

Inception Report
On
Australian Funded Microfinance Project
For the North Western Region of Bangladesh

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BRAC

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BRAC's Microfinance Programme

Lack of access to reliable financial services is a serious constraint for the poor in their efforts to lift themselves out of poverty. Intervening in this market with a view to democratising access to capital and other financial services that the well-off take for granted is an important step towards removing a crucial stumbling block hindering the poor's effort to improve their own socio-economic conditions.

2) The goal of BRAC's microfinance programme is to provide banking and other services to the poor, which are specifically designed to meet their particular needs. The objectives of the microfinance programme are:

- ❑ To make credit available to poor women, especially in rural areas
- ❑ To provide credit at a reasonable price
- ❑ To involve poor women in income generating activities through provision of credit
- ❑ To promote economic development of the country by increasing the income level of the poor.
- ❑ To operate self-sustaining credit activities.

Village Organization (VO)

In order to bring the rural poor into the mainstream of development, BRAC focuses on institution building as a strategy of inclusion. BRAC believes that a common platform that is created and owned by the poor themselves is a crucial prerequisite through which the poor can make themselves count in the development process. The VO is an association of the poor, landless people who come together with the help of BRAC to try and improve their socio-economic position.

The VO is set up to:

- ❑ Develop a structured organisation of the rural poor with particular emphasis on women's participation.
- ❑ Strengthen the capacity of the poor for sustainable development.
- ❑ Enable the poor to participate in the national development process.
- ❑ The VO is also the link between rural people and BRAC.) 2

VOs are also meant to develop the social capital of BRAC members. The groups gradually begin to address various social issues in the locality such as child marriage, polygamy, illegal divorce and domestic violence.

6) The Area Office (AO) is the center point of all micro finance operations. An Area Office covers 80 to a 100 villages. The location for an AO is generally selected by using the following criteria (a) high incidence of poverty, (b) lack of employment opportunities, (c) poor access to public resources, and (d) lack of presence of other NGOs in the locality. By December 2001, BRAC's micro-finance operations have 1,115 Area Offices. Out of these are 430 main-posts and Branch Offices are 685.

Product and Services of BRAC Microfinance Programme

BRAC's Microfinance programme provides three types of products and services to its VO members. Those are,

- I. Credit
- II. Savings
- III. Death Benefits

Some descriptions of these services are given below:

i) Credit

BRAC provides credit to its VO members to initiate different income generating activities. While loans for individual and joint activities do not require collateral, members must have some savings with BRAC before they are eligible for loans. Credit operations are carried out through a Revolving Loan Fund (RLF). This RLF consists of donors' fund, members savings, Palli Karma Shayak Foundation (PKSF) loan and other loans. Loans realized are credited to and form part of the RLF for extending further credit. A 2% Loan Loss Reserve is kept to cover the risk of bad debts. Frequent borrowing and payments allows the borrower to take higher loans.

Key Features of Loans

- ❑ Loan range: Tk.1,000 to 20,000
- ❑ Interest rate: 15% flat rate
- ❑ Repayment mechanism: Equal weekly instalments
- ❑ Loan products: General loan, sectoral programme loan, housing loan
- ❑ Emergency loans are also given at the time of disaster

In 2001 a total amount of 14449.72 million taka has been disbursed in microfinance programme (excluding Micro Enterprise Lending Assistance Programme). On the basis of year 2000 the growth rate is 11%.

ii) Savings

An important component of the credit operation is in the collection of savings and BDP's experience has shown that the regular savings contribution yields better discipline in the VO credit operation. From the member's point of view, savings represent an opportunity to save a lump-sum and earn interest of which they could not have benefited from the formal market or regular financial institutions. Savings opportunities with BRAC provide members with funds for consumption, children's education and other investments. It also provides security for old age and serves as a contingency fund during natural disasters when income level fluctuates. Three types of savings are in place.

In BRAC a VO member can save in three ways:

Weekly Personal Savings: On average, members are required to save a minimum of Taka 5 (25 US cents) every week.

Compulsory Savings: When VO members' take loans, it is mandatory that they deposit 5% of the loan amount into their savings account. A member can withdraw 50% of their net savings at any point of time of the year.

In year 2001 the savings position stands at 4304.64 million. In year 2001 the net savings has increased Tk. 754.64 million, which is 21.26% higher compare to year 2000.

iii) Death Benefit

BRAC has introduced an insurance policy for its VO members since June 1990. The sudden death of an earning member can be very costly, both in terms of immediate cost, such for the funeral and in income foregone. Such unpredictable shocks can destroy a household's livelihood. BRAC's insurance policy tries to minimise the level of such insecurity. In order to be eligible for the insurance policy she/he must be a member of a VO.

The key features of BRAC's insurance policy are:

- BRAC's insurance service provides Taka 5,000 (US\$ 100) to the dependants of the deceased.
- No premium is charged to the members. Interest earned through BRAC credit programme is used to pay the benefits.

In the year 2001, a total of 6,203 people received death benefits. On average they receive Tk. 5,000. In year 2001 BRAC gave a total of Tk. 31,017,000 to the deceased family members. The number of families who received death benefits was 0.14% of the total members.

Performance of Micro-finance Programme in 2001

Particulars	2001
Disbursement (in million Tk)	14449.72
Closing savings balance (End of December 2001) (in million Tk.)	4304.64
Ageing principle outstanding (No Past Due)	96%
Ageing principle outstanding (Total)	
No Past Due	88%
Past Due (1-4%)	2%
Average loan size	Tk. 5,917

North-west region of Bangladesh

Bounded by India-Bangladesh frontiers in the north and in the west and by Padma and the Jamuna rivers in the south and in the east lies Rajshahi, the north-west division of Bangladesh, with an area of 34,513 square kilometres, roughly 23% of the landmass of Bangladesh. This part of Bangladesh is endowed with immense cultural and historic riches including the first capital of ancient Bengal in Bogra, a 2,500 years old Buddhist monastery in Paharpur, and many famous ancient historic sites.

Subject to both flood and drought and severe cold in winter, this part of Bangladesh is also the poorest and most food insecure region of Bangladesh. Excessive sand makes the soil one of the least productive in the country. Three-quarter of households are either completely landless or "near landless"; i.e. their meagre landholding is not enough to cultivate sufficient food for their family's basic consumption need. The incidence of chronic poverty in the north-west is the highest in Bangladesh. The daily wage rate is the lowest in the country-more than 20% below the average rate- and the population growth is higher than the national average. Over 70% adults are illiterate. Marginalisation, the "distress sale" of land, and concentration of land ownership are increasing while the daily wage is decreasing.

The north-west region experiences the coldest winter in Bangladesh with temperatures falling as low as 3 degree C. Every winter the national print media carries stories of poor people freezing to death. Informal NGO reports name the north-west region as the worst in Bangladesh for domestic violence against women, possibly as a consequence of deeper and worsening poverty.

