BRAC Case Study

MICROLEAD

MICROFINANCE GREENFIELDS IN CHALLENGING ENVIRONMENTS:

BRAC'S EXPERIENCE IN THREE POST-CONFLICT COUNTRIES IN AFRICA

By Ann Duval

Summary

The United Nations Capital Development Fund (UNCDF), an international funder, and BRAC, an international non-governmental organization (NGO), are both dedicated to helping the poorest people in the world. UNCDF's Financial Inclusion Practice Area has a more narrow focus on extending financial services to the poor, following an inclusive finance approach that seeks to ensure that a range of financial products is available to all segments of society, at a reasonable cost and on a sustainable basis. BRAC believes in a holistic approach to poverty, empowering people and communities through multiple social and economic programmes that include microfinance. Regardless of the focus and approach, both institutions are prepared to take risks to achieve their goals, which often entails funding or operating programmes in extremely challenging environments. As a UNCDF manager said, "We take risks that others won't."

BRAC and UNCDF both took risks when deciding to implement and fund BRAC's greenfield microfinance operations in the challenging environments of South Sudan in 2008 and in Sierra Leone and Liberia in 2009. Although the challenges may have been underestimated, the risk paid off in two of the three countries; while BRAC had to close its microfinance operations in South Sudan in 2012, it has been able to achieve leadership in an albeit shrinking market in Sierra Leone and Liberia.

Other microfinance institutions, investors and funders contemplating similar programmes might improve their risk mitigation strategies and chances of success by heeding the lessons learned by UNCDF and BRAC in these three countries. These lessons include the need for a more thorough assessment of the operating environment; better adaptation of lending models tested elsewhere; a cautious approach to expansion; and, strong institutional structures and systems, such as responsive governance and management, appropriate human resource management policies and procedures, and robust internal controls.

An overview of BRAC

BRAC is recognized as a leader in creating opportunity for the poor. Begun as a limited relief operation in 1972 after Bangladesh's liberation war, BRAC (then known as Bangladesh Rural Advancement Committee) has grown to become the world's largest development organization. BRAC estimates that it now reaches 135 million poor people, including 5.5 million micro-borrowers, with over 100,000 employees around the world. It operates 38,000 schools worldwide and provides health services through over 100,000 community health workers. BRAC also has catalysed and invested in multiple private sector entities in Bangladesh, including a commercial bank, mobile money company and broadband company, and it operates a private, non-profit university. A portion of the profits from its social enterprises, including a popular retail chain, dairy and poultry, goes back into the organization to fund the development work.

BRAC tackles poverty on multiple fronts through a community-based development approach, providing an array of services to the landless poor, marginal farmers and vulnerable small entrepreneurs, including microfinance, education, healthcare, agriculture, food security and human rights. Microfinance is a key component of BRAC's holistic approach to supporting livelihoods. BRAC organizes clients (primarily rural women) into village organizations (VOs), through which they receive loans and savings services, and then uses the VOs as a delivery platform for other services. See Annex A for a description of the BRAC microfinance methodology and products.

BRAC's vision
A world free from all forms of exploitation and discrimination where everyone has the opportunity to realize their potential.

BRAC's mission
Our mission is to empower people and communities in situations of poverty, illiteracy, disease and social injustice. Our interventions aim to achieve large scale, positive changes through economic and social programmes that enable men and women to realize their potential.

