appropriately, in the sense that the amount and package provided has the potential to produce productivity-enhancing effects, then it is obvious that less than this amount will undermine the likelihood of the hypothesised effect. The dilution may, however, mean that more people are able to secure consumption. While still a positive outcome, this is not the vision for graduation. Unfortunately, the formula for what constitutes an 'appropriate' amount takes us to the thorny and immensely complicated issue of how thresholds/benchmarks are set and the content and levels of complementary initiatives that support income and asset transfers. We have already touched on this above and it is not our intention to provide a comprehensive review of threshold graduation criteria, just to note that this is critical to the assumptions of productivity effects from 'full household targeting/full targeting.'

### Coverage and agglomeration

A further factor influencing the pathway to sustained change results from multipliers (or externalities) related to **scale effects**. While the assumption of household-specific externalities/multipliers is central to the virtuous theory of change outlined above, no consideration is given to the multipliers (or what we refer to here as local agglomeration effects) that occur when large numbers of households/individuals become 'strengthened' simultaneously. When large numbers of economic units are located in proximity to each other and seeking to increase production and investment, this affects the environments in which they operate (think of Silicon Valley for instance and the innovation that is supported through the proximity of enterprises). This is true, for example, of the natural environment, where large numbers of people harvesting natural resources may lead to their degradation, and it is true of markets, where large numbers of people buying (or selling) products or services may lead to price rises (or falls). The occurrence of agglomeration effects when change happens at large scale, as established by models of new economic geography (see Fujita,

Figure 7. Local agglomeration effects with high coverage of asset transfers



Krugman and Venables, 2000 for a detailed description of these models), can support a much higher rate of innovation and transformation over time than when change happens incrementally and at a household level.

Scale, in relation to social protection programming, can refer to both the size of the transfer and resources given per beneficiary or community, as well as the size of the coverage of the programme within one geographic area. For instance, giving transfers to 90% of a designated local population will have different effects than giving transfers to only 10% of the same population. Furthermore, the size of the transfer will also affect the change (as discussed above).

Figure 7 illustrates the theory behind agglomeration effects. In Period 1 few individuals have assets and thus the community has a low asset base. Agglomeration translates into returns to individual and community assets. During period one, few households have few assets and the growth rate of assets is low. The larger the proportion of people with assets the higher the growth rate of those assets due to positive externalities. These positive spillovers increase at a decreasing rate and eventually level off at a higher level equilibrium growth, similar in many ways to the dynamic asset story as depicted in Figure 2.

#### **4. Household-level incentives and dependency**

With all forms of social assistance, concerns exist about whether their provision will make recipients dependent upon them, thereby undermining (in this case) the prospects for graduation. It is necessary to re-emphasise here that transfers made to labour-constrained poor people (e.g. older persons or persons with severe disabilities) may well lead to 'welfare dependency', as there is no expectation that this group will ever graduate. However, for beneficiaries that have labour capacity and the potential to raise their productivity and move beyond  $A^*$  (in Figure 6), dependency on transfers could severely undermine the programme's graduation outcomes.

There are several possible pathways from receipt of social transfers to dependency. One is 'moral hazard' – beneficiaries could choose to work less and live off social transfers instead – but this requires transfers to be provided at a level and with a regularity and predictability that will instil confidence among beneficiaries that they are adequate and will continue indefinitely. This is unlikely with most social protection programmes in lower income countries, which are more often discretionary and time-bound than guaranteed and permanent, and there is little evidence for social transfer beneficiaries 'choosing leisure'. A second pathway is 'non-productive use of transfers' – instead of investing transfers in livelihood promoting activities and assets, transfers are consumed so that the household stays below graduation thresholds that are defined by income or assets.<sup>3</sup> A final pathway is 'concealment' – beneficiaries may attempt to hide true information about their income and assets, so as to continue to appear eligible when in fact they might have crossed a graduation threshold. All of these behavioural responses to the delivery of social transfers can result in programmes failing to achieving their long-term objectives, and generating large-scale dependency rather than large-scale graduation.

#### **5. Environmental context**

Poor households face a 'vulnerability spectrum.' Most social protection programmes are inadequate to address the complex and multi-dimensional nature of vulnerability in rural communities. The notion of graduation is implicitly linear – it suggests a progression up an income scale – but livelihoods in rural settings are erratic and characterised by uncertainty. Farming communities face erratic weather and other threats to crop production and livestock herds. Even if a household appears to have passed a consumption, income or asset threshold at a point in time (say, after three years of receiving social cash transfers), it is difficult to predict whether the household is about to suffer a major shock (e.g. a drought, conflict or disease outbreak) that will decimate its harvest or herd, leaving the household acutely vulnerable to hunger, destitution and even death.