Project Goal and Objective

overall
(The proposed goal of this Project is poverty reduction in the north-west region of Bangladesh-one of the poorest and most food insecure region of the country- by enabling BRAC to extend microcredit and a savings service on a sustainable basis to an additional 22,848 poor and poorest households in the North-west.)

purpose
The objectives of the Project are-

- 22,848 poor households in the North-west obtain access to credit for self-employment and other financial services. These enable these households to generate income and create productive assets, and gradually lift themselves out of income poverty;
- BRAC's financial and institutional capacity and physical facilities are expanded to service 22,848 additional poor clients on a sustainable basis. This expanded capacity will continue to exist beyond the life of the Project.

Project Areas

According to the PDD BRAC was supposed to carry the programme with the help of 12 branches. Out of this 4 new branches will be established and 8 branches will be extended. According to the plan 2 new branches will be established at Thakurgaon, 1 new branch at Rangpur and 1 new branch at Dinajpur. And 2 branches of Kurigram, Panchagor, Lalmonirhat and Gaibandha districts will be extended.

Target Beneficiaries

- (a) BRAC: BRAC's credit outreach in the project area is 338,810 loanees while the total membership is 446,139. Thus in term of access to credit, there are ~~107,329~~ ^{107,329} unserved poor households in the project area that are already mobilised. The Project will enable BRAC to include an additional 22,848 clients in its credit programme. At the end of the 5-year project period BRAC's on-lending pool will increase by AUD 4,423,283. Through the generation of internal revenue (interest income) from on-lending, this capital base will continue to grow at an average rate of 20% a year. This part of BRAC's micro-finance operation will attain operational self-sufficiency in year 3.
- (b) Clients: The Project will enable BRAC to provide credit for self-employment and other financial services to a further 22,848 poor households in 7 rural districts in the north-west region of Bangladesh. Continuous impact monitoring and one major impact study will quantify the impact of the Project on poverty reduction in the target population.
- (c) Bangladesh: Poverty reduction is a high priority of the Government of Bangladesh. In Bangladesh, microcredit (provision of small credit for self-employment) and other financial services notably savings are shown to be an effective tool for attaining poverty reduction.

Description of Key Components

While Bangladesh has the world's largest micro-finance sector, an estimated 2 million poor households remain unserved. The Project will assist Bangladesh in serving some of these and thus make a contribution towards the Government of Bangladesh's goal of poverty reduction. The Project has the following five components:

1. Expansion of BRAC's Institutional Capacity: Recruitment and training of staff and expansion and improvement of physical facilities necessary to serve a larger clientele;
2. On-Lending Expansion: Provision of loans and repeat loans to an additional 22,848 poor borrowers;
3. Impact Monitoring & Impact Study: Regular monitoring of the benefits accrued to the poor and one in-depth study of the impact of the intervention on the well being of the participants;
4. Project Monitoring & Management: Management, coordination, monitoring and reporting of the expansion project by BRAC. Monitoring includes BRAC's two-tier monitoring of portfolio performance, internal audit, and annual external audit;
5. Independent Review and Audit by AusAID: A yearly external financial audit, a mid-term project review, and an end-of-project review

Component 1- Expansion of BRAC's Institutional Capacity

Objective: To expand and improve BRAC's institutional capacity through recruitment and training of staff and expansion and improvement of physical facility to meet the project goal of extending sustainable financial services to an additional 22,848 poor households.

Key Indicators: The success of the Project Component will be measured by an increase in the number trained staff, new branches, the expansion and improvement of physical facilities in existing branches, and by the success of Project Component 2 which includes loan disbursement, loan portfolio quality indicators and financial ratios.

Output 1.1 4 new branches and 8 existing branches scaled up

(According to PDD 4 new branches established and 8 existing branches scaled up. 56 additional field staff will be recruited and new and existing branch staff will be trained.)

The area where BRAC has established new branches and expanded the old branches are given below:

DISTRICT	PRO POSED THANAS	NEW BRANCH (1 ST YEAR)	EXPANSION (1 ST YEAR)
1. Dinajpur	1. Khansama	Pakerhat 1998 Nov	
	2. Chirir Bondor		Chirir Bondor
2. Gaibandha	3. Sundorgonj	Panchpir 1994 Feb	
	4. Shaghata		Shaghata
3. Kurigram	5. Fulbari		
	6. Rowmari		
4. Lalmonirhat	7. Hatibandha	Baura 1998 Dec.	
5. Thakurgaon	8. Horipur		Horipur
	9. Ranisankail		
6. Panchagar	10. Tatulia	Vojonpur 1999 June	
7. Rangpur	11. Gangachora		Gangachora
	12. Taragonj		

These areas are different from what was written in PDD. But at the time of implementation BRAC has given concentration in the areas, which are very poor. According to the Government of Bangladesh/WFP resource allocation map the selected areas are the most food insecure area of the country. According to the relatively food insecurity total Bangladesh has been divided into four parts. Those are i) Very High ii) High iii) Moderate iv) Low. And the thanas which have been selected by BRAC for the programme, is in the highly food insecure zone. Through this AusAid funded programme BRAC wants to serve the poorest section of the country that's why BRAC has rearranged areas for establishing new branches.

1.2 Workforce Expanded Through the Recruitment of 56 Additional Staff

According to the PDD BRAC was supposed to recruit 56 additional staff in the first two year. BRAC has already recruited 52 staff. Another 4 staff for the old branch will be recruited in 2nd year. The breakdown of newly recruit staff in various branch are given below:

Name of Branches	Newly Recruit Staff
Pakerhat	12
Panchpir	12
Baura	12
Vojonpur	12
Chirir Bondor	1
Shaghata	1
Hotipur	1
Gangachora	1

Output 1.3: New and Existing branch Staff Trained

BRAC has an established and sophisticated staff training and re-training/refresher in-house capacity. BRAC's training division, headed by a director has an annual budget of just under AUD 8 million, employs 413 full-time trainers, analyst and other staff, maintains 12 residential Training and Resource Centres (TARCs) and 2 Management Training Centres (CDMs) in 14 different locations. Therefore BRAC does not need to improve its' training facilities. The newly recruit staff has already received training. The number newly recruit staff who has received training are given below:

Output 1.4: Physical facilities in branches expanded and improved

BRAC has most of the necessary infrastructure already in place. Therefore no expenditure is required for the expansion or improvement of the physical facilities in the existing 8 branches, and only a modest expenditure is needed for new branches. BRAC has already spent amount of Tk. 717,137 for the expansion of the physical facilities. The breakdown of expenditure in 4 new branches is detailed below:

Branches	Cost
Pakerhat	164,915
Panchpir	173,140
Boura	55,805
Bhajanpur	323,277
Total	717,137

Component 2- On-lending Expansion

Objective: To provide loans and repeat loans to an additional 22,848 poor households in 7 rural districts of the north-west region of Bangladesh.