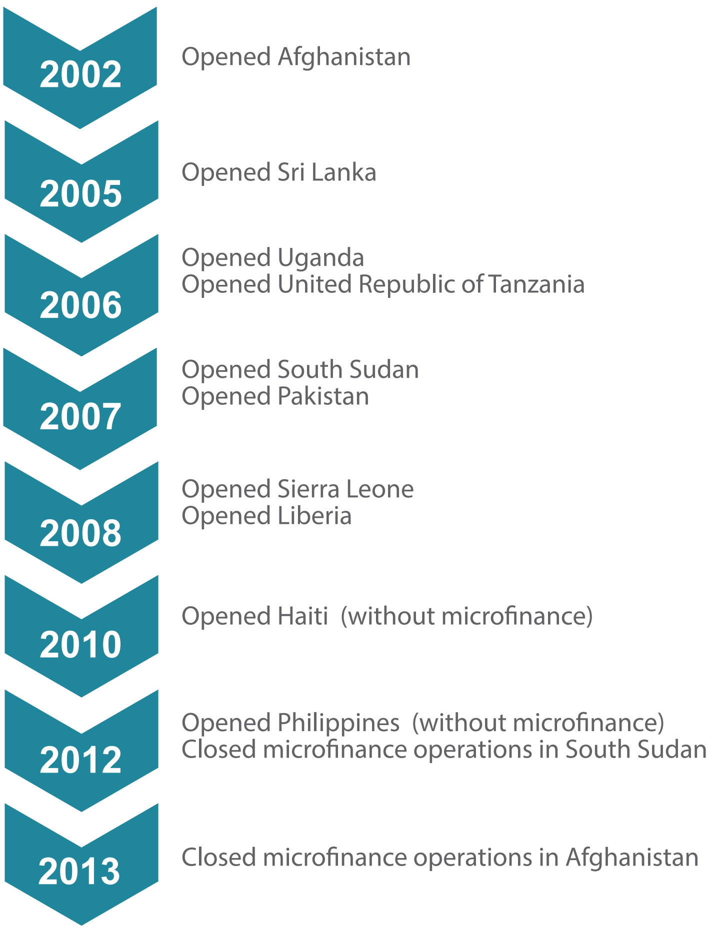
BRAC's international expansion

In 2002, BRAC established its first programme outside of Bangladesh, in Afghanistan, with the belief that the comprehensive model it had developed could be adapted to other developing contexts, particularly post-conflict settings. Over the next 10 years, BRAC expanded its international network, drawing on a range of grants and investments, to 10 countries: Afghanistan, Sri Lanka, Uganda, United Republic of Tanzania, South Sudan,[1] Pakistan, Sierra Leone, Liberia, Haiti and the Philippines. See the figure for the specific timeline of this expansion. With the exception of Haiti and the Philippines, microfinance was an integral part of all BRAC international programmes at some point. From 2002 through 2007, while BRAC was establishing its first programmes abroad, it expanded aggressively at home; during the last half of 2007 alone, it almost doubled the number of branches in Bangladesh from 1,500 to 2,900.[2]

Growth in Bangladesh slowed in 2008, and by the end of 2012, BRAC had scaled back to less than 2,200 branches. BRAC also began scaling back its international programmes; in addition to consolidating operations in several countries, it closed the South Sudan microfinance programme in late 2012 and the Afghanistan microfinance programme in early 2013, leaving six active international microfinance programmes. The annual operating budget of all BRAC international programmes is less than US$150 million, and these programmes employ about 10,000 people worldwide. In comparison, in Bangladesh, BRAC has an operating budget of $700 million and employs over 100,000 staff.

As part of its international expansion programme, BRAC's founder committed to raise $250 million to work in at least five African countries, and at the height of its international programming, half of BRAC's international programmes were in Africa. Although BRAC decided to initiate programmes in Uganda and the United Republic of Tanzania first (in 2006), it felt a particular affinity for post-conflict countries, having itself grown from post-war relief efforts in Bangladesh. As one BRAC manager said, "You could say that BRAC actually had a hunger for this." Therefore, BRAC began operations in South Sudan in 2007 and expanded to Sierra Leone and Liberia in 2008; these countries fit with BRAC's post-conflict focus, and BRAC was encouraged to enter these markets by funders and high-level government interest.

Figure 1
BRAC timeline



1 Southern Sudan Autonomous Region at the time of greenfield establishment, which later became South Sudan.

2 See the following: Greg Chen and Stuart Rutherford, 'A MicroCredit Crisis Averted: The Case of Bangladesh,' CGAP Focus Note No. 87, July 2013.

Evolution in BRAC's international structure and management

BRAC's international structure and management evolved as the number of operations grew. Initially, there was no separate structure or management dedicated to international operations.

In late 2006, when BRAC was preparing to expand into Africa, a separate international department was created to oversee international programmes. At first, the international department in Dhaka was staffed by three senior BRAC staff, only one of whom worked full time on international programmes. In 2009, when BRAC International (BI) was formally established,[3] 'sectoral anchors' (senior managers with significant technical expertise) were added to provide programmatic oversight and guidance, and a full-time executive director was appointed.

