



# Microfinance Programme

Village  
Organisations

Microloans  
and Small  
Enterprise  
Loans

Migration  
Welfare  
Loans

Agriculture

Innovation

BRAC's microfinance activities work through a unique 'credit-plus' approach, addressing the specific needs of various target populations such as rural women, youth and adolescents, landless poor, marginal farmers, migrant workers, urban poor, and small entrepreneurs. We recognise the heterogeneity among the poor and carefully target and develop customised financial services that best meet their varying needs. Our microfinance members also have access to and benefit from BRAC's other development interventions.

BRAC's microfinance clients use financial services for a range of reasons, from funding various income-generating activities, to investing in small assets, ensuring stable cash flows for consumption, building up resilience against financial shocks, to simply saving for the future.

BRAC is a leading provider of financial services for the poor, operating in seven countries including Bangladesh, Pakistan, Tanzania, Uganda, Sierra Leone, Liberia, and Myanmar.



## Village Organisations

Empowering the poor is at the heart of our work. Our village organisations (VOs) consist of around 15 to 25 women from the local community. Not only do they provide an accessible and supportive environment through which to manage loans and savings, VOs offer a space for poor women to come together, share information, gain financial awareness, and receive support on health, social and legal issues.



## Microloans and Small Enterprise Loans

Our services include collateral-free microloans (*dabi*) ranging from USD 170-2,500 given exclusively to individual women who are served by the village organisations. We also provide small enterprise loans (*progoti*) ranging from USD 1,400-13,000 given to entrepreneurs of both genders to support and help expand existing small enterprises, which are too small to qualify for credit from mainstream banks.



## Migration Welfare Loans

Recognising the high costs associated with finding employment abroad BRAC offers migration welfare loans that enable workers to access these opportunities, and cover the costs once they start earning. The service includes pre-migration counselling, document verification to avoid fraud and customised loan assistance to cover pre and post migration costs.



## Agriculture

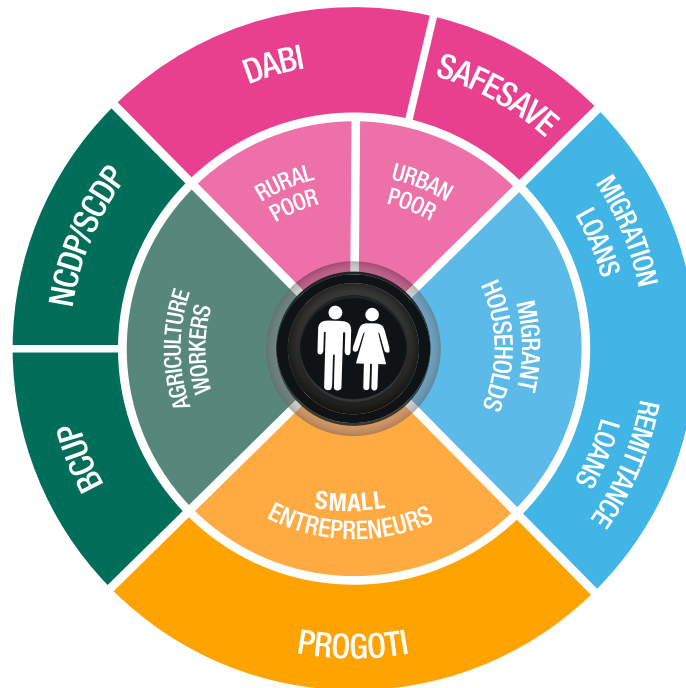
Many microfinance clients are engaged in farming activities. To support agriculture-based activities, BRAC offers financial services to tenant farmers, and land-owning farmers that include credit ranging from USD 200 – 1,500, savings, agricultural extension, and access to productive inputs such as livestock, high value crops, and machinery.



