

Beyond Lending

How Microfinance Creates New Forms of Capital to Fight Poverty

The very idea of microfinance has changed banking as we knew it. Providing small loans to the poor, mostly women, replaces physical collateral with collective responsibility. Today, microfinance is an established way to provide financial services to the poor. It can be scaled up in widely different environments around the world, and can deeply benefit the people it serves. It allows the poor both to take advantage of opportunities and to manage their vulnerabilities.

The focus of the innovations in microfinance has itself evolved. In the early days of microfinance, the focus was much more “social:” how to form groups in ways that would most effectively enforce collective responsibility? How to motivate women to form their own groups? How to motivate people to save for a period before lending them money? How to respond to negative responses from the better-off and the religious groups in a community? Then, as the focus shifted from social questions, microfinance began to become more professionalized and was scaled up. Soon, innovations related to basic loan management followed. Along with the focus on financial sustainability, innovations in microfinance included better management information systems, and management systems that could increase productivity and internal control.

During the middle 1990s, the pendulum began to swing back to the client end, as criticisms of one-size-fits-all types of microcredit gained ground. The initial focus on product innovations in the credit domain was soon followed by a call to expand innovations to a whole range of financial services beyond credit, including savings, insurance, and money transfers.

In this article, we focus on a different source of innovations in microfinance: using the process capital of microfinance to design innovations that can address a far wider range of constraints facing the poor. We will also discuss the strategic linkages between microfinance and other approaches that innovators must consciously design into the package if microfinance is to be truly inclusive. To illustrate our argument we provide some examples from Building Resources Across Communities (BRAC) in Bangladesh.

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The greatest power of microfinance lies in the process through which it is provided. Women form groups of their own choosing, known as Village Organizations (VOs) to engage with a formal institution; even this process reflects a significant redefinition of a traditionally very patriarchal contract.¹ Moreover, staff members, who are of a higher socio-economic status, engage in a very meaningful act simply by going to the doorsteps of these women to do business with them, and seeking their help in solving problems; this practice begins to redefine the relationships within socio-economic hierarchies, and between formal institutions and poor

women. In an institutional environment that is generally exclusionary, uncertain, unpredictable and at times openly hostile to the poor, microfinance staff follow a process that goes like clockwork: rule-bound and almost ritualistic, it opens up the possibility of a new culture of expectation and keeping promises through engagement between the poor and external institutions.

For their part, institutions create their own strong foundations as they learn the art and science of managing large-scale microfinance operations. They must engage with the details of developing systems and procedures, understand incentives and the psychology and motivations of staff and clients, and come to grips with the details of developing a performance-driven management culture and system that requires constant vigilance.

HARNESSING THE PROCESS CAPITAL OF MICROFINANCE: SOME CASES FROM BRAC

The process of providing microfinance thus creates new forms of engagements, relationships and capacities—what we term in this paper the “process capital” of microfinance. Traditionally, innovations in microfinance have focused on its financial domain: developing new products or new management systems or using new technology to increase efficiency. We argue that it is possible to better leverage microfinance structures and processes to facilitate other types of innovations to develop new services for the poor.

The poor are a diverse group with diverse livelihoods, needs and potentials. Over time they encounter changes in their personal lifecycles, along with new opportunities and external shocks. The diverse and dynamic reality of poor peoples’ lives and livelihoods forms the canvas against which BRAC conceptualizes and designs its repertoire of development programs, of which microfinance is a core element. More important for the arguments in this paper, BRAC uses the process capital of microfinance as an entry point to address other constraints and to open up new opportunities for the poor. We provide some examples in this section.