In late 2010, the executive director of BI suddenly passed away, leaving a serious leadership gap. In mid-2012, when the deputy executive director resigned and the microfinance director retired, BI was re-staffed and re-organized. The BRAC health director assumed responsibility for BI and was named the full-time executive director in 2013. The BI sectoral anchors were eliminated and programme oversight was transferred to the respective BRAC Bangladesh departments. Under the structure in place since mid-2012, country-level microfinance managers report to their respective country representatives, who in turn report to the executive director of BI, but they also have a 'dotted-line' relationship with BRAC Microfinance, which provides programmatic and operational support and oversees programme quality and strategy.

An overview of MicroLead

Recognizing (i) the importance of 'market leaders' to drive sector development and (ii) the demand for safe, convenient savings products by low-income populations, UNCDF established the 'Least Developed Countries Fund to Develop Savings-Led Market Leaders for Inclusive Finance,' better known as MicroLead, in 2008. The programme's goal is to increase access to financial services, particularly savings, by supporting the expansion of savings-led microfinance market leaders in underserved countries.

MicroLead provides loans and grants to leading financial service providers and technical service providers on a competitive basis to facilitate their entry into underserved areas where access to finance is most limited. With $58.5 million in resources by 2013, provided by UNCDF core funds, the Bill & Melinda Gates Foundation, The MasterCard Foundation and the Myanmar Livelihoods and Food Security Trust Fund, MicroLead has financed 27 projects impacting 36 financial service providers in 19 countries. Two million low-income active depositors will be reached by 2016 due to MicroLead interventions.

BRAC's success and rapid expansion of microfinance services in Afghanistan from 2003 to 2008 served as a model for the theory of change underlying the MicroLead concept note. In 2008, BRAC's experience indicated that a strong national microfinance institution could rapidly scale up regionally, even in a conflict/post-conflict environment (e.g., Afghanistan) as well as in non-Asian markets (e.g., Uganda and the United Republic of Tanzania), and accelerate the pace of financial inclusion. See table 1 for outreach figures from BRAC's international operations from 2003 to 2013; it also highlights the information available at MicroLead inception. UNCDF initially tested the MicroLead concept in South Sudan in early 2008, approving funding for the greenfield operations of three institutions under MicroLead's early post-conflict window, including BRAC.[4] This test led to the full roll-out of MicroLead in 2009.

Table 1

BRAC international expansion: Number of active borrowers by year

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Afghanistan	15,710	55,572	87,153	138,625	140,032	140,191	150,638	154,742	116,707	n/a	n/a
Sri Lanka			3,070	20,948	34,550	54,318	63,977	65,607	73,374	63,346	69,393
United Republic of Tanzania				5,131	57,343	69,502	89,818	115,695	116,749	104,225	101,068
Uganda				5,808	37,543	62,609	103,489	107,686	120,901	118,170	129,104
Pakistan						29,200	45,011	83,797	98,095	68,192	56,359

Sources: BRAC and MIX Market

3 In 2009, BRAC finalized the registration of Stichting BRAC International in the Netherlands, a foundation that acts as an umbrella for BRAC's international programmes. Its secretariat and management are imbedded in BRAC headquarters in Bangladesh.

4 As part of initial MicroLead funding in early 2008, UNCDF also financed Sudan Microfinance Institution (SUMI) and Finance South Sudan Limited (FSSL); SUMI subsequently closed its operations while FSSL continues to operate at a minimal level. In December 2009, MicroLead also financed Equity Bank Limited's greenfield subsidiary in South Sudan.

The BRAC greenfield microfinance programmes financed by MicroLead

MicroLead financed three of BRAC's five greenfields in Africa: South Sudan in June 2008, under the initial post-conflict window, and Sierra Leone and Liberia simultaneously in October 2009.

BRAC microfinance in South Sudan

BRAC had provided technical assistance for education programmes in southern Sudan through the United Nations Children's Fund (UNICEF) in the late 1990s. It began its own operations in 2007, at a time when southern Sudan was beginning to rebuild after decades of civil war. Although a peace agreement was reached with northern Sudan in 2005, southern Sudan remained in dire straits at the time, with widespread poverty, little infrastructure and dependence on the north for the import of goods, services and capital.

BRAC initiated its microfinance programme with several small grants and with commercial capital from the BRAC Africa Loan Fund. In 2008, UNCDF/MicroLead approved a total of $3.0 million for BRAC's South Sudan microfinance programme, including a $1.5 million grant and a $1.5 million loan. Separate performance-based agreements (PBAs) were signed in June 2008 for the grant and the loan, both for a period of five years. The grant and the loan were disbursed in one lump sum in November 2008.