Key Indicators: The success of this project component will be measured by an increase in the number and geographic spread of target clients, an increase in loan sizes to target clients over time, an increase in productive self-employment activities, expanded loan disbursements, the maintenance of high portfolio quality and strong financial performance. Measurements from Project Component 3 such as increase in household income of clients will also determine the success of this Project Component.

In the following project BRAC was supposed to carry the following activities:

- Additional 22.848 clients will be served
- Increased geographical coverage.
- Increase in average loan size through repeat loans
- Increase in productive self-employment activities

According to the PDD in the first quarter of a new branch BRAC was supposed to have 1,440 members and no one was supposed to take loans. But BRAC has not been able to continue the project according to PDD. Mainly of the following reason: BRAC was submitted the concept paper to AUSAID for the Microfinance expansion in year 2000. BRAC has undertaken the survey on the same year. At that time it was identified that there is a severe need of microfinance assistance to the people of that area. And because of that, at that time BRAC has established Area Offices at Pakerhat, Panchpir, Baura and Vojonpur. BRAC thought when AUSAID project would be started then these offices will be transferred to the AUSAID project. At present these offices have a certain number of members, borrowers, savings and loan outstanding. And these members, borrowers, their loans outstanding and their savings will be considered is a part of the BRAC regular microfinance programme. The status of the branches till May 2002 is given below:

Branches	Village Organization	Member	Outstanding Borrowers	Total Savings (Closing)	Total Outstanding
Pakerhat	84	2,699	1,826	1,136,163	4,075,864
Pachpir	132	4,988	3,337	3,242,944	6,899,079
Baura	88	2,041	1,159	1,1732,376	1,917,165
Bhojanpur	90	2,600	2,271	3,132,513	5,029,504

From June 2003 all the new members who will be incorporated in the microfinance programme of the mentioned offices and the repeat borrowers will be considered as AUSAID project funded members and borrowers.

Component 3- Impact Monitoring and Impact Study

The objective of BRAC's Impact Assessment is to continuously monitor the economic progress of the clients and the benefit accrued by them, and to undertake one major in-depth impact study to determine the socio-economic impact of the project upon the clients, their households and their communities, thus determining the success or otherwise of the intervention and capturing the lessons learned.

Objective: To ensure that the Project Area and Project Participants are included in BRAC's existing impact assessment process, and that impact data are extracted from BRAC- wide reports and presented in separate reports specific to this Project.

Key Indicators: The success of this Project Component will be measured by the on-time availability and relevance of the impact monitoring data, by the depth and relevance of the impact study, and by the details and usefulness of lessons learnt.

Output 3.1 Baseline impact monitoring data identified and included in the MIS for regular monitoring; periodic collection of the impact monitoring data implemented

Output 3.2 Project area participants are included in BRAC's next triennial impact study

During the life of the project BRAC research division will undertake one major impact assessment study to determine the socio-economic impact of the project upon the clients, their households and their communities. The study will provide analysis and quantify the progress or regress of the clients. The study will also document the lesson learnt. The kind of impact study is a specialized activity. BRAC has a Research Division employing 140 staff with a yearly budget of AUD 700000 will carry this job.

Component 4 – Project Monitoring & Management

Objective: To manage and coordinate the Project; to track the Project progress through BRAC's two-tier monitoring; to ensure the financial integrity of project finances through BRAC's internal financial audit and annual external financial audit; to take timely corrective actions if needed; and to provide timely reports.

Key Indicators: The success of this Project Component will be measured by smooth and efficient management and tracking of the Project; the Project achieving its milestones, goals and objectives; effective implementation of BRAC's internal monitoring; internal and external audits as per schedule; and timely availability of high quality monitoring and audit reports.

The following outputs are expected under project monitoring and management component:

- Annual Plan is available before each PCC;
- Timely six-monthly monitoring reports containing key financial and outreach performance
- BRAC's internal monitoring is implemented.
- BRAC's internal financial audits and yearly external financial audits are conducted and audit reports are available on a timely basis

BRAC has an established process for identifying the baseline impact monitoring data and programming its periodic collection in the MIS. A total of 32 field monitors (FMs) are being engaged in the field in collecting data on indicators and issues as per instructions and guidance from the head office. In the Head Office 7 staffs including Manager Monitoring are working to organise all of the activities of field monitoring. All irrespective of field and HO are at least graduates and having a couple of years of programme experience.

Apart from the Monitoring division BDP has its' own MIS and reporting team.

Component 5 – Independent Review and Audit

In addition to annual reviews of the project by the PCC, two major reviews during the life of the project – at mid-term and at the end of the project – by AusAID will be undertaken.

In addition to the yearly external financial audit commissioned by BRAC that covers BRAC's entire programme, AusAID will commission its own yearly external financial audit of the Project.

Objective: a mid-term and end-of-project review and an independent yearly external financial audit of the Project.

The following outputs are expected under project monitoring and management component:

- A mid term review of the project is undertaken.
- An end of the project review is undertaken.
- Report of the review included in the Project Completion report (PCR).
- AusAID's commissioned yearly external financial audit of the Project is undertaken.

Project Credit Delivery Model

Normally BRAC uses the village organisation (VO) as a means to implement its credit services to its members. Before opens a new Area Office its staff conducts a door-to-door survey to identify the target population of the area. Generally the target area ranges within a 10km radius of the Area Office. Members receive an orientation course at the time of VO formation and each VO is sub-divided into small groups comprising five members with a leader. The VOs have a management committee consisting of an elected chairperson, a secretary, a cashier and leaders of the small groups. BRAC reduced the size of the VO from 40-45 members so that PO-V could better manage the VO meetings, allowing them to give more attention to individual members. Once a VO has a minimum of 20 members' activities may start. 3

4 The VO is set up to develop a well-disciplined organization of the rural poor with particular emphasis on women's participation and develop the capacity of the poor for sustainable development. Through this VO the rural poor enable to participate in the national development process.