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BRAC: Summary Statistics

Coverage

| | |
|-------------|-------------------------|
| Districts | 64 (100%) |
| Upazilas | 480 (94%) |
| Villages | Over 65,000 |
| Urban Slums | 4,357 |
| Population | 100 million (estimated) |

Personnel

| | |
|-----------------|--------|
| Full Time Staff | 37,410 |
| BEP Teachers | 53,205 |
| Project Staff | 2,439 |
| Service Staff | 789 |
| Total | 93,843 |

Core Programmes

- Economic Development Programme
- Health Programme
- Education Programme
- Social Development and Legal Services Programme

Support Programmes

- Training Division
- Research and Evaluation Division
- Advocacy and Human Rights Unit
- Human Resources Division
- Public Affairs & Communications
- Administration and Special Projects
- Finance and Accounts
- Monitoring
- Internal Audit
- Publications



Job Creation

| | |
|----------------------|-----------|
| Poultry | 1,708,145 |
| Livestock | 570,266 |
| Agriculture | 853,390 |
| Social Forestry | 79,062 |
| Fisheries | 2,77,230 |
| Sericulture | 25,549 |
| Horticulture | 1,84,031 |
| Handicraft Producers | 15,223 |
| Small Enterprises | 1,36,159 |
| Small Traders | 26,35,212 |
| Total | 63,53,482 |

Related Companies

| | |
|----------------------------------|-------------------------------|
| BRAC Industries Ltd. | Cold Storage |
| BRAC Bmail Network Ltd. | Internet Service Provider |
| BRAC Services Ltd. | Hospitality |
| Delta BRAC Housing Finance Corp. | Housing Finance |
| BRAC University | Tertiary Education |
| BRAC Bank | Finance and Banking |
| | Small and Medium Enterprises, |
| BRAC Tea Companies | Tea plantation and production |
| Documenta TM Limited | Software Development |

Annual Expenditure

| Year | Amount | Donor Contribution |
|------|---------------|--------------------|
| 1980 | US\$ 0.78 m | 100% |
| 1985 | US\$ 2.30 m | 97% |
| 1990 | US\$ 21.25 m | 68.2% |
| 1995 | US\$ 63.73 m | 54% |
| 2000 | US\$ 152.00 m | 21% |
| 2005 | US\$ 259.00 m | 24% |

Microfinance Loan Disbursement

| | |
|-------------------------------|------------------------------|
| Cumulative | Tk. 185,580 m (US\$ 3,385 m) |
| June 2006 | Tk. 19,786 m (US\$ 290.97m) |
| Service charge on loan | 15% |
| Outstanding | Tk. 20,904 m (US\$ 307.42m) |
| Portfolio at risk | 4.4% |
| Repayment rate | 98.85% |
| Average loan size | Tk. 10,427 (US\$153.34) |
| Savings deposit of VO members | Tk. 9,850 m (US\$144.86 m) |
| Cost per \$ lent | 6.7 cents |

Source: BRAC <www.brac.net.>

Developing poultry as a viable enterprise for the poor

Traditionally, women in rural Bangladesh have raised poultry, mostly as a subsistence activity and to manage small crises. In 1983, BRAC realized that, in addition to offering access to microfinance it would need to help poor women make more

money from the activities in which they were already engaged. Poultry seemed a good place to start and BRAC began a series of consultations with villagers to identify major constraints. High poultry mortality, which villagers often took as unavoidable, emerged as a major issue. BRAC assessed the existing government services and found they were limited in both outreach and effectiveness. At first, it used its own staff members to provide wider poultry vaccination services, but it soon realized that much wider outreach was needed to systematically serve the poultry vaccination needs of a given area. Sustainability was also an issue.

BRAC then developed the community-based volunteer approach. The idea is simple. In each village, an appropriate member of the village organization (VO) is trained to vaccinate poultry and treat basic poultry diseases. BRAC bears the costs of training. Trained vaccinators then get a flask to carry the vaccine, a syringe to apply the vaccination, and a bag with the BRAC logo. They buy the vaccine from BRAC or government facilities and sell the service to poultry rearers in the community. To get them started, BRAC gives each vaccinator a small loan. Today BRAC has over 20,000 poultry vaccinators working in villages throughout the country, responding to a very important need of small poultry rearers.

