BRAC's Microfinance Canvass: Financial Services and Strategic Linkages

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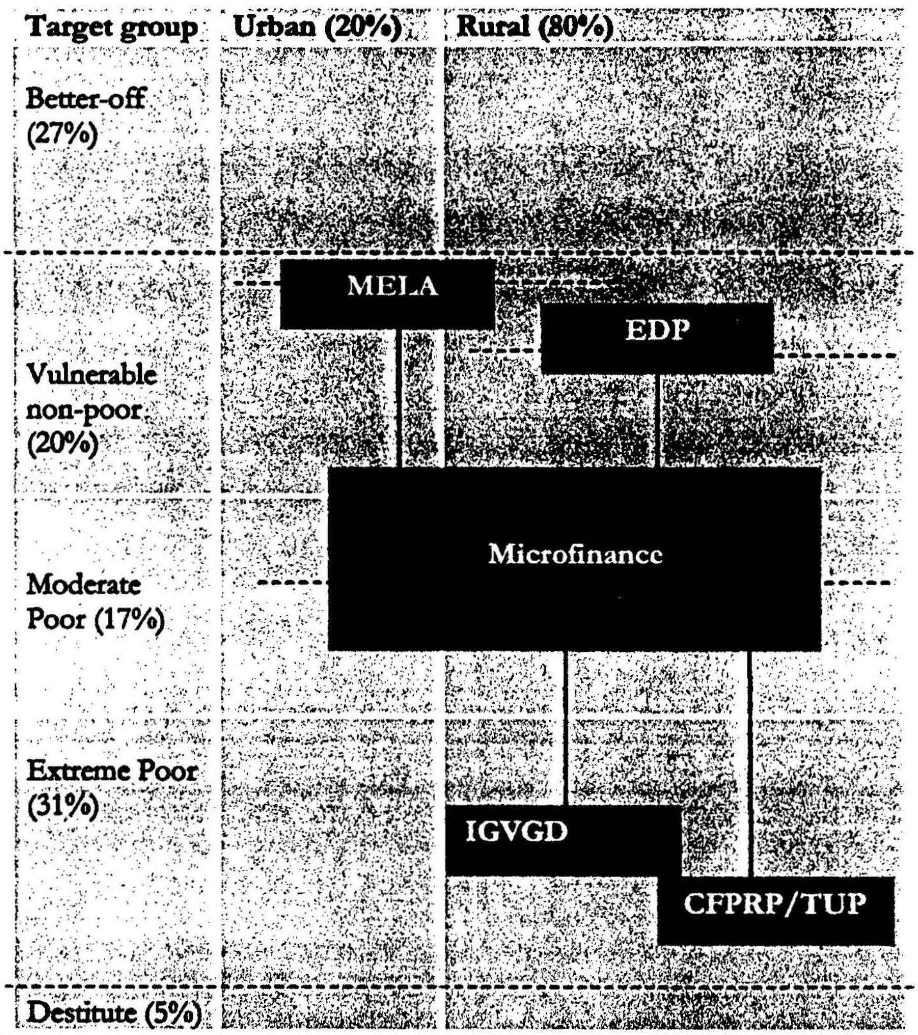
Abstract

The poor are a diverse group with diverse livelihoods, needs and potential, which change over time due to lifecycle, new opportunities and external shocks. This diverse and dynamic reality of poor peoples' lives forms the canvass within which BRAC conceptualises and designs its repertoire of development programs, in which microfinance is a core element. This paper through a few program experiences attempts to reveal the conceptual innovativeness embedded in the way BRAC thinks and acts about microfinance. It is not only 'microfinance the tool' that is a powerful poverty-alleviating weapon, but also the institutional framework of microfinance that is created in delivering microfinance. The extensive outreach, connection, knowledge and network, that the microfinance institution and the people running it at all levels possess and generate in their every day working engagements, is an extremely powerful asset in the fight to overcome poverty. We are only beginning to harness the power embodied in the institutional capital of microfinance institutions. This will be the second generation challenge for all poverty focused microfinance institutions and Bangladesh can again lead the way.