In such an intrinsically vulnerable and unpredictable livelihood context it is highly unlikely that graduation will be linear or a one-step procedure. Furthermore, many who are able to graduate from a programme in one year, may face a range of unpredictable shocks that leave them in need of support once again. For this reason, we believe that households 'transition' from different states of vulnerability and so an objective of any social protection programme must be to map out 'pathways' to sustainable livelihoods. In other words, it may be better to talk of graduation between different programmes that incrementally build resilience. Perhaps a farmer would graduate from food transfers, to fertilizer subsidies to micro-credit, for instance. In this sense there is a need to identify multiple thresholds while at the same time simplifying benchmarks.

An additional problem emerges when we recognise that the environmental context is actually in a state of flux, as this has implications for how we empirically identify the asset threshold,  $A^*$ . Changes in climate, in local level environmental conditions and asset portfolios as a result of shocks mean that  $A^*$  cannot be a fixed point and must adapt to changing circumstances. What may be considered a suitable package one year, may not be suitable the following year.

#### **A Typology of Enablers and Constrainers**

From the discussion above it is useful to develop a user-friendly way of identifying a range of enablers and constrainers of graduation. So for instance, the local irrigation or land conditions may enable or constrain the likelihood of graduation and these are community/location-specific, whereas the limited coverage of a transfer is programme-specific. Throughout the discussion above we have identified a variety of constraints as being related to specific factors. Box 1, below, provides a typology of these factors.

*Programme-specific constrainers/enablers* emerge solely from the way the programme was designed or implemented. For instance, one of the intentions of the PSNP in Ethiopia is to implement full-family targeting (FFT). FFT is a targeting rule that all members of eligible PSNP households should be listed as clients of the programme. This is supposed to help client households to graduate by providing a transfer for every household member and prevent dilution of transfers. Full-family

targeting is critical to the national vision of pathways for graduation. However, until very recently the bulk of distribution at the local level has followed a partial family targeting approach so that more households in total could receive some transfer. This partial targeting lowers the likelihood that graduation will take place, mainly because the size of transfer per household is less than intended. Where the partial family targeting actually does constrain graduation, pathways need to be investigated empirically. In Rwanda, the initial decision to retarget beneficiaries every six months proved to be a constrainer: this period was too short for graduation to have occurred and some beneficiaries were graduated prematurely. The practice was subsequently modified so that retargeting now occurs annually.

### Box 1. Constrainers (enablers) of graduation

- A. Programme-specific constrainers (enablers)
  - Inappropriate benchmarks
  - Inadequate income transfers
  - Absent or inappropriate complementary programmes and activities
  - Dilution of transfers
    - Partial (full) family targeting
  - Inflexible (index-linked) transfer rate in context of price changes
  - Scale effects
    - Coverage of programme
- B. Beneficiary-specific constrainers (enablers)
  - Lack of desire to graduate (dependency)
  - Dilution of the transfer
    - Sharing of resources between families
  - Initial household asset base
  - Business know-how
- C. Community/location-specific constrainers (enablers)
  - Initial community infrastructure and asset base
    - Land
    - Water/irrigation
  - Community level investment activities (large scale)
  - Community spirit
  - Decentralisation
- D. Market-specific constrainers (enablers)
  - Changes in prices
  - Lack of markets (goods, labour and credit)
  - Scale effects
    - Agglomeration effects (size of graduate pool)
- E. Environment-specific constrainers (enablers)
  - Climatic changes/ natural shocks

An example of a *beneficiary-specific constrainer/enabler* would be lack of desire to graduate. In the VUP, Direct Support beneficiaries who have been graduated argue that they have no labour capacity and therefore need longer-term support; Public Works participants ask to be reassigned to Direct Support which has no work requirement and transfers almost three times as much income as Public Works. On the other hand a beneficiary-specific enabler could be the voluntary savings made by beneficiaries. In the VUP most beneficiaries are choosing to save some of their income transfers; this builds on a tradition of informal rotating savings and credit associations (ROSCAs). In the PSNP an enabler could relate to the size of land holding and access to water – beneficiaries with greater land size and access to water are perceived to be more likely to graduate.

*Community-specific enablers/constrainers* are often discussed in Ethiopia's FSP, particularly within the context of strengthening of livelihoods in lowland/pastoralist areas. The Complementary Community Investment (CCI) programme is intended to provide large-scale investments, such as irrigation infrastructure and watershed management, as a way of facilitating strengthened livelihoods at a community level. Under the VUP a similar vision exists for large-scale investment, however, in many communities there are limited opportunities for large-scale infrastructure projects that can absorb substantial amounts of labour; in these locations Public Works employment must be rationed or rotated. As with the beneficiary-specific enablers, the level and quality of resources at the community level is perceived to be a good predictor of graduation potential.