Once these volunteers significantly lowered the mortality rate of poultry, another bottleneck was identified: yield. The average yield of local varieties of poultry is 40 to 60 eggs a year, but High Yielding Variety (HYV) poultry yield 250 to 300 eggs a year. The government was the main supplier of HYV chicks, and BRAC bought up most of its supply to distribute among its VO members on a pilot basis. Now, another major constraint emerged. Rearing HYV poultry is different from rearing local varieties; the farmer needs feed, clean water, and basic poultry hygiene. BRAC started training its VO members about these issues so that they could get the maximum yield from rearing HYV poultry. To facilitate feed distribution, BRAC used a model very similar to the one for creating poultry vaccinators. It developed a new cadre called “feed sellers” who were trained to prepare good-quality poultry feed that they could sell to poultry rearers. As HYV poultry rearing expanded, traditional middlemen started exploiting the women who were too isolated to get good information about local market prices. BRAC then developed a cadre of egg collectors, again from its VO membership base. As the women discussed the local market price of eggs every week at their VO meetings, it became harder for the middlemen to exploit them.

Milking more

Livestock rearing is another popular activity among poor households in Bangladesh; here women also play a key role. Many BRAC members were using their loans to invest in livestock. On average, local breeds can produce 1 to 1.5 liters of milk a day, being milked for 250 days a year, but a 25% improved variety will typically yield 6 to 8 liters a day with a total of 270 milking days in a year. Clearly, improvements in livestock breeding could lead to significant opportunities. In 1985 BRAC piloted an approach similar to its poultry worker model to develop a

cadre of workers to artificially inseminate cattle.

The government was the main provider of insemination through its 1,100 Livestock Artificial Insemination Centers. Despite their numbers, however, the centers were distant from many of the rural households rearing livestock. This led to two problems: the expense and inconvenience of bringing livestock to these centers, and the problem of timing. A cow is usually in heat for 24 hours, and the optimal “heat period” only lasts about six hours. Due to lack of outreach, many rural livestock rearers did not know about the government services. Moreover, the government facilities relied predominantly on liquid livestock semen which required refrigeration and had to be used within three days. This meant that centers had to be located in areas with electricity and much semen was wasted. Or, if they used out-of-date liquid semen, cows did not conceive. This led to a vicious cycle of dissatisfaction and lower demand.

After some research, BRAC developed another approach. Through VO members, it recruited their husbands or male relatives who had a secondary education, and trained them in modern methods of livestock rearing and artificial insemination. Its partners were Bangladesh Agricultural University and Bangladesh Livestock Research Institute, which had excellent technical knowledge in this area. Initially, a few women were trained along with the men, but the work involved traveling long distances on bicycles, and administering the semen. It was more suitable for men.

Instead of liquid semen, BRAC used frozen semen which had no expiry date but did need liquid nitrogen for storage. BRAC currently purchases liquid nitrogen from Bangladesh Oxygen Limited and distributes it in cylinders to its 55 Livestock Artificial Insemination Centers across the country. The trained Livestock Artificial Insemination Workers (LAIWs) come to these centers on fixed days of the week to buy the frozen semen.

The LAIWs buy a single shot of frozen semen for 70 taka (roughly US \$1) and provide on-farm service to the livestock rearers for 100 taka. BRAC provides them with regular training and the basic equipment they need. The average LAIW earns about 2,500 taka a month. The conception rate is over 65% which is higher than the internationally acceptable standard of 50%. Demand is rapidly increasing for the LAIWs’ services, so their income is growing.

BRAC used posters, popular theater, and “miking” to publicize the LAIWs’ services and the importance of modern methods of livestock rearing. “Miking” is a very popular way to spread various types of information in Bangladesh, especially in rural areas. A rickshaw, bicycle, or scooter is decorated with posters and a microphone is placed in the front; it is then driven around the villages to make announcements. The microfinance VO meetings and networks are also used to inform people about improved breeds and the opportunities they offer.

Initially, to facilitate service delivery at the community level, BRAC used “post boxes” placed in villages so that people who needed the service could leave a note. With the massive expansion of cell phones in Bangladesh, BRAC is now providing

the LAIW with loans to buy phones. The name and number of the relevant village LAIW is displayed throughout the village and in the BRAC area office, and is publicized through the microfinance VO network.

Getting basic health services to reach the poor

Many of the costly health problems faced by the poor can be reduced if basic information and prevention services are available in villages. And illness is a key reason for increased poverty and defaults on microfinance loans.