I. Our Microfinance Canvass

The poor are a diverse group with diverse livelihoods, needs and potential, which change over time due to lifecycle, new opportunities and external shocks. This diverse and dynamic reality of poor peoples' lives forms the canvass within which BRAC conceptualises and designs its repertoire of development programs, in which microfinance is a core element.

If we map the various poverty categories we obtain from the literature (WB/BBS) onto BRAC's different microfinance programs, we get a picture like the following.

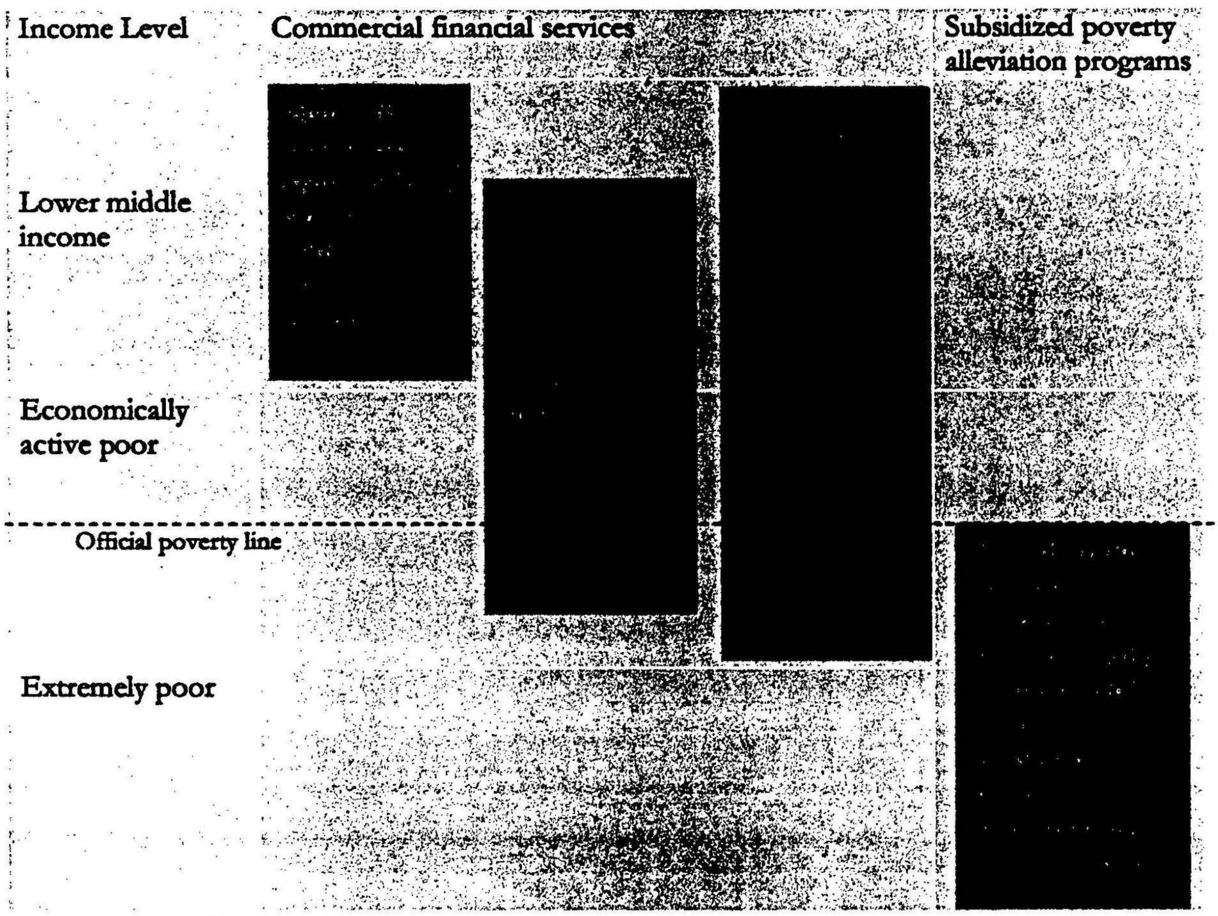


Note: IGVGD= Income Generation for Vulnerable Group Development; CFPRP/TUP= Challenging the Frontiers of Poverty Reduction/Targeting the Ultra Poor; MELA= Microenterprise Lending and Assistance; EDP= Enterprise Development Program