## Innovation

The microfinance programme is also piloting a set of projects designed to increase financial inclusion and better meet clients' needs. This includes use of mobile money to enable easier deposit payments; the introduction of health loans and credit shield life insurance to reduce vulnerability of poor households to external shocks; provision of savings services to youth to promote good financial behaviour and awareness from a young age; as well as a drive to ensure persons with disabilities that qualify for microfinance have equal access to financial services.

## Available products



### At a glance:

BRAC  
microfinance  
in Bangladesh

Village Organisations (VOs)	283,955
Total members	5.4 million
Total Borrowers	4.9 million
Outstanding Loan	USD 1.4 billion
Savings Deposits	USD 476 million

BRAC  
microfinance  
around the world

Countries	Total Outstanding (USD)	Borrowers
Pakistan	12 million	53,000
Liberia	2 million	13,000
Sierra Leone	3 million	22,000
Tanzania	24 million	133,000
Uganda	31 million	181,000
Myanmar	1 million	11,000

\*Figures are from September 2015

# Frequently asked questions

## What is microfinance and financial inclusion?

1

**Microfinance** is commonly understood to mean microcredit – or very small loans. Microfinance in fact refers to the full set of financial services that target poor and low-income households. These include savings, microcredit, and micro-insurance. These can be delivered in different ways, for example in hard cash or via mobile phone.

**Financial inclusion** means providing access to convenient, quality, affordable financial services to the poor, in a way that ensures clients are protected, informed and able to make good money management decisions.

## How does microfinance help people in poverty?

2

Microfinance is one of several factors helping to alleviate poverty in Bangladesh. A large body of research shows that microfinance helps by:

- making financial services accessible to the poor, who are otherwise left out of the formal banking system
- creating a multiplier effect on micro-economies, whereby borrowers move out of the informal labour market, making room for others
- reducing vulnerability to health shocks or natural disasters, as the poor can borrow or withdraw savings to resume economic activity
- smoothing consumption for borrowers who would otherwise be forced to sell assets or take very high interest loans from local lenders when there is short-term liquidity crunch

BRAC does not believe that microfinance alone can solve poverty. We take a holistic approach to development, which means that we believe households need access to healthcare, education, and human rights, alongside financial services, in order to overcome poverty.

# Frequently asked questions

How does BRAC select its microfinance clients? Can anyone apply for a loan?

3

BRAC's microfinance products are specifically designed to target and meet the needs of specific groups, including women, small entrepreneurs, migrant workers, youth, tenant farmers, and land-owning farmers.

Most of our clients approach BRAC asking for membership of a local borrower group called a 'village organisation'. The village organisation, made up of 15-25 women will usually choose to admit her, based on whether they think she will be reliable. For products without a village organisation, such as small enterprise 'progoti' loans, clients come into a BRAC office and are asked to fill out an application form.

Loan requests are then verified by a BRAC member of staff who meets with the client, visiting their household or their business to understand their credit needs.

How does BRAC try to make sure that clients are not harmed by too much debt?

4

Each of our interventions integrates measures to ensure that clients are protected, and understand how to use our products.

BRAC's microfinance programme does not lend to women that are too poor and vulnerable to support debt. BRAC operates a separate Targeting the Ultra Poor programme which offers them a combination of asset-transfer, financial services, hands-on training, basic healthcare, and social integration.

Before new members join the microfinance programme, BRAC understands if they have other financial commitments, such as loans from other institutions. Our borrowers also receive short, financial awareness training before loans are disbursed, and any borrowers that are at risk of default are offered a comprehensive four-day financial training at no charge. Customer service assistants are also available from 1,300 of our 2,000 branch locations to deal with any queries and concerns, as well as a call centre open every weekday. In addition, clients are reminded of their rights and responsibilities at each VO meeting. Client rights and client protection is heavily emphasised in staff trainings and staff codes of conduct.