5 When a VO is formed, the members elect a president and a treasurer. They hold VO meetings every week. Women begin to save with BRAC as soon as they become members and they can request for loans by the 6th week. Group members must show the ability to deposit savings on a regular basis and once this has been established loan will be disbursed to individuals. While the individual is ultimately responsible for the repayment of the loan, group pressure ensures that loan is repaid on time. 5

The eligibility of the borrower, the terms and conditions of the loan and process of getting loan are detailed below:

Borrower Selection Criteria

- ✓ Must be a BRAC VO member
- ✓ Must not belong to other organization
- ✓ Aged between 18-60 years
- ✓ Regular attendance of weekly VO meetings

Terms & Conditions

- ✓ No collateral is needed
- ✓ Minimum saving balance required 5% for the first loan
- ✓ Mandatory savings deposit of 5% of the loan amount when loan is disbursed
- ✓ 15% flat interest rate has received against the loan
- ✓ After three VO meetings the loan disbursement procedure takes place
- ✓ Time period for General loan to the VO members normally 1 year
- ✓ Loans are repayable generally in installments in weekly

Process

Credit need is determined in small group meetings. The procedures are as follows:

- ✓ Credit decision are taken in VO weekly meetings
- ✓ Loan application is filled up and signed by the borrowers with the recommendation of small group leaders, followed by approval of president or the secretary of the VO. The application is examined and signed by the PO (MF).
- ✓ The borrower signs Guarantee bond. The area manager approves the loan for disbursement.
- ✓ The PO (Accounts) disburse loans to each individual after filling the disbursement sheet duly attested by the borrower in his presence.
- ✓ As soon as the loan is disbursed the PO (MF) makes the entry in loan collection sheet and the passbook.
- ✓ Installment & deposit are also entered in the passbook at the time of received.

Normally loans are disbursed within seven days of the approval, and the borrower collects the money from the accountant of the BDP Area Office.

BRAC works very closely with the disadvantaged people at the grassroots level. Towards this end, it establishes Area offices covering 5/6 unions. Each Area Office (AO) has a target of covering 7200 households and each branch office has the target of 3,600 households. An Area Office has an Microfinance Manager who oversees savings and credit activities. There are six to twelve Programme Organizers(POs). Each AO must have at least 6,000 VO members coming from 144 VOs. Each field level PO oversees about 12 VOs. The PO has a weekly roster for loan collection. Everyday after the collection, performance of credit operations is reviewed and, if necessary, action is taken to improve recovery rate. The Area Office required maintaining certain reporting systems, which provide crucial information regarding field operations. Reporting systems take place in the form of various information sheets (for example: Loan Collection sheet, Loan Disbursement Sheet etc.)These information sheets are collected by the Regional Office and sent to the Head Office Computer Department. At the Area office level, daily and weekly reports are maintained. The Area Manager finds out the programme progress and analyses these reports. The Area Manager is trained in delinquency rates and aging schedules so

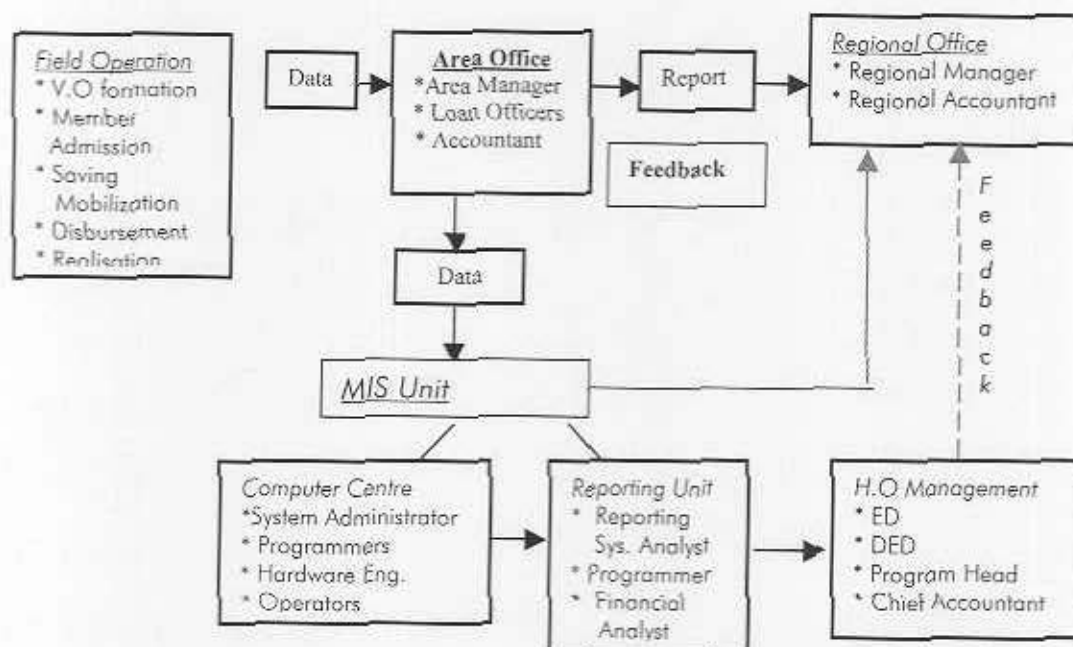
that she/he can take timely corrective measures. Monthly and quarterly reports are submitted to the Head Office. Besides these, the monitoring department carries out programme monitoring regularly.

Present MIS of Microfinance Programme

The BRAC microfinance programme serves over 4.13 million clients over the country. On average, about 300,000 new clients join the programme each year. It has been estimated that each day about 800 transactions take place at an area office--- roughly 50 loan disbursements and 750 loan collections/day. It was recognized that the data generated from this large number of transactions would be too great to manage manually. In the 80's, BRAC felt the need of investing in a strong management information system (MIS) to meet the challenges of rapid expansion. This led to several experiments in the computerisation of the MIS. In 1998 BRAC first piloted an automation programme, and on its successful completion decided to scale it up for all the area offices. As of December 2001, almost 60% of area offices were brought under the automation system.

Information on all microfinance transactions for each borrower are processed and updated at the area office level. At present the records of 4.13 million BRAC members is available in the system. For BRAC, this system helps in identifying challenges and taking timely corrective decisions. In order to ensure accuracy, the computer-generated information is subjected to several verification and error checking features. BRAC is currently using two different types of softwares. One to collect information on members (Credit and Savings Management System software) and one to track accounts (Smart Accountant software).