——————> signifies vertical entry, and -------> signifies horizontal entry

Before moving on to describe some core dimensions of this framework, which we intend to do through a few examples later in this paper, let us digress slightly—the digression will only help locating BRAC's microfinance imagination within a broader canvass.

Marguerite Robinson in her globally acclaimed book, 'The Microfinance Revolution', on page 21, comes up with an interesting diagram through which she tries to define the microfinance market, more accurately, the commercial financial services, which she distinguishes from what she terms, 'subsidized poverty alleviation programs'.



Source: Robinson, M., May 2001, *The Microfinance Revolution: Sustainable Finance for the Poor*, The World Bank and Open Society Institute, USA.

Marguerite's diagram posits two sets of distinctions, which is worth noting. The first is the distinction drawn between commercial microloans and interest bearing savings accounts. Whereas, savings is shown to be an appropriate service for both lower middle income and economically active poor, this is not the case for commercial microloans, which is not appropriate even for the poorer among the so-called economically active poor. In other words, the poorer you are, the less appropriate are microloans as financial services.

The second distinction is between commercial financial services and subsidized poverty alleviation programs. It is subsidized poverty alleviation programs, which are appropriate for the extreme poor and not financial services. The first distinction, i.e. credit is less appropriate the poorer you are gives rise to a whole set of issues and debates which I will not focus here. Let me spend some time with the second distinction centring on the extreme poor.

Indeed, the extreme poor, being excluded from a range of services and opportunities and facing a complex structure of constraints, need approaches that rely more on protectional mechanisms and these will have to be subsidized. That is obvious enough. What is more problematic, however, is the conceptual separation between the agenda of microfinance and the appropriate development interventions for the extreme poor. The debate is not really about whether financial services is an appropriate service for the poorest, but rather what happens if the agenda of addressing extreme poverty is eschewed from the microfinance imagination. BRAC as a poverty focussed microfinance providing NGO has been and is grappling with this question and though we do not have definite answers, we have some experiences to share. The core message is one of hope---- there are clever mechanisms through which strategic linkages can be created between what Marguerite calls, 'subsidized poverty alleviation programs' and 'commercial microfinance', and there is no need to conceptually blind out the extreme poor from the microfinance imagination.

Let us now move on to discuss some program experiences that illustrate BRAC's microfinance canvass that we have already presented diagrammatically above. The first set of examples demonstrates our experiences of ***building opportunity ladders*** for the extreme poor, those who tend to be left out from conventional microfinance programs. The idea here is to design subsidies in ways that provide a window of opportunity for the extreme poor. To strengthen the initiatives of the extreme poor so that they can over a period of time build the capacities to benefit from microfinance and other mainstream development programs. The second one is another example of BRAC using microfinance combined with other interventions to provide a ***new chance of new livelihoods*** to people facing sudden vulnerabilities. The third set of examples illustrates how BRAC uses the ***knowledge embodied in its institutional networks*** to provide financial services to new market segments.

II. BRAC's Experiences with Building Opportunity Ladders from Safety Nets: IGVGD and CFPR/TUP

BRAC long realized the difficulties of reaching and addressing the needs of the extreme poor using conventional microfinance. But, for BRAC the challenge was in thinking of mechanisms through which the extreme poor could be included within its programs in a way that is cost-effective and yet goes beyond transfers.