*Market-specific constrainers/enablers* could relate to the limited market context (as discussed at length above) or may be related to price changes and inflation. Unlike under the PSNP, in the VUP Public Works daily wages paid are equal to, or higher than, local market wage rates in most VUP communities. This is likely to facilitate graduation. However, there are limited markets for products in many of the areas where the VUP is implemented. Many activities for which VUP loans have been taken have uncertain markets (e.g. rearing rabbits for meat and cows to sell milk) and there is a risk of over-supply if too many borrowers in an area take loans for the same activities. On the other hand, a market enabler has been identified for VUP borrowers living near Kigali, the capital city, where a high demand for eggs means they have to be imported from Uganda; local producers have a ready-made market because they can deliver eggs to local traders and urban consumers at lower cost.

Finally, *environment-specific constrainers/enablers* exist because of the unpredictable and insecure environments that many beneficiaries live in. Natural disasters, severe weather conditions, seasonal swings in rainfall and temperatures, all define the context within which beneficiaries can or cannot take advantage of social protection programming. In Rwanda, relatively high and predictable rainfall constitutes an environmental enabler: VUP Public Works projects are maximising the agricultural benefits of this rainfall by creating terracing and irrigation infrastructure. In Ethiopia, by contrast, unpredictable rains are an environmental constrainer, since a poor rainfall

can undermine PSNP livelihood packages that aim to promote crop and livestock production.

## Conclusions

As the notion of graduation begins to dominate the social protection domain it is worth stepping back and reflecting on what is meant by graduation and under what conditions it can be achieved. In this paper we have attempted to do just this – recognising that graduation is centrally concerned with building resilient livelihoods (via asset transfers and the underwriting of risk), for the ultimate objective of poverty reduction. As well as unpacking and critiquing the theory of change that underpins many current large-scale graduation programmes, we have laid out a theoretical discussion on the enablers and constraints to graduation. Some conclusions we draw are the following.

1. Graduation thresholds are critical for programming and budgeting purposes, because they define eligibility for and exit from many social protection programmes, which determines their scale and cost. However, thresholds deflect attention from the bigger objectives of social protection programming – that of transformed and sustainable livelihood improvement. These bigger objectives cannot be measured in terms of benchmarks, so new indicators for evaluating graduation must be developed.
2. Programming for graduation needs to be placed in a broader context of market and community thresholds, initial assets levels of households and community, the likelihood of agglomeration effects, and the unpredictability of the environment.
3. If 'context' as an enabler or constraint to graduation is taken seriously, then a programme theory of change will need to include actions that address context constraints (such as markets, infrastructure, seasonal shocks) in order to facilitate sustainable graduation.
4. Critically, designers and implementers of social protection programmes need to focus on the enabling environment for strengthening livelihoods, which implies a coordinated approach to development, if functional and therefore sustainable graduation is to be realised.

The increasing focus on achieving graduation from social protection programmes represents a commendable drive for cost-effectiveness and for linking the 'social' objectives of development interventions with 'economic' goals such as poverty reduction, growth and sustainable livelihoods. However, it is important not to lose sight of the primary purpose of social protection, which is to provide effective safety nets or insurance against downside risk for people who are already poor or vulnerable to becoming poor(er). A clear distinction must always be retained in social protection programming between individuals and households who have graduation potential and those who do not (e.g. those who have no labour capacity).

Social transfers are an inadequate instrument on their own for building sustainable livelihoods and resilience against fluctuations and shocks. Social transfers can be effective in smoothing consumption and protecting existing assets, but complementary interventions are needed to increase incomes and assets to the point where participants are ready to graduate from the programme. Delivering both 'livelihood protection' and 'livelihood promotion' requires a 'package' approach, including both support to household consumption and support to livelihoods.

The evidence base on whether 'threshold' graduation (crossing an asset or poverty line) amounts to 'sustainable' graduation (staying above the threshold after social protection support is withdrawn) is very thin at this early stage. However, there are indications from some programmes that many graduates fall back below the threshold within a short time period, suggesting that graduation was premature.

Although programming for graduation is invariably reduced to crossing thresholds defined in terms of poverty or poverty proxies (e.g. assets), we argue that this is inappropriate. Instead, graduation should be conceptualised and assessed in terms of resilience – enhanced ability to withstand moderate shocks without damaging losses. The next challenge is to identify robust indicators of resilience that can be introduced to social protection programmes as monitorable graduation thresholds.

## End Notes

<sup>1</sup> Not all households can be expected to 'graduate' from social protection programmes. Some vulnerable and poor people, such as the elderly poor or people living with severe disabilities, are likely to require social assistance over a long, if not life-long, period. This paper deliberately does not deal with these groups.

<sup>2</sup> Whether and how a benchmark can be appropriately set is another large discussion that requires further discussion and empirical analysis, but is not the focus of our attention here.

<sup>3</sup> Such behaviour could be strategic – choosing not to invest or accumulate, to remain eligible for programmes where income or asset ownership is a criterion for continuing to receive benefits. Of course, not all consumption is 'wasteful', and some consumption is a form of investment – e.g. well fed children should perform better in school, improving their future earnings potential.

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