

Empowering marginalized people: An Overview of BRAC's Development Experience and Lessons for Policy

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BRAC, a non-government organization based in Bangladesh, is a development success story, now spreading its experience to 10 other countries in Asia and Africa. Organizing the marginalized and vulnerable people in community based Village Associations; it catalyzes lasting change, creating an ecosystem in which the marginalized and vulnerable people have the chance to seize control of their own lives. It does so with a holistic inclusive development approach using tools like a hand-holding program for the extreme poor, microfinance, second chance education for children unreached by formal schools, reaching essential healthcare services to the people with trained health volunteers, validation and dissemination of improved agricultural technologies, and community empowerment and legal aid services. For microfinance that accounts for 40% of its business portfolio, it adopts a credit plus approach and provides flexible financial products such as savings and several insurance like provisions for the borrowers addressing risk from vulnerability to external shocks.

► Introduction

BRAC (Bangladesh Rural Advancement Committee) was established in 1972 as a relief and rehabilitation organization to assist resettlement of refugees returning from India, to restore livelihoods in their newly independent country. BRAC then broadened its focus to address the long-term problems of poverty, illiteracy and ill-health, and social discrimination of the marginalized people including women.

During the 41 years since founding, BRAC has expanded to become one of the largest non-government organizations (NGOs) in the world, meeting needs of the poor and vulnerable people in a holistic manner through multifaceted development interventions. BRAC has created its own “model” of addressing a development challenge through a pilot project to learn the nuts and bolts of management, innovate from the experience and then scaling up at the national level to impact. BRAC now operates as an International NGO in 10 countries in the South, besides in Bangladesh, employing more than 110,000 staff who, together with many volunteers from the community, touching lives of some 125 million poor and vulnerable people.

► Development Challenges of Bangladesh

Bangladesh has achieved notable economic progress during the last four decades since independence in 1971. The economic growth has accelerated from 3.5% per year during the first two decades, to 5% in the 1990s and further to 6.2% in the last decade. The country has particularly been successful in addressing social issues such as reducing population growth (from 3.0 to 1.2% per year), increasing the production of the dominant food staple, rice, from 11 to 33 million tons (milled rice), reducing the under five mortality rate (from over 150 per thousand children to 52, improving the adult literacy from 24 to over 60 percent, and achieving gender parity in

primary and secondary schools. The progress in social front is particularly noteworthy compared to the performance of other south Asian countries.

But much more remains to be done. The country has far exceeded its carrying capacity with 154 million people, a density of more than 1100 per square km, and still adding 1.8 million every year; more than 30% of the people live in poverty and 41% of the under five children are stunted; one-third of the new entrants in the labor force seek employment overseas due to limited job opportunities at home, as two-thirds of the workers earn livelihoods from the informal sector; four-fifths of the populations do not have access to quality health care and 190 women per 100,000 die at childbirth; 40% of the children do not attend secondary schools, the quality of education in both primary and secondary levels remain poor; and with faster economic growth the regional and socio-economic inequality has been worsening.

The rural to urban migration of people has been continuing at a rapid rate due to lack of economic opportunities and social amenities in rural areas. As a result the expanding slum population in urban areas is posing more serious problems of illiteracy, poor sanitation and ill health in urban slums than in rural areas. The acute development challenges are further exacerbated by the threats of continuing food insecurity and climate change. Poverty, inequity and exclusion continue to be manifested in areas in health, education and unemployment of youth that threatens peace and order and constrains economic and social development.

► BRAC Development Interventions

BRAC's overall strategy has been to support the Government to a) improve the present social and economic condition among the poor, and b) develop resilience of the poor and vulnerable people against external shocks such as floods,

droughts and cyclones. BRAC has particularly been following the strategy of inclusive development i.e, identifying areas where the government has had limited success in implementation of its development programs, and then mobilizing resources to reach the ‘unreached’. In the recently formulated strategy BRAC has developed its program structure and fine tuned its activities to complement the government efforts in achieving the Millennium Development Goals (MDGS).