# Frequently asked questions

## What does BRAC do if clients are unable to pay?

5

Borrowers of microfinance may default on their payments for a variety of reasons. In many cases they are only temporarily unable to pay instalments, while in some it becomes a long-term problem. Each client's ability to repay their loans, and the appropriate course of action is assessed on a case-by-case basis.

- We have options for 'rescheduling' and 'refinancing' which offer flexibility to defaulters who intend to repay loans but are not able to due to unavoidable circumstances
- BRAC has a cumulative realisation rate of 96 per cent. When borrowers are absolutely unable to pay back, BRAC writes off their loans. To do so, BRAC provisions roughly 4 per cent of our loan portfolio for bad debts.
- In very exceptional cases, defaulting clients that are known to be able to pay, and who create disruption amongst other clients, may be taken to court.
- BRAC follows a strict code of conduct for dealing with collection of loans. Any kind of coercion such as threats or forcing borrowers to sell assets to repay loans, is completely prohibited in our policy.

In the event of an emergency such as a natural disaster, that makes it very difficult for clients to pay back their loans. BRAC may temporarily stop collecting instalments in the affected area.

## What services do members of BRAC's microfinance programme receive?

6

Each of our projects are designed to offer a package of services tailored to the clients in need. These may include a combination of credit, savings, financial education, and death benefit. Our agricultural microfinance clients can also access agricultural extension services and productive assets.

In some areas clients can additionally access new services being piloted by the programme. These include health loans, credit shield insurance, special savings via mobile money, and emergency loans.

Members of BRAC's microfinance programme also have full access to BRAC's other services in education, health, legal aid services, water and sanitation, disaster relief, according to which programmes are operating in their areas.

# Frequently asked questions

**How is BRAC different from other microfinance providers in Bangladesh?**

7

BRAC is one of the oldest and is the largest NGO in Bangladesh. Starting our microfinance operations in 1973 we are now operating out of over 2,000 locations in all 64 districts of Bangladesh. BRAC is unique in that it takes a holistic approach to poverty reduction, but a highly targeted approach to microfinance.

BRAC is leading the microfinance sector's work in client protection, with some of the strongest mechanisms in place to ensure clients' needs are met. This includes the largest provision of financial education to poor clients.

BRAC is also doing a lot of work to integrate mobile money delivery systems, facilitating greater reach into remote areas. We also specifically target persons with disabilities to ensure their equal financial inclusion.

**Where do our funds come from?**

8

BRAC as a whole is 70 per cent sustainable, accepting donor funding for 30 per cent of its operational budget for non-credit programmes.

BRAC's microfinance operations do not rely on any donor funding. The programme is one third funded by savings, one third funded by retained earnings, and one third funded by borrowing from a commercial bank. While the microfinance programme itself is a financial enterprise, it is not a bank. This means that BRAC is charged higher rates of interest on its loan than other banking institutions that borrow, which pushes up our costs. This partly explains why microfinance providers including BRAC charge higher interest rates than commercial banks.

# Frequently asked questions

## How does BRAC set its interest rates?

9

Microfinance providers charge interest rates that are significantly higher than commercial banks to cover greater operating costs, and the higher costs of lending. Our operating costs are higher than other financial institutions because we work with poor, rural communities that borrow small amounts. Small loans take longer to process. In the absence of a credit bureau, employment history or the collection of collateral, BRAC provides a high-touch service that sends thousands of field officers to the doorsteps of our clients to make sure they are able to cope with the requested amount of credit.

Last year BRAC's microfinance programme experienced its best financial year ever. As a result, we reduced our interest rate by one per cent from 27 per cent – the industry capped rate set by the MRA.

## What does BRAC do with the revenues?

10

All revenues generated from our microfinance operations are re-invested into the programme. This is legally required of all NGO microfinance providers, under Bangladesh's Microfinance Regulatory Authority (MRA).

This re-investment of revenues enables us to fund expansion into more remote areas where communities remain out of reach of financial services, as well as add new services and benefits for clients such as financial education.