BRAC pursued ambitious expansion plans for the microfinance programme, establishing operations in 7 out of 10 states within the first year. However, it ran into problems in 2009 when Nile Commercial Bank in Juba, where BRAC had transferred most of its funds, collapsed, resulting in a loss of $6 million and an immediate liquidity crisis.[5] In addition, the Government implemented urban planning policies and demolished informal markets where many clients operated.

This combination of factors proved to be a blow from which the programme never recovered; portfolio at risk more than 30 days (PAR >30) spiked from 5 percent to 30 percent in the space of several months in 2009 and continued to rise thereafter.

Conditions in the country continued to deteriorate: violence resurged in 2011 when South Sudan declared its independence and internal conflicts have continued ever since, resulting in thousands of deaths and the internal displacement of more than one million people. In early 2012, South Sudan suspended oil production (which accounts for 98 percent of its revenue) due to disputes with Sudan, and inflation peaked at 79 percent. In response, BRAC implemented a PAR action plan and consolidated branch operations, which included tighter supervision, additional staff for tracing displaced borrowers and enhanced loan monitoring and collection. Yet, by mid-2012, BRAC had ceased most microfinance activities, and it closed the microfinance programme in December 2012.[6]

See table 2 for the performance targets outlined in the PBAs, together with actual performance figures. The table illustrates the effect of the challenges faced by BRAC, with the number of active clients never surpassing 19,000 (as compared to the 180,000 that had been projected by 2012) and falling to just over 4,000 in December 2012, coupled with increasing PAR and resulting low levels of profitability.

Table 2
BRAC South Sudan performance-based agreement targets versus actual performance

Indicator	31 Dec. 2009		31 Dec. 2010		31 Dec. 2011		31 Dec. 2012	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
Number of active clients	15,000	14,247	64,800	18,498	135,000	5,602	180,000	4,278
Percentage of female clients	100%	100%	100%	100%	100%	100%	100%	100%
Adjusted return on assets	25%	-15%	31%	-22%	36%	-15%	40%	-3%
Operational sustainability	32%	41%	67%	24%	106%	19%	143%	30%
Portfolio at risk > 30 days	5%	31%	5%	40%	5%	31%	5%	61%

Source: Reports to UNCDF/MIX Market

5 BRAC took concerted action to collect its funds on deposit with Nile Commercial Bank, but it is still owed over $4 million. Despite the loss, BRAC has repaid its commercial lender.
6 BRAC continues to operate the Empowerment and Livelihoods for Adolescents programme that includes microloans.

BRAC microfinance in Sierra Leone and Liberia

Establishment and financing

BRAC established operations in Sierra Leone and Liberia simultaneously in 2008, creating both an NGO and a separate microfinance company in each country. Due to the unclear legal environment for microfinance, it took more than a year to register the two microfinance companies; BRAC SL Finance Company (SLFC) and BRAC Liberia Finance Company (LFC) were registered in 2009.

BRAC raised the initial capital for SLFC and LFC from the Soros Economic Development Fund (SEDF), which had urged BRAC to begin operations in these two countries. SEDF then brought the Omidyar Network on board. Start-up capital in each country totalled $4.08 million as follows: $2.08 million in grants provided by SEDF and Omidyar to BRAC, which used the grants to establish its own 51 percent equity share in the companies; and, $1.00 million each from SEDF and Omidyar as direct equity investments in the companies, giving each a 24.5 percent equity stake. In addition, Open Society Initiative for West Africa and Omidyar provided start-up grants for BRAC's local NGO entities to carry out livelihood development services in agriculture, poultry and livestock and initiate a health programme.

A nine-person board of directors was established to oversee the microfinance companies. Board composition reflected the equity structure: five seats for BRAC (held by BRAC and BI directors) and four seats for the external investors. The external investors allocated their four seats as follows: one for SEDF, one for Omidyar and two for SEDF's sister non-profit, Open Society Initiative for West Africa, to ensure West African expertise. Although the Boards of SLFC and LFC are legally separate, the same individuals sit on both boards, as well as on the NGO steering committee for each country.

BRAC applied to MicroLead for an additional $3.8 million for each country (a total of $7.6 million) to finance expansion over years two through four. MicroLead approved grants of $1.9 million for each country and signed PBAs in October 2009, covering a four-year period through December 2013. MicroLead disbursed $1.0 million for each country in November 2009, with further disbursements contingent on meeting performance targets.