The traditional MFI response to this issue has been insurance, which addresses the demand-side constraint of finance. But the demand side includes other constraints besides finance, such as knowledge of ways to prevent disease, or having the information on services available. Premium payment today for an uncertain event in the future for the poor when there are many other pressing competing needs, also makes insurance uptake by the poor a challenge. BRAC approached this problem by making basic health services available at the community level. Again, the microfinance VO structure played an important role. Appropriate VO members were selected and trained in essential health care. They were then assigned to work areas covering around 300 households each. Within their area they provide basic health information and advice, sell non-prescription medicines for basic illnesses, take pregnant mothers for ante-natal checkups, help mothers to immunize their children at government facilities, and mobilize the community for national immunization day. BRAC's annual expenditure on training is 285 takas (about \$4) per volunteer. The volunteers earn money by selling medicines at retail rates, and by referring people to health facilities. They can average 200 to 250 taka monthly.

Making rights real for the poor: BRAC's Human Rights and Legal Services

For the poor, especially women, a crucial constraint is lack of knowledge about their legal rights and difficulties accessing legal services when they need them. Without such knowledge, poor women can lose the few resources they have and become even more vulnerable within the society. Often when Bangladeshi women slide into poverty and dispossession, legal disempowerment is a key element in that slide.

BRAC sought a cost-effective mechanism to address this constraint. It started from a promotive perspective, providing human rights and legal education (HRLE) for its members. It trained group members as cadre legal volunteers to provide this training to others. With the help of leading national legal experts, it developed innovative training materials such as flip charts to provide training on basic rights and essential legal issues in the areas of inheritance, marriage and violence against women. Each group member pays the legal volunteer about 15 cents (10 taka) for her services and BRAC pays another 15 cents. To maintain continuity, BRAC formed local Law Implementation Committees (LICs) consisting of the top three learners in an area; they maintain close links with other BRAC members. During 2006, over 10,000 HRLE classes were held for over 200,000 BRAC mem-

bers.

BRAC was well aware that once it took hold, this basic knowledge about rights would lead members to call for more direct legal action to support the poor. Indeed, BRAC soon formed a partnership with two leading legal-aid NGOs in Bangladesh to help BRAC members and other poor in the community resolve their conflicts through alternative dispute resolution. If women need to go to court, BRAC provides legal advice and assistance through a cadre of panel lawyers who are paid a modest honorarium for their services. They provide assistance with issues like polygamy, dowry, dower and maintenance payments, divorce, physical torture, and land-related disputes. As of December 2006, a total of over 42,000 complaints had been made and over 50% were resolved. So far, almost 3,000 cases have been filed in local courts, and over 35% have been resolved. The program has succeeded in obtaining about US \$1.2 million in monetary compensation for its members in various cases.

The fact that all these cadres of volunteer workers are recruited from the VO members helps in many ways. The VOs are the focus of BRAC's delivery structure, including microfinance. Typically, a VO consists of 35 to 40 members who are formed into smaller groups of five. This structure provides a ready market for services, arising from the initial access to microfinance. Though most of the volunteers have little education and low socio-economic standing, they are members of the VOs and are trained and certified by BRAC, so their fellow VO members trust their services as they would not trust villagers outside the VOs. Fellow members can also hold them to account for their services more effectively than outsiders could. As their services became established within the secure and controlled environment of the VO, they can then extend them to market beyond the VO membership.

INCLUSIVE MICROFINANCE: NEW GROUPS, NEW SERVICES

Making microfinance inclusive is the new mantra. The focus, however, is not only on new financial products, but also on designing socio-economic processes that create strategic linkages with microfinance. Because the various hitherto un-served groups face different constraints, they may require a wider set of introductory non-microfinance interventions so they can make the best use of microfinance itself. The key challenges here involve packaging and sequencing. Another is how to develop appropriate incentives and management systems that do not distort the process, but instead create synergies. In this section, we briefly describe several ways that BRAC is challenging itself to make microfinance truly inclusive.