MIS Structure of BRAC Micro-credit Programme



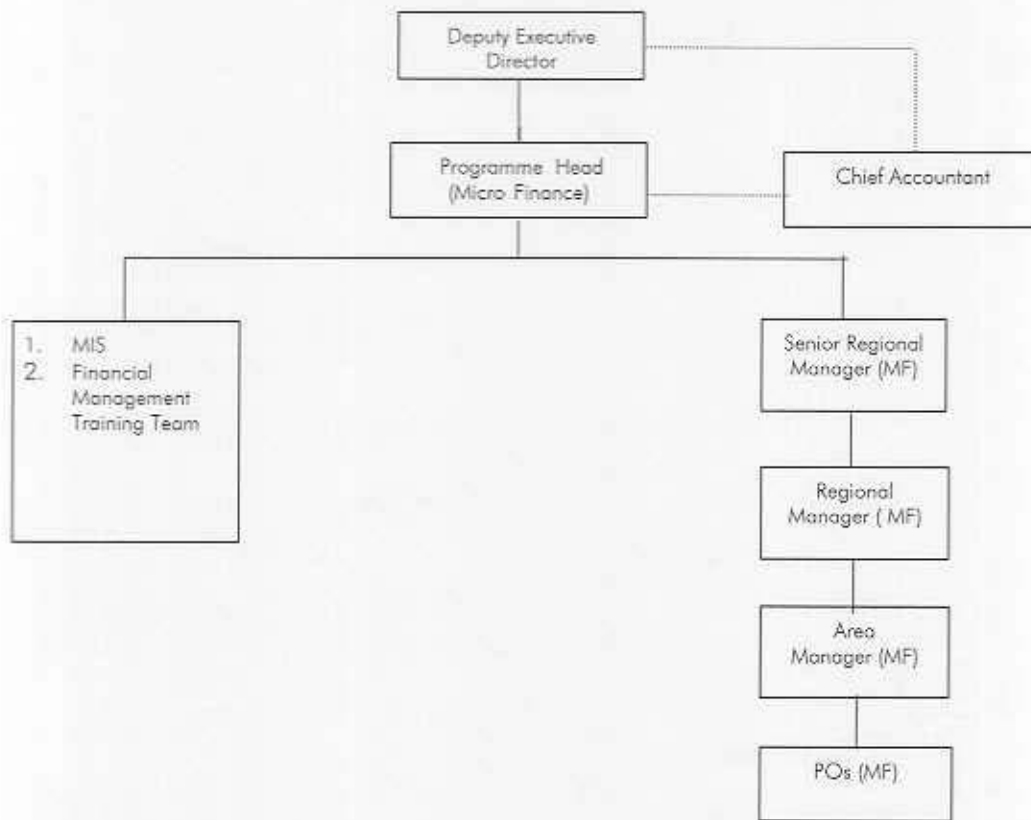
According to the field staff the automation system has decreased the workload by at least 25% and has increased information tracking significantly. It allows instant access to the repayment pattern and history of the individual borrower. Rapid information access and decrease in office workload have enabled more effective client support and monitoring. In addition to these, the computerised accounting system provides current (up to date) income and expenditure statement including daily transaction, balance sheet and cash flow statement. BRAC sees the computerisation of the MIS and area office automation as solid foundations for future microfinance innovations.

Australian Identity

As poverty reduction is a highly visible priority of the Government of Bangladesh and BRAC is such a high profile and reputable development organisation with a long history of working with bilateral donors, this Project offers many opportunities for the promotion of Australian identity and to raise the profile of the Australian-Bangladesh development cooperation programme. Methods to achieve this will include strategic use of press releases, media coverage, stickers, posters, signs, linkage of the project to AusAID's web site, and photos. BRAC will also seek necessary guidance and consent from ausAID Dhaka.

The Institutional Capacity Expansion component of the Project will fund a number of training courses and workshops. BRAC will ensure that Australia's contribution to such events is acknowledged through appropriate signage. Visits by Australian officials (and possibly dignitaries) will also provide opportunities for the promotion of the Australian-Bangladesh development cooperation programme. All project-funded material – computers, office equipment, training manuals, etc. – shall bear appropriate signage and logos as defined in AusAID guidelines.

Organogram: North West Micro-Finance Programme



MF: Micro-finance; MIS: Management Information System; PO: Programme Organiser;

**The First Six Months' (June '02- Nov.'02)
Progress Report
On
North-West Microfinance Expansion Project**



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Introduction: BRAC Development Program (BDP) works with and for the disadvantaged rural population of Bangladesh, especially women, and it has a compelling vision of a society where the poor and disadvantaged will be able to achieve sustainable improvement in their livelihoods, attain a high degree of self reliance and manage their own affairs with dignity and freedom. North-West Microfinance Expansion Project (NWMEP) is one of BRAC's initiatives to improve the economic and social condition of the very poor that are left aside of the society. As we know empowerment can give strength to protest against all sort of discrimination, exploitation and fight against all odds.

The desired goal of the North-West Microfinance Expansion Project is poverty reduction in the north-west region of Bangladesh which is one of the poorest and most food insecure region of the country by enabling BRAC to extend micro credit and a savings service on a sustainable basis to an additional 22,848 poor and poorest households in the north-west.

Objectives of the Project:

- 1) 22,848 poor households in the North-west obtain sustained access to credit for self-employment and saving services, to empower them to generate income and create productive assets, and gradually lift themselves from the bottom strata of poverty;
- 2) BRAC's institutional capacity and physical facilities are expanded to service 22,848 additional poor clients. This expanded capacity will continue to exist beyond the life of the Project.

This Project has started its operation from June 2002. According to the PDD, BRAC was supposed to carry out the program with the help of 12 branches. Out of these 4 new branches will be established and 8 branches will be extended. According to PDD, in Year1 (of the project) 4 new branches will be established and 4 branches will be extended. BRAC is operating the program in 8 areas. The 4 new branches are Pakerhat, Panchpir, Baura and Vojonpur. The 4 extended branches are Chirir Bandar, Shaghata, Haripur and Gangachara.

Progress on Component wise:

The Project has 5 major components with a number of sub-components. Components 1-4 are the responsibility of BRAC and component 5 is the responsibility of Aus-AID. The Project has the following five components:

Component 1: Expansion of BRAC's Institutional Capacity

Achievement against the targeted output: According to PDD 4 new branches were established and 4 existing branches has scaled up which has mentioned in the inception report as well as in the Annual Plan.

52 additional staff has recruited and new and existing branch staff training is going on.

BRAC did only a modest expenditure for new branches to improve the physical facilities.

Component 2: On-Lending Expansion

Achievement against the targeted output: 11,144 clients got loans and invest in different income generating activities by November 2002.

There is expansion in the geographical coverage.

Component 3: Impact Monitoring and Impact Study

Achievement against the targeted output: Baseline impact monitoring data identified and included in the MIS for regular monitoring; periodic collection of the impact monitoring data implemented.

Component 4: Project Monitoring & Management

BRAC's internal monitoring is on going process. Continuous monitoring helps the ongoing programme to sustain its activities in the right direction. The role of the monitoring department is to provide feedback to managers at different levels, which assists them in taking appropriate corrective actions.

Component 5: Independent Review and Audit

Achievement against the targeted output: A mid-term review of the project has done.

In page 3 and 4, the target and achievements of first two quarters are shown.