Challenges

Although Sierra Leone and Liberia were considered post-conflict countries at the time the programmes were established, unlike South Sudan they had been at peace for six years. However, these countries present a number of ongoing challenges to operating a successful microfinance programme. The key challenges include the following: a high degree of corruption resulting in lending fraud; limited infrastructure (lack of adequate roads, electricity and communications systems), which limits client market opportunities and the ability to offer sustainable financial services in rural areas; a limited pool of educated people available to staff and manage institutions in the wake of a decade of civil war; the lack of a credit culture; and, a high incidence of client illness, accidents and death.[7]

In addition to the challenging operating environment, BRAC faced legal barriers to accepting deposits, a key requisite for MicroLead financing. SLFC and LFC had been seen as the first step to transforming into regulated deposit-taking entities. As microfinance companies are not allowed to take deposits under these countries' regulations, BRAC's plan was to transform the two microfinance companies into deposit-taking institutions so that they could begin to offer savings services by the third year of operations.

Results

SLFC and LFC expanded their branch structures rapidly in the first years according to plan but were not able to meet the PBA target for number of active borrowers, reaching only about half of the target at the end of 2010. The companies also began to experience problems with their loan portfolios, with SLFC and LFC reaching PAR >30 of 11 percent and 10 percent, respectively, by December 2010. In addition, there were signs that staff corruption was higher than BRAC had experienced in Asia or East Africa. Many of the rural branches were also proving to be unsustainable due to sparse population. By 2011, it was clear to the BI board and management that the companies were not strong enough to transform to deposit-taking institutions, and they decided to put this plan on hold. As a result, BRAC was also not able to meet the deposit targets set out in the MicroLead PBAs. In July 2011, MicroLead, a programme specifically focused on providing deposit services to low-income populations, suspended both of these agreements and did not disburse the second and third grant tranches. See tables 3 and 4 for the PBA targets compared to actual performance for these two institutions.

7 See the following:
Ann Duval and Franklin Bendu, 'Development of a Sustainable Pro-Poor Financial Sector in Sierra Leone: Mid-Term Evaluation,' November 2006.
UNCDF, 'Final Evaluation: Development of a Sustainable Pro-Poor Financial Sector in Sierra Leone,' September 2009.

Table 3

BRAC Sierra Leone performance-based agreement targets versus actual performance

Indicator	31 Dec. 2009		31 Dec. 2010		31 Dec. 2011		31 Dec. 2012		31 Dec. 2013	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
Number of active borrowers	8,175	8,274	36,630	16,837	70,385	21,308	103,815	16,522	127,236	21,046
Percentage of female borrowers	97%	100%	97%	99%	97%	98%	97%	96%	97%	96%
Number of active depositors (Voluntary)	0	0	0	0	40,650	0	59,625	0	72,563	0
Operational self-sufficiency	52%	34%	77%	82%	121%	66%	143%	57%	175%	67%
Portfolio at risk at 30 days	0%	0%	1%	11%	3%	26%	4%	7%	5%	5%
Percentage of rural clients	60%	5%	60%	64%	60%	74%	60%	79%	60%	82%

Source: Reports to UNCDF/MIX Market

Table 4

BRAC Liberia performance-based agreement targets versus actual performance

Indicator	31 Dec. 2009		31 Dec. 2010		31 Dec. 2011		31 Dec. 2012		31 Dec. 2013	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
Number of active borrowers	8,175	8,033	33,525	20,559	57,330	25,814	70,655	18,925	75,455	11,578
Percentage of female borrowers	97%	100%	97%	99%	97%	95%	97%	87%	97%	98%
Number of active depositors (Voluntary)	0	0	0	0	32,925	0	40,275	0	42,900	0
Operational self-sufficiency	50%	52%	82%	69%	140%	83%	184%	86%	214%	74%
Portfolio at risk at 30 days	0%	0%	1%	10%	3%	12%	4%	17%	5%	6%
Percentage of rural clients	60%	47%	60%	51%	60%	53%	60%	57%	60%	73%

Source: Reports to UNCDF/MIX Market

Underestimating the challenges

BRAC and its funders, including MicroLead, assumed that because of BRAC's strength and scale in Bangladesh and its promising early performance in other countries at the time, it would become a natural market leader in South Sudan, Sierra Leone and Liberia. The implicit assumption was that BRAC's microfinance model would work well in these countries despite the challenging operating environments. While BRAC's approach did enable it to become the leading microfinance institution in all three countries in a short period of time, BRAC then had to close the South Sudan microfinance programme altogether and significantly retract operations in Sierra Leone and Liberia.