Building opportunity ladders for the extreme poor

BRAC has long realized how hard it is to address the needs of the extreme poor using conventional microfinance. In Bangladesh, where outreach to the poor and the poorest has had the greatest influence in shaping the discourse on microfinance, evidence suggests that about 15% of all microfinance clients are among the

very poorest. This is not an insignificant result for BRAC's outreach, and occurred mainly as microfinance expanded with the support of PKSF (Palli Karma Sahayak Foundation), the government-sponsored and donor-funded wholesale institution. However, work by BRAC's Research Division² shows that a significant portion of these poorest clients tend to be relatively inactive as participants. That is, they borrow far smaller amounts, and do so less frequently, and they tend to have long overdue debts that they cannot repay. Also, unlike most microfinance members,

they are more likely to drop out of one MFI and not join another one. All this suggests that the focus of discussion on microfinance and the extreme poor should go beyond their simple membership in MFIs, to examining the quality of their MFI participation and how it can be improved.

For BRAC the challenge was to

develop cost-effective mechanisms to include the extreme poor in the programs and to move beyond grants.

In 1985, the Vulnerable Group Feeding (VGF) program of the World Food Program (WFP) was providing time-bound food assistance to the extreme poor living in vulnerable areas. To implement a new sustainable model for the most vulnerable, BRAC approached the WFP and together the two NGOs designed the Income Generation for Vulnerable Group Development (IGVGD). program to link extremely vulnerable women to mainstream development activities. This initiative organized extremely poor women into groups and provided them with skill development training in sectors, such as poultry, where large-scale self-employment can be created.

While the program was operating, these extremely poor women were given a monthly ration of wheat for two years. The program also developed a savings scheme and later provided small amounts of program credit, so that the women could use their training to develop more meaningful and secure livelihoods. The whole program aimed to take systematic advantage of a window of opportunity in the lives of these extremely poor women: While they were receiving food transfers and had some short-term security, it provided support so that the women could stand on more solid ground once the transfer period ended. An independent study by WFP found that through this strategic linkage, more than three quarters of those who received the monthly ration card became regular clients of BRAC's microfinance program.

A CGAP (Consultative Group to Assist the Poor) study found that the average woman in the VGD program received a subsidy of about US \$135, which is fairly small, considering that the overwhelming majority of IGVGD women graduated out of their need for continuous handouts. As more of the VGD women graduate to BRAC's microfinance program and as they improve the quality of their lives,

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BRAC will likely be able to recoup these subsidies.

BRAC's experiences with IGVD demonstrated that it is possible to create opportunity ladders out of the safety nets for those who are left behind by conventional microfinance. So BRAC became even bolder, and experimented further with this concept. BRAC noticed that the IGVD approach helped the great majority of its participants to benefit from regular microfinance programs, but a significant minority still failed to reach this stage. More worryingly, those who failed to "make it" were among the poorest of the poor.

They also saw several reasons for this situation. Sometimes, the local representatives selected participants based on political motives and other forms of self-interest. More importantly, the VGD women often failed to get the full benefits of the window of opportunity that the food transfer provided, because two or more of them tried to share one VGD card. Sometimes, the cards had to be "bought"—which often meant selling the cards, in advance, to wheat dealers to raise the money for the "payment."

BRAC felt the need for a program that would give it more control over these processes; it also wanted to design a specific window of opportunity in which the extreme poor (those spending 80% of their income on food, yet not being able to attain 80% of the calorific requirement) could build solid ground and then move forward.

In January 2002, to address these challenges, BRAC started a new experimental program, "Challenging the Frontiers of Poverty Reduction: Targeting the Ultra Poor," or TUP. The program seeks to "push down" the reach of development programs, specifically targeting the ultra poor through a careful methodology that combines participatory approaches with simple survey-based tools. During the period 2002-2006, it worked with 100,000 ultra-poor women.

The whole idea behind the CFPR/TUP approach is to enable the ultra poor to develop better options for creating sustainable livelihoods. This requires a combination of approaches; some are promotional, such as asset grants and skills training, and others are protective, such as stipends and health care services. It also means attacking constraints at various levels: within households and in the wider environments of institutions, structures and policies. The CFPR/TUP approach aims to deliver on all these fronts; BRAC hopes that the initial subsidy in this approach, which will be heavier than the IGVD, will reap benefits by allowing the extreme poor to build a more solid and comprehensive base from which to move ahead.

After two years of intensive grant-based support, the members of the CFPR/TUP program form their own microfinance groups. As of December 2006, over 15,000 CFPR/TUP members had formed their own groups as a part of the graduation package. BRAC has disbursed over US \$500,000 to these members; their average grant is \$38 and they have saved close to \$366,000.