Progress in the first six months (June '02-Nov.'02) of the Project of Year 1

Table 1: Consolidated Progress up to November 2002 in Pakerhat, Panchpir, Baura & Vojonpur (New Areas)

Sl. No.	Particulars	Target	Achievement
1.	No. of Active Member up to May, 2002)	12,328	12,328
	Additional	5,356	2,357
	Cumulative	17,684	14,685
2.	No. of Active Borrower (up to May, 2002)	8,593	8,946
	Additional	9,792	4,170
	Total	18,385	13,116
	No. of Loan Paid Borrower	4,296	3,291
	Cumulative	14,089	9,825
3.	Average Loan size	3,500	
4.	Disbursement	34,272,000	8,063,500
5.	Loan Realization	17,328,806	12,610,138
6.	Closing Loan Outstanding	34,864,806	13,374,974
7.	Savings (Own Contribution)	1,453,050	1,957,420
	Compulsory Savings	1,713,600	848,587
	Own+Compulsory Savings	3,166,650	11,489,973
8.	Savings Withdrawal	633,330	3,512,888
9.	Net Savings Balance	2,533,320	7,977,085

Note: 1. Opening balance of loan as on May 31, 2002 was 17,921,612.

2. Opening balance of savings as on May 31, 2002 was 8,683,966.

Table 2: Consolidated Progress up to November 2002 in Chirir Bandar, Shaghata, Haripur & Vojonpur (Scale up Areas)

Sl. No.	Particulars	Target	Achievement
1.	No. of Active Member	1,920	1,704
2.	No. of Active Borrower	816	1,319
3.	Average Loan size	3,500	3,200
4.	Total Disbursement	2,856,000	4,225,000
5.	Total Loan Realization	1,673,370	1,879,320
6.	Closing Loan Outstanding in Nov.02	1,182,630	2,345,680
7.	Savings (Own Contribution)	230,400	790,367
	Compulsory Savings	142,800	211,250
	Own+Compulsory Savings	373,200	1,001,617
8.	Savings Withdrawal	74,640	450,727
9.	Net Savings Balance	298,560	550,890

Women are in different income earning activities:

BRAC believes poor can able to change their lives if the proper socio-economic structure or enabling environment exists. BRAC uses VO as a platform for launching and implementing activities. Capital is seen sometimes as the major constraint for the business. By providing loans to the poor women and get them involved with different income generating activities, BRAC is trying to improve their overall condition.

Under this project 11,144 additional women received loan during June to November 2002 period. These women invest their loan amount in different income generating activities.

The poultry rearing women are earning through poultry rearing and began to supplement the income by rearing chickens, contributing to household income through selling of eggs. Besides poultry, group members take up goat and cow for income generation. To ensure high return from livestock rearing, the cows are artificially inseminated to upgrade the local indigenous crossbreed animals by BRAC-trained local para-veterinarians.

Under this project, members are taking loans for agricultural activities. As there is a growing demand for maize, wheat and rice, BRAC encourages farmers to grow these crops. To increase the nutritional and income status of the members' family BRAC is providing loans in different types of vegetable cultivation such as cauliflower, cabbage, brinjal, papaya, tomato, carrot etc. BRAC Agriculture Extension Programme works for the improvement of the nutritional and income status of households by increasing the agricultural production of Village Organization members and small farmers through technology transfer, and better organization and management. At the beginning of the year the Agriculture Extension Workers (AEW) survey the village organization members and farmers to determine what inputs they will require and advise them on the type of crops that would be appropriate for their land. Through the extension worker the farmers can

access soil testing, and others training and advice to upgrade their farming practices. The members of the NWEMP are getting benefits and advise from AEWs.

Table 3: Sector wise no. of borrowers up to November 2002

Sl.no	Sector wise no.of borrowers	
	Sector	No. of borrower
1.	Rural Trading	3,475
2.	Service	20
3.	Poultry & Livestock	4,126
4.	Food Processing	2,556
5.	Rural Transport	196
6.	Agriculture & Social Forestry	180
7.	Fish Culture	18
8.	Sericulture	61
9.	Cottage Industry	115
10.	Miscellaneous	397
	Total	11,144

Rice processing is a common business for the landless people in the locality. This is the business where women purchase paddy, then getting those parboiled, dried, milled and selling the same in the market as clean as rice. Some women are doing this business and trying to help themselves to get out from extreme poverty situation.

Fish cultivation has developed into one of the most promising and profitable income generating activities for rural women because of its high return, low income commitment and support from BRAC. By doing pond aquaculture, women are trying to improve their nutritional status as well as to provide an additional source of income.

Besides the above activities women are involved in other types of activities such as sericulture, small trading, handicrafts etc.

Conclusion: We are hoping that given the time with increase in family income they will be able to attained a higher standard of living in respect of children's education, better health care, higher nutritional level of the family members and accumulation of wealth and assets.



30 March 2003

Mr Shabbir Ahmed Chowdhury
Program Head
BRAC Development Program
13th Floor, BRAC Centre
Dhaka

Dear Mr Chowdhury

Thank you for the First Six Months (June 02 to Nov 02) Progress report for the Northwest Microfinance Expansion Project received on 17 February. We would like to suggest a format for six-monthly reports, which BRAC could follow for the NWMEP. We suggest the report to comprise of two parts: **one quantitative and one narrative**.

For the quantitative part, the report should include the following:

- (i) a set of financial statements (balance sheet and income statement) for the project; ✓ 2K
- (ii) a table setting out progress in terms of the major objectives of the project in terms of expanded outreach and the associated expansion of institutional capacity (suggested format attached in Attachment A);
- (iii) information on performance against the thresholds set out on pp 3-13,14 of the PDD. Information on the performances could be included in the table referred to in the previous point; and
- (iv) a table setting out the use of AusAID funds (suggested format attached in Attachment B).

The narrative part should contain a brief statement of achievements against targets at the output level of each component. In cases where the targets are quantitative, achievements could be set out in the table referred to in (ii) above, so the narrative need not repeat these but simply refer to the table. The point of the narrative would be to account for any substantial differences between the target and what was achieved.

In the case where targets are not quantitative and therefore not contained in the achievements table(eg component 3), the narrative should describe what has been achieved and also explain any major discrepancy between targets and achievements.

The narrative should where necessary contain a **clear statement of any major difficulties** that have been encountered in achieving the project's targets and set out clear proposals to

Budget

address these difficulties, specifying any budgetary implications. BRAC should also provide information on any major events that have impacts on BRAC's microfinance work overall (either in positive or negative), the narrative report contain a brief account of such events. Such information could be provided under a separate heading.

We would also like to request you to provide us with a statement of **how BRAC identifies and separates the AusAID-funded project** from its general microfinance operations in the project area.

Ideally BRAC should be using the definitions contained in a recent publication on the CGAP website. The purpose of this document is to help to standardise the use of **key terms across the microfinance industry**. (www.cgap.org, then Publications, Other Documents, Microfinance Consensus Guidelines, Definitions of Selected Financial Terms, Ratios and Adjustments for Microfinance). If BRAC chooses to define key performance ratios differently, it should alert us to this fact the first time the ratio is used. If BRAC is not using the terms contained in the PDD or is adding new ones, it needs to explain what these terms mean and why they are being used.

Below are our comments on the six monthly report you have submitted compared to the proposed structure.