Neither UNCDF nor BRAC adequately took into account the challenges posed by the operating environment of these three countries at programme outset. UNCDF had at its disposal information that indicated that there were serious operating challenges in Sierra Leone and Liberia that were not addressed in BRAC's application for MicroLead funding (see footnote 7). BRAC, on the other hand, prides itself on being a learning organization and pursues a strategy of learning by doing rather than investing in a detailed assessment of the operating environment.

BRAC pursued its ambitious expansion plans, continuing to increase the number of branches, despite deteriorating portfolio quality and the fact that BRAC found insufficient numbers of eligible clients in the areas in which branches had been set up. The result of this approach was not only an inability to reach project targets but continually decreasing outreach and sustainability. As one BRAC investor said about the programmes in Sierra Leone and Liberia, "We were wildly optimistic. We expected BRAC to build a successful lending business and start taking deposits in a tough market. It was just unrealistic."

Institutional strength and flexibility is key in challenging environments

The lack of an adequate pre-programme assessment proved to be problematic given the significant operating challenges in South Sudan, Sierra Leone and Liberia. In such environments, institutions need particularly robust and flexible approaches, management and systems in order to succeed. Following is a discussion of BRAC institutional issues that became apparent in the context of the microfinance programmes in these three countries and that hindered its ability to overcome the challenges.

Methodologies and products

There was virtually no adaptation of BRAC's microfinance model in these three countries. The BRAC methodology for opening branches, identifying sufficient numbers of clients and expanding the number of branches works in places with basic security, a stable and relatively dense population and significant levels of existing economic activity. When these factors are present, BRAC has succeeded in its microfinance programmes. In these three countries, however, in addition to other operating challenges, BRAC encountered a sparse and mobile population and low levels of economic activity that prevented the model from working.

BRAC also undertook little adaptation of its standard loan products; it continued to offer these products even when it became apparent in Sierra Leone and Liberia that they did not meet the needs of its predominately rural clients who either cease income-generating activities or migrate to urban areas during the rainy season.[8]

Governance and management

BRAC's centralized governance and management structures proved to be inadequate to cope with the challenges presented by these three countries, and help to explain why BRAC was slow to address the growing problems with the microfinance operations. BI was understaffed and overstretched but management and decision-making remained centralized in Dhaka. At the country level, country representatives and microfinance managers were generally long-time BRAC employees who, while very good at rolling out the BRAC model according to plan, were not as capable of the kind of strategic thinking needed to manage a growing programme in an unfamiliar context. Additionally, there was a fairly high level of turnover in management in Sierra Leone and Liberia, both at the country level and within the microfinance programme. In West Africa, the investors represented on the boards of directors often deferred to the experience of the BRAC representatives and ceded decision-making to them.

One BRAC interviewee summed up these issues as follows, "Strengthening the capacity of BRAC International was one factor. In 2010, when the Executive Director passed away, there was a strong realization that there was a need for stronger management and better support units for microfinance at the international level. We were not sending the most capable people to the countries and we should have paid more attention to building the capacity to manage country programs in an independent way. This was missing; there was a wrong assumption that things could be managed in a central manner."

Staffing and human resource management

BRAC's ability to implement its model of rapid deployment depends strongly on being able to identify and train local field staff quickly; after streamlined on-the-job training of credit officers, the best-performing are quickly promoted to branch managers. BRAC experimented in these three countries with multiple strategies to train and promote the best performers to higher positions, but it was hampered by human resource constraints resulting from years of war and an inadequate training budget. It also experienced very high turnover among credit officers for several reasons including loss of staff due to a high level of competition for scarce human resources among microfinance institutions and banks, fraud and resulting terminations, and inadequate human resource policies and practices.

As one BRAC manager said, "We underestimated the HR challenge. In other places we could recruit and train local staff fairly easily, for credit officer, branch and area manager levels. Here we had high attrition and the caseload and productivity of local staff was low. Staff was changing every year and the portfolio suffered as a result. We should have done more work on recruiting and training."