Microfinance for adolescents: Starting early

The proportion of the population in the 15-29 age group is increasing in South Asia, including Bangladesh, due to an interplay between declining fertility rates and population momentum. This segment of the population will constitute the next generation of workers, parents, citizens and leaders. This “youth bulge” is likely to intensify further over the next two to three decades as fertility rates decline more markedly and the momentum in population growth slows.

Some see the swelling numbers of young people as a risk. With rising enrollments in primary school, and growing primary completion rates, young people will create enormous pressure at the higher levels of education. A closely related risk is high unemployment and the associated vulnerabilities that it creates for young people and the society at large. Although this is one of the healthiest periods of a person’s life, it can also be a time of taking on risky behaviors that can injure one’s health.

Still, these large numbers of young people bring unprecedented opportunities as agents of growth and social change. Along with the “youth bulge” comes a declining dependency ratio which presents a unique window of opportunity. The economic arguments for investing in children and dependent youth have never been better.

Microfinance has traditionally focused on married women, usually aged over 25, while education programs typically focus on primary school children. Thus mainstream development efforts generally miss a critical and large part of the life-cycle, as people make their transition from childhood to adolescence and youth. But investing in people during this period of their lives can yield significant development dividends.

Adolescence is an extremely vulnerable period, especially for girls in a patriarchal society like Bangladesh. As they reach puberty, many encounter abrupt physical restrictions that they will continue to face throughout their lives. Lack of mobility has far-reaching implications in shaping their mindsets, worldviews, aspirations and confidence levels; these, in turn, adversely affect their decision-making power throughout their lives.

To address the particular contextual realities that face adolescent girls in Bangladesh, in 2003 BRAC initiated a special microfinance program for them: Employment and Livelihood for Adolescents (ELA). It aimed to provide ways that adolescent girls could begin to become economically self-reliant; eventually, it hopes to unleash a process of overall empowerment as these adolescents enter adult and family life. ELA offers its group members different kinds of trainings to help them earn an income and develop a savings habit, and it provides access to small loans. As of December 2006, over 272,000 adolescent girls had become members of ELA and formed over 9,000 ELA groups, each consisting of 15 to 20 members. Over 87% of them have taken on a loan averaging US \$70. They have saved in total almost \$3 million.

In addition to helping the adolescents begin their journey in becoming eco-

nomically self-reliant, ELA has recently begun to develop a social space called ELA Centers, where members can expand their social opportunities, become involved in other groups, and learn to act as social change agents in their home, family and community.

Reaching the socially excluded: Microfinance for Commercial Sex Workers

For many reasons, commercial sex workers (CSWs) are vulnerable and socially excluded. Their lives, and their livelihoods, tend to be mediated by multiple layers of intermediaries who exploit them in many different ways. But they must rely on these intermediaries to protect them, given that they are so vulnerable, in terms of income and health, as well as socially and politically.

Given the global concern over the spread of HIV and AIDS, various at-risk groups, including CSWs, are being targeted for different types of interventions. Generally these interventions aim to increase condom use, raise awareness and provide some treatment of various sexually transmitted diseases and infections, though less treatment is available for those with HIV/AIDS. Despite this initial support, they remain very vulnerable economically.

In 2004, BRAC started a small project to increase condom use among brothel-based commercial sex workers. BRAC soon recognized much more deeply-rooted constraints behind the low rates of condom usage. It engaged in extensive consultations, and developed a cadre of health volunteers among the commercial sex workers who would provide basic health support and sell a range of health products such as essential non-prescription medicines, condoms, and low-cost sanitary napkins. In addition to these interventions, BRAC also works on the demand side; its awareness-raising activities include video shows, and quiz and popular theatre shows, at the community level and among students of schools and madrassas. At some of the consultation meetings, the CSWs began to mention how much they needed secure futures for themselves and their children. Among the needs they listed were schooling for their children, and safe places to save and to take out loans. This prompted BRAC to start microfinance for CSWs, with a key focus on savings.