BRAC follows a holistic approach to poverty reduction. It has three pillars of programs.

The **first pillar** attempts to increase employment and income of the asset poor households so they move gradually in the ladder towards ultimate graduation from poverty. The programs in this group grants of small assets and assistance in managing those assets for the extreme poor households, microfinance for the moderate poor, and support to agriculture by development and validation of technology, supply of good quality seed, and provision of credit and extension, to increase the productivity of capital and labor.

The **second pillar** aims at human resource development for sustainable poverty reduction. It includes provision healthcare services with trained health volunteers; water, sanitation and hygiene interventions to control spread of communicable diseases and achieving good nutrition; give second chance education to children of poor households that are bypassed by the mainstream primary schools, and an adolescent development intervention to provide livelihood training and education on life skills.

The objective of **the third pillar** is empowerment of the disadvantaged groups in the society including women. A community empowerment program mobilizes women in Rural Federations (Palli Samaj) and facilitates holding monthly meeting to discuss social problems and to provide information on social safety net provisions of the government and how to access them. The program helps to generate so-

cial and political capital for the poor so they can resist social injustice and claim their rights and privileges from the local government. A human rights and legal aid services program provides training to poor women on laws and regulations that impinge on their lives and property, facilitates alternate dispute resolutions, and provides legal support to the victims of social injustice and domestic violence. A gender justice and diversity program aims to improve women’s empowerment and reduce gender inequality.

► BRAC Enterprises and Investments

BRAC organizes pro-poor business or social enterprises to address the market failure in the value chains of rural economic activities, while at the same time generate surplus for reinvestment in development activities for which BRAC cannot charge fees to its members. One of the objective of organizing these enterprise and affiliated institutions is to gradually become self-reliant in development operations, to reduce dependence on donor grants. Such enterprises and affiliated institutions include Aarong, BRAC Dairy and Poultry, Seed Enterprise, BRAC Bank, Delta BRAC Housing Finance Corporation Ltd, etc. Almost all these enterprises began as support for one or other of BRAC programs and have grown to provide substantial surplus for the health and education and extreme poverty interventions that are provided free of charge. Half of the surplus from these enterprises are distributed among BRAC’S programme activities, with the remainder being used for further expansion of the enterprises, which contributes to employment generation and hence poverty alleviation. Some of the funds are used to run pilot projects on a new challenging area. BRAC sees the social enterprises as models for the future of private industry with a social purpose - businesses that use their surplus for socially driven objectives. The microfinance program itself a social enterprise as it is self-financed and

generate surplus to accumulate retained earnings which is an important source of loan fund.

► The Microfinance Program

This program aims at generation of productive self-employment for workers with surplus labor that the poor fail to sell in the labor market due to underdevelopment of the formal sectors of the economy. With access to credit, the household can organize economic activities to produce goods and services to earn a livelihood. The credit is channeled through women members of the household. With access to resources women can be empowered to improve their position in the family and the society that facilitates their travel on the path to empowerment and gender equality.

A Village Organization (VO) is formed with 30 to 40 women. The VO is used for reaching financial services to the doorsteps of marginalized households. The organization is also used as a platform for providing health care, legal education and other social development activities. Three loan products are currently used; a) Dabi (poverty reduction loan) that targets the poorest of the households with a loan size up to a maximum of USD 800 per borrower, used mostly for self-employment generation entrepreneurial activities, b) Progoti (micro-enterprise loan) that serves to expand enterprises located in towns and rural growth centers to promote backward and forward linkages to agriculture, with a loan size of USD 800 to 5000, c) agricultural loan for tenant farmers to finance their working capital needs and leasing of land or purchase of agricultural machinery and d) migration financing loan to members seeking overseas employment with a size of USD 1,000 to 4,000. The poverty reduction and agricultural loans are provided without collateral security for a period of one year and the repayments are collected in weekly or monthly installments in VO meetings. For enterprise and migration financing, loans are provided with collateral of submitting deeds of

land or other property, and the repayments are collected in monthly installments. The duration of the loan varies from one to three years and the installments are collected monthly or seasonally. The program also supports mobilization of small savings by the VO members, which can be withdrawn for meeting emergency needs. The loans bear a service charge (interest rate) of 18% to 27% of the outstanding loan.