II.1 IGVGD Program: Including Those Left Out[1]

BRAC in 1985 approached the WFP, which was already providing a time bound food assistance to the extreme poor living in vulnerable areas under its Vulnerable Group Feeding (VGF) program, to implement a new linkage and sustainable model for the vulnerable group. The IGVGD program was thus designed to link extremely vulnerable women to mainstream development activities. Under this initiative, extreme poor women were organized into groups and provided with skill development training in the various sectors that BRAC had expertise in. In addition to training, the IGVGD women were also brought under the BRAC health services and networks. During the period these extremely poor women received food transfers, a savings scheme was developed and later small amounts of program credit was also provided so that the training they received could be more meaningfully used for a more secure livelihood.

The whole program was focused on developing a systematic approach to take advantage of the window of opportunity in the lives of these extreme poor women while they received the food transfers and the short-term security. To provide support so that they could stand on more solid grounds once the transfer period was over. An independent study by WFP found that through this strategic linkage, more than three quarters of those who receive the VGD card in every cycle end up becoming regular clients of BRAC's microfinance program.

A study by CGAP found that the subsidy per VGD women is about $135, which according to the paper, '[...] represents a small subsidy, given the overwhelming majority of IGVGD women who graduate out of a need for continuous handouts'. Needless to say the greater the proportion of the VGD women who graduate to BRAC's microfinance program and the better the quality of graduation, the more the possibility that over a period of time this cost of subsidy is recouped.

II.2 CFPRP/TUP: Building More Solid Opportunity Ladders

BRAC's IGVGD experiences demonstrated the possibility of creating opportunity ladders from safety nets for those who are left behind by conventional microfinance. This made BRAC even bolder in carrying out further experiments with this concept.

BRAC noticed that though for a great majority the IGVGD approach lead to increasing their abilities to benefit from regular microfinance programs, for a significant minority, this was not happening. More worryingly, those that failed to 'make it' were among the poorest and most vulnerable. There were several reasons for this. BRAC was at times dissatisfied with the targeting carried out by the upazilla representatives who sometimes selected based on political and other motives. More importantly, the VGD women often failed to get the full benefits of the window of opportunity provided by the food transfer. This is because one VGD card was often unofficially shared between two or more. Sometimes, VGD cards had to be 'bought' and more often than not, this would mean advance selling of VGD cards to wheat dealers to raise the money for the 'payment'. BRAC felt the need for a program where we would have more control

[1] This section draws from Syed Hashemi's panel study on the IGVGD beneficiaries. This was published as a CGAP Focus note available at www.cgap.org

over the processes and one where the window of opportunity will be specifically designed to build the solid ground for the extreme poor to move forward from.

From January 2001 BRAC has started a new experimental program with these challenges in mind. This is called, 'Challenging the Frontiers of Poverty Reduction: Targeting the Ultra Poor', or TUP, for short. The core idea is similar to the IGVGD, though the elements are very different. There are two broad strategies in TUP, one, 'pushing down' and the other 'pushing out'. First, the Program seeks to 'push down' the reach of development programs through specific targeting of the ultra poor by using a careful targeting methodology that combines participatory approaches with simple survey based tool. Secondly, it seeks to 'push out' the domain within which existing poverty alleviation programs operate, by addressing dimensions of poverty that many conventional approaches fail to address. Specifically, this involves a shift away from the conventional service delivery mode of development programming to focusing on human capital, and the structures and processes that disempower the poor, especially women, and constraint their livelihood. It is an approach that puts social development, specifically a rights-based approach to health and socio-political empowerment, at the heart of the agenda.

Program components in the 'pushing down' front include, a special investment program in the form of a grant of assets/capital in kind and stipend, a skills development training program, a program of essential health care and a social development program. The program aims to cover 70,000 ultra poor during 2002-2006.

The whole idea behind the CFPR/TUP approach is to enable the ultra poor develop new and better options for sustainable livelihoods. And this requires:

- A combination of approaches --- promotional, such as asset grants, skills training and protective, such as stipends, health care services, etc.
- Attacking constraints at various levels --- household and the wider environments of institutions, structures and policies
- Working within a multi-agent framework, i.e. strengthening institutions of the poor that can leverage their own agency and poverty focused advocacy by institutions representing the poor, such as BRAC.