As of December 2006, BRAC had managed to motivate over 50% of the CSWs in the six brothels where it is working to form their own groups to save and borrow. It has disbursed a total of over US \$57,000 in loans to the CSW borrowers, with the average loan about \$190. The members have been able to save over \$16,000 during these years.

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Bridging the gap with the basic spirit of microfinance: Financing micro and small enterprises

The basic spirit of microfinance is to search for possibilities based on knowledge, understanding and perspectives that start at ground level. It is this keen and nuanced understanding that allows those involved in microfinance to select clients, segment markets, enforce loan contracts, manage loan repayment problems, and make everyday decisions. A good microfinance staff member has to be a barefoot economist, a sociologist, and a psychologist, all at once. When staff members can take this incrementally accumulated sense of life on the ground, with all its twists and turns, and combine it with the arts and sciences of management structures and incentives, they can facilitate successful scaling-up operations.

This kind of spirit, and the organizational culture that nurtures and sustains it, is critically important in breaking into new market segments, especially when the segment is informal and unknown, like the micro and small enterprise market segment. Most of the micro and small entrepreneurs operate in the market's informal segment, and lack the kinds of formal documentation that conventional financial institutions typically use for appraisals. These entrepreneurs have little or no access to traditional mechanisms of loan enforcement. Anyone appraising the potential to grow and repay loans has to take the person's financial abilities into account using innovative means, but must also take on social tasks that conventional bank representatives are often not suited to do well.

BRAC realized that a sizable portion of its existing microfinance clients were entrepreneurial enough to handle larger loans and grow their businesses; it also saw a large unserved market consisting of micro and small entrepreneurs. It knew that growth in this segment of the market was important for generating employment, which would lead to local economic growth. So, in 1996, it initiated Microenterprise Lending Assistance (MELA), a special lending program for micro and small entrepreneurs. As BRAC gained experience with the needs of that market and learned to manage its program more efficiently, it divided the MELA program into two segments: UNNOTI (meaning development) with loans ranging from US \$215 to \$715, and PROGOTI (meaning progress) with loans ranging from \$715 to \$4285. Like those in DABI (Daridro Bimochon—"Poverty Alleviation" in Bangla), BRAC's core microfinance program, UNNOTI clients must form groups and attend meetings to take on loans, while PROGOTI clients are served individually. To receive loans, PROGOTI clients must open a bank account; however, UNNOTI clients only need a passbook for their transactions with BRAC.

As of December 2006 the UNNOTI program had almost 550,000 members, who had borrowed over US \$180 million in loans averaging \$250. Another 343,000 entrepreneurs are borrowing from BRAC's PROGOTI Program in loans averaging over \$1,000.

Transfer at the doorstep: Remittance partnership

International remittances have been creating a silent revolution in Bangladesh. According to Bangladesh Bank statistics, in 2005, the country received over \$3 billion in international remittances, which grew by over 14% a year between 2000 and 2005. The importance of such a huge flow of foreign exchange at various levels of the economy is not difficult to understand.

People use various methods to send remittances. A study by RMMRU found that 46% of the total volume of remittances was channeled through official sources, around 40% through *hundi* or unofficial channels, and 6% through friends and relatives. The remaining 8% was hand-carried by migrant workers coming home on visits. Most of the remittance flow is irregular, coming 3 to 4 times a year. On average, transfers sent through official channels cost almost \$2 at the receiving end, but those sent unofficially cost about \$1. With official transactions, people had to wait 12.83 days on average to receive cash after they deposited the draft in the bank, while it took only 3 days after they got information about the transfer when remitting money through the unofficial channel. Clearly, there is great room for improvement at the receiving end, in terms of cost, convenience and speed of transfer through official channels. For providers of official remittances, a major constraint is their lack of an outreach network, especially in the rural areas, home to a large majority of those who receive the remittances.

This is where microfinance institutions like BRAC, with its network of over 2,000 rural branches, can play a significant role, and it has now partnered with BRAC Bank, a full-service commercial bank. As Bangladesh has no official identification system, one key problem is identifying the beneficiary, which increases transaction costs for both the financial institution and the beneficiary. But BRAC could use its local knowledge; it carried out a survey to register close to 100,000 beneficiaries, providing them with a registration card, unique registration number, and remittance passbook. Through an intranet, the BRAC Bank Head Office in Dhaka is connected with all the branch offices; it can send transfer advice to the relevant branch office overnight. The registered beneficiary comes to the branch office with card and passbook, fills in a withdrawal slip, and gets the money within minutes.