MIS and internal controls

BRAC developed its own portfolio management software for use in its international programmes (RADAR) based on the software it has used in Bangladesh (ASCEND) since 1999. Both are offline stand-alone software; the data set is drawn at month end at the branch, downloaded to a CD or a flash drive and taken to headquarters, which in turn consolidates the data using separate software. Because of similar operating constraints abroad (in particular, lack of electricity and good communication infrastructure), BRAC thought that RADAR would work as well as ASCEND works in Bangladesh.

In practice, the MIS was not adequate to meet the challenges, being unable to provide on-time data and allowing opportunities to perpetuate fraud. To mitigate MIS lacunae in such environments, high-quality internal control procedures and staff become even more important and they were lacking in the BRAC microfinance operations in these three countries.

8 In 2009, BRAC began to discuss a 20-week rural loan product in Sierra Leone and Liberia instead of its standard 40-48 week loans; it introduced these loans in late 2012, but they represented a small percentage of the portfolio in 2013.

Lessons learned and recommendations

Following are the key lessons learned and recommendations offered by the people interviewed for this case study. They shared these insights in the hopes that other microfinance institutions, funders and investors may learn from the BRAC and MicroLead experiences in South Sudan, Sierra Leone and Liberia.

Understand and adapt to the market

Lessons and recommendations from BRAC:

"Our [BRAC's] number one priority should be doing a proper feasibility study of the country, both at the macro-economic level and at the micro level. We need to ask 'is there a market for our services?'"

"When you do a greenfield you need to understand the environment and adapt your model or you need to go where the environment is similar to what you know."

"We need to contextualize everything, starting with developing new loan products. We can't just replicate everything from Bangladesh. Now we know the adjustments that are required and we are addressing the issues."

Lessons and recommendations from UNCDF:

"UNCDF needs to do an evaluation on the environment first, before requesting proposals, to find out if it is suited to the products we like to promote. If the analysis says that the environment is not suited for microfinance, then we can work with the Central Banks to get it right before investing and work on other enabling factors."

Invest in people because they are the key to success

Lessons and recommendations from BRAC:

"We need to do more work on staff issues, provide more training and improve employee morale."

"We [BRAC] should think seriously about investing more in local staff capacity building. There is no substitute for developing local human resources."

"When BRAC is expanding to other countries, it needs to look at the kind of Bangladeshi staff they are sending and recruit and select more appropriate staff. The criteria has been how long the person had been working for BRAC in microfinance rather than how innovative, creative, adaptable and flexible the person was."

Lessons and recommendations from UNCDF:

"What we haven't learned is to look at when the programme manager shows up for thematic projects. We need to get a person on board first to drive the bus, to examine the products we want to launch. UNCDF needs to be willing to commit funds to hire the programme manager at concept development and not wait until a funder is ready to commit funds."

Governance and management structures need to foster empowerment and accountability

Lessons and recommendations from BRAC:

"International programs are driven by experience in Bangladesh. The [governance structure] didn't allow learning to flow well and there were issues with the power of country staff to push back to management."

"If you don't have a management structure and system where people can be empowered, it is difficult to learn as an organization. BRAC has succeeded by learning from field and practice in Bangladesh, but needs to learn how to be better at global learning when programs are remote."

"There is a need for more autonomy and empowerment at the country level and a need to invest in country-level managers. BRAC draws on managers who were developed within a particular model and sometimes outside people can do better. There is a lot of talent out there; you don't have to rely just on your own internal HR."

Lessons and recommendations from UNCDF:

"UNCDF needs better decision-making. The Investment Committee really has no accountability and there is no real governance structure. It needs to establish a global thematic initiative (GTI) advisory/supervisory committee that includes external stakeholders."

Make realistic plans and proceed cautiously in new and challenging environments

Lessons and recommendations from BRAC:

"You need to go much slower and be more thoughtful in how you expand. We should have been far more conservative about expansion, and far more conservative about using microfinance as the entry point to develop other interventions."

"We should have focused on peri-urban areas and not gone head-to-head with other players in the capitals. We should have grown more slowly, started with a core program and waited a year or two to assess portfolio quality before expanding."

"One of the main recommendations is to go more slowly, don't expand so quickly. Our expectations and our targets were too high. We should not have opened so many branches at first and we should have limited operations for the first 4–5 years."