General Comments on the Report

1. The report describes how women beneficiaries are involved in different income generating activities by taking credit, however the report should contain a **statements of achievements against targets at the output level** of each component. Here the report should for account for any substantial differences between the target and what was achieved.
2. Table 1 and 2 - Please explain the distinction between 'active members' and 'active borrowers'. This is not a distinction that has been mentioned in the PDD. The report also includes another category 'Loan paid borrowers', which is not mentioned in the PDD. If BRAC is not using the **terms contained in the PDD** or is adding new ones, please let us know what these terms mean and why they are being used.
3. As mentioned earlier, we prefer BRAC provide a separate statement to reflect the project's **performance against the thresholds** set out on pp 3-13,14 of the PDD. You could use Attachment A to highlight the project's financial indicators, interest rates on loans, AUD/Taka exchange rate and the annualised inflation rate, etc.
4. You have provided us with a balance sheet and income statement receipt and payments statement. Together with the statements, we prefer that BRAC provides us with a statement (Attachment B) showing **utilization of AusAID funds**, against budgeted expenditure by component and including a statement of funds received, be included in each six-monthly report.

Specific Comments on the Report

Reporting against the following components are not sufficiently backed by data. Our comments against some components and table 1 and 2 as follows:

1. Component 1

Component 1.1 - Dates of when operations started in the new and existing branches should have been mentioned in the report.

Component 1.2 - Figures for number of staff **recruited** should have been included in the report. As the new staffs are supposed to be recruited at entry level, their date of appointment by BRAC and posting to the branches should have been mentioned. Number of staffing level of existing branch at commencement of this project and number of newly recruited staff should have been mentioned as well.

Component 1.3 - Training received by the branch staff should have been more detailed.

Component 1.4 - The report should have included details of what **improvements** have been made in new and existing branches. As both BRAC and AusAID are contributing to expansion and improvement of physical facilities of the branches, information should have been provided what BRAC has contributed so far and what items of under the Physical Facilities head are bought by AusAID fund since the commencement of the project.

2. Component 2

Table 1 and 2 - Please explain the distinction between 'active members' and 'active borrowers'. This is not a distinction that has been mentioned in the PDD. The report also includes another category 'Loan paid borrowers', which is not mentioned in the PDD, If BRAC is not using the **terms** contained in the PDD or is adding new ones, please let us know what these terms mean and why they are being used.

Also **figures** mentioned in the Target column of Table 1 and Table 2 do not match with the financial viability plan of new branch and existing branch of PDD. There are also miscalculations in row 7. We would appreciate your investigation in this regard.

Ghangachara, and not Vojonpur, is the name of the other existing branch funded by AusAID. Therefore the title of Table 2 should be re-written.

The narration provided in the report that expansion has been made in geographical areas is not very useful. More information on the expansion would be appreciated.

Component 3

It would be useful to indicate what kind of **impact data** is being collected and what use will be made of this data. Please also inform us when regular impact assessment work is likely to be undertaken in the north west-region. In this context it would be much appreciated if you could provide us with its current guidelines on the conduct of impact assessments. If you are

conducting more than one kind of impact assessment, an account of the different methodologies and of the different circumstances in which they are used would be very useful to AusAID.

Component 4

A general statement about the purpose of the **internal monitoring** has been mentioned in the report. However, a brief statement of the actual internal monitoring measures that are applied in areas where AusAID funding would be useful. Such a statement would only be needed once. Thereafter in the subsequent six monthly reports, what would be required is references to any departures from standard practice. Any findings from BRAC's internal monitoring that are of particular note and that apply to areas where BRAC is using AusAID funding would be worth bringing to our attention in the six-monthly reports.

Component 5

Component 5 involves activities that would be undertaken by AusAID, not by BRAC. The reference that has been made here in the report is incorrect.

We can discuss in details on our suggested format tomorrow. We would also appreciate your views on the format.

Thank you.

Shaheena Sultana
Program Officer

BRAC-AusAID North West Expansion Project
Utilisation of AusAID Funding

Attachment A

(in '000 Taka)

PROJECT COMPONENT	DETAIL	Jun-Nov 2002	Dec 2002-May 2003	Jun-Nov 2003	Dec 2003-May 2004	Jun-Nov 2004	Dec 2004-May 2005
1	Expansion of institutional capacity						
	Budgeted						
	Spent						
2	On-lending expansion						
	Budgeted						
	Spent						
3	Demonstration & Impact						
	Budgeted						
	Spent						
4	External audit						
	Budgeted						
	Spent						
	Total						
	Budgeted						
	Spent						
	Funds received from AusAID						

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BRAC-AusAID North West Expansion Project

Attachment B

General Information and Project Performance

Taka '000

	Jun-Nov 02		Dec 02-May 03		Jun-Nov 03		Dec 03-May 04	
	Target/Projected	Actual	Target/Projected	Actual	Target/Projected	Actual	Target/Projected	Actual
Number of new loan clients (new branches)								
Number of new loan clients (existing branches)								
Number of new non-loan clients (new and existing branches)								
Number of clients receiving follow-up loans (new and existing branches)								
Number of drop-outs (new and existing branches)								
Average loan size								
Disbursement								
Repayment								
Outstanding loan balance (end of period)								
Compulsory savings (end of period)								
Voluntary savings (end of period)								
Portfolio at risk								
Operational self sufficiency								
Operating expense ratio								
Loan loss ratio								
<i>(The method of calculating each performance ratio should be clearly set out)</i>								
Interest rate (specify whether flat or declining)								
Inflation rate (annualised)								
Exchange rate Taka/AUD								

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BRAC
Northwest Microfinance Expansion Project
Receipts and Payments Statement
Period from June 2002 to November 2002

	Taka
Receipts:	
Grants received from AusAID	40,062,316
Service Charge on loan	1,546,426
Saving deposits	
Opening balance	8,683,966
Add: Deposits	3,807,624
Less: Withdrawals	(3,963,615)
	8,527,975
Other liabilities	383,651
Total	50,520,368
Payments:	
Loans to Vo Members	
Opening outstanding	17,921,612
Add: Loan disbursement	12,288,500
Less: Loan realisation	(14,489,458)
	15,720,654
Advance, deposits and prepayments	169,992
Project management Cost	108,000
Operational cost	1,438,085
Interest expenses	258,179
Total	17,694,910
Closing Cash and bank balance	32,825,458

BRAC
Northwest Microfinance Expansion Project
Statement of Income and Expenditure
Period from June 2002 to November 2002

Taka

1.	Income	
a	Financial Income	
	Interest on Loans to VO members	1,546,426
	Interest on investment	-
Total Financial Income		1,546,426
b	Grant income from AusAID (Project management)	108,000
c	Total Income	1,654,426
2.	Financial Cost	
a	Interest Expenses	
	Interest & Fee Expense - Savings	258,179
Total Interest Expense		258,179
b	Gross Margin	1,396,247
c	Loan Loss Provision	245,770
d	Net Margin	1,150,477
3.	Operating Cost	1,488,768
4.	Expenditure on Non-lending Activities Project Management	108,000
5.	Total Expenses	1,596,768
6.	Net Profit(Loss)	-446,291