A credit plus approach distinguishes BRAC from other microfinance organizations. We identify constraints in the value chain for economic activities organized with the loans and provide services to address market failures to help increase the productivity of labor and capital and thereby improve the capacity of the borrowers to repay the loans. The support enterprises organized by BRAC helps generate surplus for reinvestment in other activities such as education and healthcare which are provided free of cost to VO members and non-members.

Several innovations have been introduced over time to deal with risks associated with external shocks. 1) Compulsory savings of five to ten percent of the loan amount which is deducted at the time of disbursement of the loan which could be used to cover defaults due to failure of the enterprises caused by natural disasters, loss of capital, or sudden collapse of the market for goods and services produced by the enterprise. After the loan is repaid, the borrower has the option to accumulate the amount in his voluntary personal savings account. 2) Provision for bad debt for the write off of the loans that remains overdue after two years. This facility is used for borrowers who had difficulty of repaying the loans for some reason or other. Usually the write offs are done for loans contracted during the years of natural disasters. 3) a micro insurance without payment of a premium for writing of outstanding loans at the time of the death of the borrower along with a payment of USD 140 for meeting funeral expenses and other social obligations. 4) A top-up loan provided to borrowers who have excellent track record of

regular repayment of installments for meeting emergency short term cash needs such as covering major medical expenses, payment of admission fees for children's education, expenses for marriage of children, or sudden opportunity for expanding business.

The program has so far organized over six million members in Village Organizations and extends credit to 4.3 million borrowers with 2200 branch offices operating all over Bangladesh. The amount of loan outstanding (the size of business) has reached almost USD 810 million, and accumulated savings of the borrowers have reached USD 325 million. The portfolio at risk (overdue for more than a month) is 5.8% of the loan only around; 5.1% for poverty reduction loan, 6.5% for enterprise loans and 5.6% for agricultural loans. The program is self-sustaining with loan funds mobilized from accumulated savings of the borrowers, borrowing from the commercial banks, and retained earnings from surpluses of previous years' operations. The surplus generated from the program in 2012 was USD 45 million.

► Lessons for policy

The following policy lessons come out from the BRAC experience:

- Poverty has multi-dimensional angles. Poverty eradication needs a holistic approach to development is needed to address it from many fronts.
- Education and healthcare for human resource development for the marginalized people are key to sustainable poverty reduction
- Mobilization of the poor and their awareness raising create a platform for generation of social and political capital of the poor so they become active and responsible citizens that facilitate good governance.
- Microfinance is not merely an activity to extend financial inclusion. It is an entry point for all round socio-economic development and could be a powerful tool for reduction of poverty.
- For microfinance to be an effective, the borrowers need additional support such as financial education, training for skill enhancement, dissemination of improved technology and management practices for agriculture. These additional services help increase productivity of labor and capital, and thereby improve economic capacity of the borrowers to repay the high cost microfinance loans.
- Mobilization of savings from borrowers can help mobilizing low-cost loan fund. A portfolio diversification with large size micro-enterprise loans and loans for migration helps reducing the cost of operation of micro-finance services.
- Low-income households cannot afford to pay premium needed to cover risks arising from external shocks. The demand for insurance to cover risk is usually very low. However, the risks could be partially covered by insurance like products, such as keeping provision for bad debt, mandatory savings that can be drawn at time of emergency, provision for loan exemption at the time of sudden death of the borrower, and the provision of top up loans to meet emergency cash needs. These flexible financial products can be provided from the interest rate charged on the loan.



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