Creating solutions to challenges

In 2013, BRAC developed a comprehensive plan to address the issues facing its microfinance operations in Sierra Leone and Liberia. Following is a summary of the corrective measures implemented:

Governance and management

- Appointed the country representative for Sierra Leone, who is an experienced microfinance practitioner, to the board of directors of SLFC and LFC, bringing a better operational perspective that enhances effective decision-making.
- Appointed a new, dynamic BI executive director who communicates regularly with country representatives and works with country-level management to develop appropriate country strategies.
- Introduced a matrix management structure, under which the microfinance programmes continue to report through the country-level structure to BI but receive guidance and technical oversight from BRAC Microfinance.

Human resource management

- Hired a BI human resource director in June 2013, who has worked to develop human resource policies that have been legally vetted in each country.
- Hired human resource managers in each country to head up new staff development units responsible for local human resource management.
- Developing a global human resource development strategy that will better address issues such as career paths, promotions and incentives for local staff.
- Developed and implemented new and better training programmes for credit officers, branch managers and accounting staff.

Internal controls

- Established separate units to monitor microfinance operations.
- Set up loan review units to validate and verify client quality prior to disbursement.
- Introduced activity registers for credit officers to verify their field activities.
- Introduced quarterly client passbook reconciliation at every branch.

Enhanced technical assistance to country programmes

- Sent BRAC Bangladesh staff to provide training for local staff and outsourced some of the leadership and management training.
- Sent BRAC Bangladesh staff to devise and implement better internal control systems.
- Set up a small technical assistance hub in the United Republic of Tanzania (one person for microfinance and one for finance and accounts), which provides regular on-site assistance and oversight.

Despite the challenging conditions in Sierra Leone and Liberia, and the funding gap created by the termination of MicroLead funding, the corrective measures listed above began to have a positive impact by early 2014. SLFC and LFC were the countries' microfinance leaders, serving 23,239 and 11,700 clients respectively as of May 2014. Also as of May 2014, PAR>30 days had reached acceptable levels of 4.8 percent and 6.1 percent at SLFC and LFC, respectively, while operational sustainability had stabilized at 93 percent and 77 percent. Prior to the outbreak of Ebola,[9] both entities were poised to break even on a monthly basis by the end of 2015. Finally, BRAC has continued to expand its many development programmes in South Sudan, Sierra Leone and Liberia, ensuring a positive broad development impact, in keeping with its mission.

As for UNCDF, lessons from this experience have resulted in changes to the MicroLead programme to make it more effective as well as innovative. These changes include hiring enough staff to ensure strong monitoring, including an external expert on investment committee discussions and on strategic guidance, requiring applicants for grant funding to be regulated institutions that can mobilize deposits from the get go, and working not only with greenfields but with financial service providers poised for significant growth via alternative delivery channels such as agency banking and digital financial services.

9 On 12 August 2014, BRAC ceased all microfinance operations in Liberia and Sierra Leone due to the Ebola crisis. Since March 2015, BRAC resumed its microfinance activities in both countries.

ANNEX A: A description of BRAC's microfinance methodology and products

The BRAC group model for micro-loans follows a standard methodology that includes the following: conducting initial surveys of promising areas; setting up branch offices in selected areas; identifying target clients initially within a radius of 4 kilometres from the branch office; selecting clients who meet criteria and organizing them into VOs of 20 to 30 women; conducting weekly VO meetings for one month, during which 'security savings' (cash collateral for the loans) are collected; disbursing loans after one month; and, holding continued weekly meetings during which more savings may be collected and loan repayments are made. Typically, individual loans within a VO range from $150 to $500 and repayments are made in 40 to 48 equal instalments. In addition to a flat up-front loan appraisal fee, BRAC charges an annual interest rate that ranges from 30 percent to about 40 percent, depending on the country.[a]

BRAC also offers individual small enterprise loans available to both men and women; these loans range from $1,000 to $5,000, require a third-party guarantor and have a one-year repayment period, with interest rates similar to those charged for micro-loans within the groups.

Regulations in Bangladesh permit NGOs to collect savings from their members only and, within this limited scope, to undertake financial intermediation. The 'security savings' or cash collateral has always been an integral part of the BRAC methodology, but BRAC has expanded its savings products over the years to include voluntary passbook savings and several fixed deposit schemes. BRAC now funds about 40 percent of its loan portfolio from member deposits in Bangladesh.

a Rate ranges from 30 percent p.a. interest calculated on a declining balance to 20 percent p.a. calculated on a flat basis (approximately the equivalent of 40 percent p.a. calculated on a declining basis); the annual percentage rate, which takes into account the effect of the cash collateral and the up-front fees, is higher.

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