BRAC
Northwest Microfinance Expansion Project
Balance Sheet
As at November 30, 2002

	Taka
ASSETS	
<i>Current Assets</i>	
- Cash in hand & at bank	32,825,458
- Advance, deposits and prepayments	169,992
- Loan Portfolio	15,720,654
(Loan Loss Reserve)	(245,770)
<i>Total</i>	48,470,334
 <i>Long-term Assets</i>	
- Fixed Assets	766,787
- Accumulated Depreciation	(125,426)
<i>Total</i>	641,361
TOTAL ASSETS	49,111,695
 LIABILITIES	
<i>Current Liabilities</i>	
- Savings accounts	8,527,975
- Other liabilities	1,075,695
TOTAL LIABILITIES	9,603,670
 EQUITY:	
Grants received in advance account:	
Donation received	40,062,316
Less: Transferred to donor fund investment in loan	(15,720,654)
Less: Expenditure for project management	(108,000)
	24,233,662
Donors fund investment in loan:	
Transferred from -grants received in advance account	15,720,654
	15,720,654
Capital fund:	
Opening balance as on 1st June 2002	-
Accumulated Profit/ Loss	(446,291)
	(446,291)
TOTAL EQUITY	39,508,025
TOTAL EQUITY + LIABILITIES	49,111,695

Agenda for the meeting; between AusAID and BRAC, on March 31, 2003.

North-West Microfinance Expansion Project is operating in 8 areas of its first year of operation. Among these 8 areas 4 are the new branches (Pakerhat, Panchpir, Baura & Vojonpur) and 4 are the scale up areas (Chirir Bandar, Shaghata, Haripur & Gangachara).

There are some dissimilarity between PDD and Annual Plan and between Annual Plan and the real achievements (progress report) for scale up branches, which are shown in the following table.

Particulars	Q1Y1	Q2Y1	Q3Y1	Q4Y1	Total
1. Member					
According to PDD					
Additional	120 X 4=480	120 X 4=480	120 X 4=480	120 X 4=480	
Cumulative	480	960	1,440	1,920	1,920
According to Annual Plan		--	--	--	
Additional	480X4=1,920				1,920
Cumulative	1,920				1,920
Progress Report		1,704 (in the end of the 2 nd quarter)			
2. Borrower	--				
According to PDD					
Additional		102 X 4=408	102 X 4=408	102 X 4=408	1,224
Cumulative		408	816	1,224	1,224
According to Annual Plan					
Additional	102 X 4=408	102 X 4=408	102 X 4=408	102 X 4=408	1,632
Cumulative	408	816	1,224	1,632	
Progress Report		1,319			

There are some variations between annual plan and the progress report for new branches.

Particulars	Q1Y1	Q2Y1	Q3Y1	Q4Y1	Total
1.Members					
According to the Annual Plan					
Existing member	12,328	15,006	17,684	20,362	23,040
Additional	2,678	2,678	2,678	2,678	10,712
Cumulative	15,006	17,684	20,362	23,040	23,040
Progress Report shows					
Existing member		12,328			
Additional		2,357			
Cumulative		14,685			
2.Borrower					
According to the Annual Plan					
Existing borrower	8,593	11,341	14,089	16,837	19,584
Additional	4,896	4,896	4,896	4,896	19,584
Total	13,489	16,237	18,985	21,733	19,584
25% Borrower paid off	2,148	2,148	2,148	2,149	8,593
Cumulative	11,341	14,089	16,837	19,584	19,584
Progress report shows					
Existing borrower		8,946			
Additional		4,170			
Total		13,116			
No. of borrower paid off		3,291			
Cumulative		9,825			

Minutes of the Programme Coordination Meeting (PCC)

The first Programme Coordination Committee (PCC) meeting between AusAID, Australian High Commission and BRAC held on October 24, 2002 at the 13th floor of the BRAC Centre. The representative from AusAid were Vilaisen Campbell, First Secretary, Australian High Commission, Bangladesh and Shaheena Sultana, Programme Officer, Australian High commission, Bangladesh and the representative from BRAC were Aminul Alam, Deputy Executive Director; Shabbir Ahmed Chowdhury, Program Head; S. N. Kairy, Finance Manager; Abdul Matin, Senior Area Manager; and Rubaba Rahman, Senior Area Manager. The minutes of the meeting are follows:

Sl.No.	Discussion on	New Decisions
1.	About the Project period	The North-West expansion project has started at June, 2002 and the Y1 will be completed in May, 2003. Each cycle will be from June to May. The project will end in May, 2007.
2.	In the Annual Plan at page 1 (point c) it was written that 'AusAID grant will be released at the 1 st month of the year'.	The AusAID grant will be released at the 1 st quarter of the Project year. Release of tranches are subject to the PCC's endorsement and AusAID's approval of the annual plan and monitoring reports. PCC will be held on the 11 th month and annual plan is also due in 11 th month. External Audit commissioned by AusAID will be held in June to cover the one full year of the project.
3.	In the Annual Plan at page 1 (point d) it was written that 'Internal Audit will be done at the 5 th month of the year'.	It was mentioned by BRAC that as Internal Audit is an ongoing process, so there is no necessity to mention that it is going to happen specifically at the 5 th month of the Project Year.
4.	In the Annual Plan at page 1 (point h) it was written that 'BRAC will do Internal Monitoring on the quarterly basis.'	Since BRAC's Monitoring Division already have a continual monitoring task, quarterly monitoring as mentioned in the PDD (page5-2) is redundant. As per PDD, BRAC may be required to produce adhoc reports at the request of AusAID.
5.	The Project Component and Output was written in the Annual Plan one after another.	AusAID suggested that the Project Component implementation schedule will be shown in the format like the format used in the Annual Plan, pages 8 & 9.
6.	About the field visit	AusAID expressed their interest to go for field visit in the end of October, 2002. They want to visit at least one new branch

		and one old branch.
7.	AusAID requested if possible to use AusAID logo in the BRAC Project offices.	BRAC is going to consider the idea whether it will be possible for BRAC to show up AusAID logo in the BRAC offices.
8.	BRAC has expressed its desire to be involved in the AusAID Food Assisted projects. BRAC suggested that if it would be possible to arrange a meeting with other NGOs who are involved in the Food Assisted projects. BRAC has shown its interest to attain the meeting and explore possibilities to extend microfinance services to the poor people after the Food Assistance from AusAID is over.	AusAID confirmed that they will try to do that and inform the probable meeting date soon.

Best regards,

Shabbir Ahmed Chowdhury
Program Head
BDP, BRAC