The current discourse on microfinance, with its exclusive focus on innovations in financial products, is important. But we see great scope for further innovations, if we take a broader perspective on microfinance.

For each transaction, BRAC Bank sends BRAC a service charge of 175 taka (a bit over \$2). BRAC Bank processes close to 35,000 remittance transactions every month, largely through this innovative partnership with BRAC. Although BRAC Bank is a very new entrant into this market, it already has an overall remittance market share of 4% and has been able to capture 35% of the remittances to Bangladesh that had been routed through Western Union.

This partnership is not only about providing convenience, speed and low-cost transfers. To discourage people from using *hundi*, (because the money is unaccounted for, it can be used to finance drug business, terrorism etc.), BRAC Bank is using the popular theatre program of its Social Development Program, which runs over 29,000 popular theatre shows every year in the nation's villages.

A study by International Organization for Migration, having looked into the patterns of remittance use in Bangladesh, sees several factors that constrain the further investment of remittances in productive sectors. They are primarily areas where the country lacks resources. For example, Bangladesh has few resources for promoting information, advice, training and other services relating to investment in new and potentially successful sectors. It also has few ideas about investment opportunities, and those receiving remittances have little expertise in running businesses. If some of these constraints can be alleviated, conditions will improve for all parties involved, including the financial institutions involved in the remittance business. Then, larger remittances can flow more regularly and those who receive them will be more interested in other financial products.

With this in mind, the BRAC Bank, in partnership with BRAC, is developing new products; one is Probashi DPS, a special deposit pension scheme for Bangladeshis working abroad. BRAC is also encouraging the registered beneficiaries among its members to open savings accounts and take out loans to start enterprises. BRAC Bank is encouraging the beneficiaries to consider taking out SME loans against the savings from remittances. BRAC Bank is also offering insurance, against accidents and disability, which pays out up to US \$1,400. The policy is simple: it is valid as long as the remitter commits to making at least one transaction in 65 days.

NEEDED: A BOLDER MICROFINANCE VISION

Globally, given the huge un-served and under-served demand for microfinance and the lack of solid institutions, another large unfinished agenda exists: to ensure that the largest number of poor people can have reliable and reasonably priced access to different kinds of financial services. But we must also find innovative ways of doing more.

What we have argued in this paper is that the process of microfinancing, through social intermediation, creates valuable forms of capital that remain largely untapped. From BRAC's experiences, we have provided some examples of how the process capital of microfinancing can be harnessed to address other constraints that the poor face in their fight against poverty. New forms of exchanges are creat-

ed, along with new forms of service-based employment, and poor people adopt new techniques that bring their enterprises larger returns. Decisions on how to implement these programs—should they be run by one single institution or a partnership, and how should they be sequenced—will depend on institutional characteristics, incentive structures and other contextual variables. In this paper, our purpose is not to prescribe, but rather to draw attention to the possibilities of using the microfinance structure and processes in bolder and more innovative ways.

The current discourse on microfinance, with its exclusive focus on innovations in financial products, is important. But we see great scope for further innovations, if we take a broader perspective on microfinance, especially with respect to its process capital. Microfinance is certainly not a silver bullet, but it does have great power and possibilities. By broadening our current imagining of microfinance, we can harness it more fully and thus do far more to alleviate poverty.

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1. The village organizations are the gateways and nucleus of all BRAC development activities. Typically, a VO consists of 30 women and is a federation of small 5-member groups. Each small group has a group leader and the VO members will nominate one of them to be the VO chairperson. The VO will also have a treasurer. Currently BRAC has over 170,000 VOs all over Bangladesh.
 2. BRAC since its beginning has paid serious attention to evidence leading it to set up its own in-house Research and Evaluation Division in 1975. This Division has over the years played a significant role in evaluating BRAC's development programmes and identifying gaps for improvement. A number of new BRAC programmes, such as its special Program for the ultra poor, emerged out of research and evaluation. For more about BRAC's Research and Evaluation Division, see <www.bracresearch.org>.