The CFPR/TUP approach challenges itself to deliver on all these fronts and the hope is that the initial subsidy that this approach entails, which will be heavier than the IGVGD, will reap benefits by building a more solid and comprehensive base from which the extreme poor can build on from.

III. Addressing New Vulnerabilities: BRAC's Pilot for Re-skilling Retrenched Female Garment Workers

Globalization opens up new opportunities as well as new risks. Those who lose out, especially the poor are more often than not, left high and dry. In Bangladesh, no formal safety net exists that would provide a chance for a new lease of life for the poor who lost out due to the uncertainties created by the global market forces. The RMG sector workers are a case in point.

Because of the rapid expansion of garment sector in Bangladesh from early eighties to 2000, a dramatic change has taken place in labour force of the country. At present about 2 million workers are engaged in this sector, 90% of who are female. Most of them are young girls, aged between 15-25. A large number of them are unmarried and uneducated. They are mostly from rural areas of the country and live in slums jointly with other co-workers. They meet the costs of accommodation and food from their wages. They do not have family support; rather many of them support their families. As many of them have now lost their jobs, they and their family members are undergoing extreme economic crisis. They do not have any income and are unable to rent a place to live in Dhaka. Many of the female workers are likely to be exploited by unscrupulous elements into degrading activities, such as prostitution.

The BGMEA sources disclosed that earning in this sector has already gone down by 6% during 2000-2002. The dwindling business is forcing many factory owners to close down and about 1200 units have already been closed. This trend is likely to continue. This will render a significant percentage of over 2 lac female workers jobless. Such massive loss of livelihood is likely to have profoundly adverse impacts on poverty and women's vulnerability in Bangladesh. It has been estimated that about 200,000 female workers has already become jobless.

BRAC has an extensive coverage in the urban slum areas of Dhaka through the BRAC Urban Program offering a whole range of development services, including microfinance. The challenge for BRAC in the face of the RMG sector uncertainties was how to design a programmatic approach to respond to the needs of the retrenched female garment sector workers. Most of these women were wage earners and trained in very specific skills, which they would not be able to use for new types of livelihood outside the RMG sector. Just providing them credit for self-employment would not be appropriate for them.

Yet, these are extremely brave and resilient women, who have negotiated and struggled against a series of odds to work. A prior step was needed for theses women--- BRAC decided start a pilot project in July 2002, which would train them with a new set of skills which they could make use of for a new livelihood. They could also join the BRAC urban microfinance member organizations and take credit. Only within six months of the pilot, which is running from five BUP area offices in Dhaka, BRAC has been able to provide training on a range of skills to almost 1,300 retrenched female garment workers and about 70% of them have already joined BRAC microfinance groups. We are encouraged by the initial results and are planning an expansion.

This is yet another example of being brave and rising to the challenges of the moments. To search for mechanisms that widens rather than restricts the imagining of the many different ways in which the possibilities of the institutional canvass of microfinance may be further harnessed.

IV. Serving New Market Niches: MELA and EDP

A lot of growth potential exists in the missing middle that can be facilitated through direct financial services provision. The entrepreneurs in this segment of the market tend to be owner cum operators, self-starters and innovative. Yet, they are typically unserved both by formal banks and microfinance institutions, and this often constraints the scaling up of their enterprises. The growth of such enterprises can have direct and indirect poverty alleviating impacts through job creation and spill over effects in the backward and forward linkages.

Good knowledge about this segment of the market is however necessary. Though some type of formal collateral may be available from operators in this market, the legal processes that would make these collaterals effective may be extremely cumbersome. Forms of collective responsibility through joint liability, which has been so creatively used by conventional microfinance in replacing traditional forms of collateral, may not be very appropriate for this segment of the market. These are some of the reasons for which the missing middle exists.

BRAC felt that given its strong local knowledge of the areas in which it operates and the extensive local network it has in place, it could serve this missing middle market segment. In 1996, BRAC started the Micro Enterprise Lending and Assistance (MELA) program with the aim to provide larger loans to the more enterprising VO members as well as non-VO micro entrepreneurs to develop their own business. MELA tries to stimulate the growth of small enterprise in the semi-urban and rural areas. The loans starting from 50,000 taka are enterprise loans based on careful but rapid appraisal of the enterprises. These loans are given to individual entrepreneurs and loans are repayable in monthly installments with rebate possibilities in case of early repayment. By September 2002, more than taka 2,000 million has been loaned to more than 38,000 entrepreneurs in XX upazillas of the country. The on-time repayment rate is 98%. A carefully designed MIS provides entrepreneur specific information at regular intervals to enable rapid follow up and action.

The farm sector also suffers from a strong missing middle syndrome. BRAC has a good knowledge of this market segment and the 'progressive operators' in this market through its extensive network of the various sector programs. It makes use of this program knowledge to target areas with specific potential and within it the enterprising operators under a newly launched from October 2002 called, Enterprise Development Program (EDP). These loans are farm enterprise loans for farmers owning up to 100 decimals of cultivable land. Loans start from 7,000 taka and BRAC's sector program organizers are responsible for the field operations of the program. Members of this program form groups of 25 called Enterprise Organization (EOs) and an EO becomes functional once it has at least 10 members. Meetings are held weekly where members save at the rate of taka 10 until they get a loan after which they save taka 50 for every 1,000 taka loan. Repayment of loan is however in monthly installments and a range of six-month interval loan maturity term is available. For before maturity loan repayment, a rebate is available. Given that farm enterprises tend to have gestation period, sector specific grace period is allowed. By December 2002, just within three months of its existence, the EDP already has about 20,000 members in more than 2,000 EOs with a total disbursement over taka 11 million.

V. Impact of BRAC Microfinance Program

At BRAC, we like to think of ourselves as a 'learning organization'. A great deal of our learning comes from our program experiences, and sharing of ideas and communicating with colleagues at various levels of the organization. However, there is no substitute of careful research to complement and focus our efforts. BRAC's Research and Evaluation Division (RED) has been working since early 1990s to develop a comprehensive Impact Assessment System (IAS). The assessment of the programs not only gives BRAC the measurement of program success, but also helps to evaluate impacts of the program in raising the socio-economic status of the participants and to identify the pitfalls and challenges. The following findings on the impact of BRAC Microfinance Program were reported in BRAC's Impact Assessment Study II:

- Eighty percent of BRAC loan were used for productive investment, asset purchase and for housing. Only 3% of loans were used for household consumption.

- Since joining BRAC, nearly four percent of member household graduated from landlessness and shifted to different landholding groups.

- About 45% of BRAC members are now themselves directly involved in any income generating activities. Before joining BRAC the percentage was only 28%.

- BRAC member households owned 50% higher net worth than non-BRAC members.

- BRAC member households had two times more savings than the comparison households.

- Average per capita calorie consumption and total food and nonfood expenditures were significantly higher for BRAC member households. Ratio of non-food to total expenditure was also higher for BRAC, which mainly increased with increase in the household income.

- BRAC members were found significantly better off than the comparison households in term of value of their dwelling places and per capita floor space utilization.

- Level of education, adult literacy and primary school enrollment of the group members significantly improved after joining BRAC.

VI. Conclusion

It is not only 'microfinance the tool' that is a powerful poverty-alleviating weapon, but also the institutional framework of microfinance that is created in delivering microfinance. This is especially true in the context of Bangladesh, which is home to so many successful microfinance-providing institutions. The extensive outreach, connection, knowledge and network, that the microfinance institution and the people running it at all levels possess and generate in their every day working engagements, is an extremely powerful asset in the fight to overcome poverty. We are only beginning to harness the power embodied in the institutional capital of microfinance institutions. We have shared here a few examples of BRAC's attempts with such an approach. This will be the second generation challenge for all poverty focused microfinance institutions and Bangladesh can again lead the way.