4. Poverty Outreach and BRAC's Microfinance Interventions: *Programme Impact and Sustainability*

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1. Introduction

Bangladesh is well known in the microfinance industry for the scale of microfinance coverage. Very few villages are not in the programme of one or other service provider. In most cases, though by no means all, targeting instruments have been used; these typically seek to select households that are functionally landless (below 0.50 acres) and that substantially depend on wage labour income. As this article reports for BRAC (Bangladesh Rural Advancement Committee), targeting has very often been reasonably effective, both in terms of who is reached and how they benefit. Certainly by international standards, the vast majority of microfinance beneficiaries would be classified as poor upon entry. But, as this article describes, BRAC has developed a wholly new programme, targeted yet more finely at the extremely poor. There was no culture of exclusion for BRAC, but poverty analysis of members and non-members clearly identified a sub-set of the poor who were typically not gaining access to financial services. This case study underlines the importance of understanding the poverty conditions prevailing in programme areas and of the need to develop products that are relevant for specific conditions and experiences of poverty. From a welfare perspective, this is particularly important when, as BRAC found, it is the extremely poor who have been excluded from mainstream programmes. Such exclusion has been wrongly interpreted to mean that finance is not useful for some groups. This is surely implausible and the truth is rather that programme design has not corresponded to the needs of some groups of people.

2. An overview of BRAC's microfinance programme

In spite of long-term efforts, poverty remains one of the major issues of concern for Bangladesh. Although the income gap in both urban and rural areas has declined substantially, high levels of income poverty persist. According to Sen (2003), 43.6 per cent of the rural and 26.4 per cent of the urban population of the country were poor in 2000.

BRAC, Bangladesh, has been working with people affected by extreme poverty and its associated problems since 1971. BRAC started as a relief and rehabilitation organisation in Northern Bangladesh,

and then its focus shifted to sustainable development and the empowerment of the poor in rural areas of Bangladesh. BRAC aims to promote these two goals through its microfinance, health, social development, education, training and research programmes. As of March 2003, BRAC was working in all 64 districts of Bangladesh, with 3.73 million members, 99.5 per cent of whom are women.

Reaching the very poor is an important part of BRAC's strategy. In an environment where external funds were becoming increasingly scarce, BRAC had to find innovative ways of responding to the needs of the poorest, while at the same time ensuring the financial sustainability of the programmes. The focus on credit was therefore in response to the immediate needs and demands of BRAC members, as well as a strategy to achieve financial sustainability for the organisation. The expansion of microfinance in Bangladesh has been rooted in the expectation that it can help generate self-employment, which can ultimately solve both the problems of unemployment and of poverty. It has also been expected that provision of credit to poor women will increase women's labour force participation through creation of new self-employment opportunities.

Where BRAC differs from other microfinance organisations (MFOs) is in its realisation that poverty is a multi-dimensional concept – that the poor are not homogeneous and neither are their development needs. BRAC's commitment to this reality is marked in two key ways. First, BRAC has always opted for the 'credit plus' approach, where loans are given to poor women in combination with health-care services, various forms of skill-training, non-formal primary education for children of BRAC members, social development and the creation of grassroots organisations for the poor. Second, in order to reach the diversified groups of the poor, BRAC applies different approaches (see Figure 1) for facilitating their access to financial resources in the form of microfinance services. Some of these are enumerated below.

2.1 Rural Development Programme (RDP)

BRAC's Rural Development Programme (RDP) was an integrated development package meant to lead to the social and economic empowerment of poor households in rural Bangladesh and produce sustainable improvements to their livelihoods. This programme started in 1986 and officially came to an end in December 2000 when many of its components became financially self-sustainable and donor funds were no longer required. RDP's main components included:

- Microfinance services
- Essential Healthcare Programme
- Micro Enterprise Lending and Assistance (MELA) programme
- Income Generation for Vulnerable Group Development (IGVGD) programme
- Employment and Income Generation (EIG) programme
- NGO Co-operation Unit
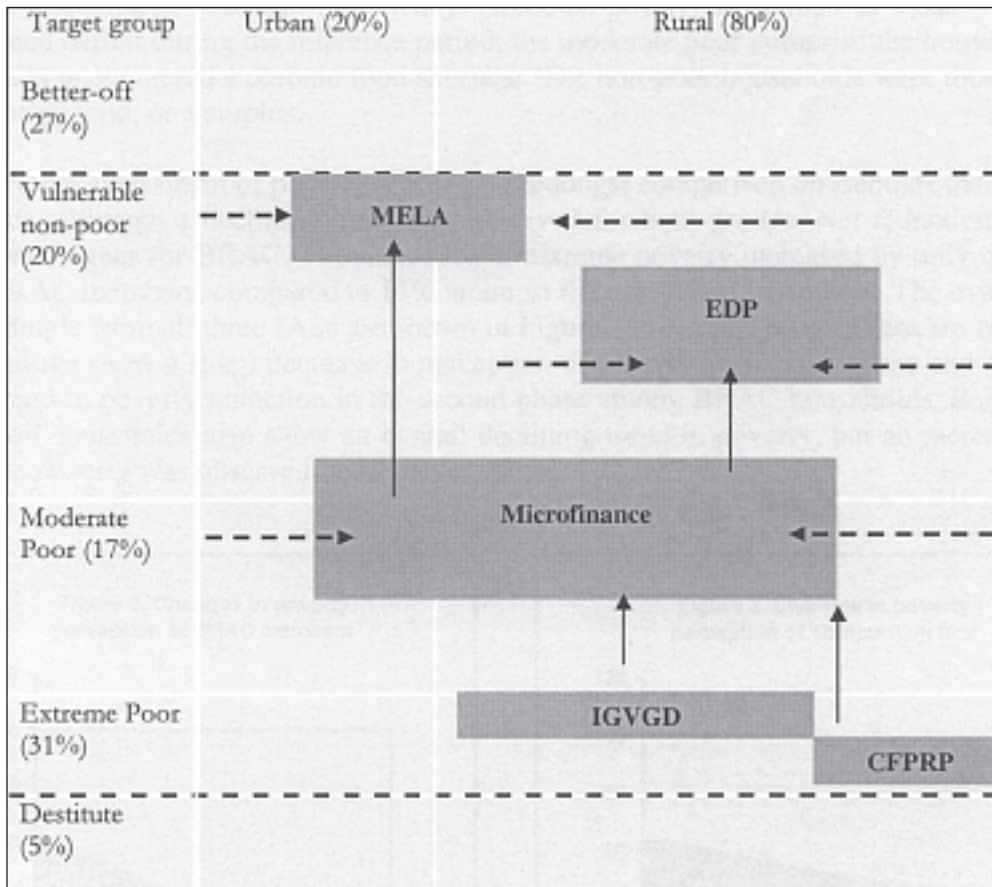- Social Development Programme
- Research

One of the most successful of these programmes was the IGVGD programme, implemented in conjunction with the World Food Programme. IGVGD enabled very poor women to receive skill training and microfinance services in addition to free wheat, so that previously destitute women were given the opportunity to start an income-generating activity. The IGVGD programme is now run as a national programme, covering the most food-insecure areas of Bangladesh. So far, about two-thirds of all IGVGD programme participants have graduated to membership of mainstream MFOs. This means they have moved out of absolute poverty and are able to use credit to earn a regular and sustained income, roughly equivalent in value to the food that was previously provided monthly.

2.1.1 RDP: Sustainability at the cost of outreach to the poorest

Although microfinance targets all the poor in theory, in practice it often fails to reach those living in extreme poverty (Rahman and Razzaque 2000; Halder *et al.* 1998; Hashemi 1997).

As indicated above, IGVGD was able to reach a large number of the poor groups not previously able to participate in mainstream microfinance. However, some groups still remained beyond its

Figure 1: Microfinance canvas of BRAC

Target group	Urban (20%)	Rural (80%)
Better-off (27%)		
Vulnerable non-poor (20%)	MELA	
		EDP
Moderate Poor (17%)	Microfinance	
Extreme Poor (31%)	IGVGD	
		CFPRP
Destitute (5%)		

Note: IGVGD= Income Generation for Vulnerable Group Development; CFPRP/TUP = Challenging the Frontiers of Poverty Reduction/Targeting the Ultra-poor; MELA = Microenterprise Lending and Assistance; EDP = Enterprise Development Programme

⟶ signifies vertical entry, and ▪ ▪ ▪➤ signifies horizontal entry

sphere of influence. It was realised that the RDP strategy was inadequate for reaching certain sectors of the poor. First, RDP did not have a detailed and differentiated analysis about different categories of the poor. It sought to include everyone living below the poverty line and assumed that the poorest would be reached by the same package of services as the moderately poor.

Second, a main goal of RDP was to enable BRAC to ensure a large degree of financial sustainability with its microfinance services, while reaching people falling below the poverty line. Hence, it was able to

replicate the credit plus model on a large scale, reaching nearly four million women, in a cost-effective way. However, this model proved most appropriate for the group defined as the moderate poor, and was not so appealing to the bottom 25 per cent of the poor.

2.2 Challenging the Frontiers of Poverty Reduction (CFPR)

Recognising these gaps, and wishing to address the problem of exclusion of the poorest groups, the Challenging the Frontiers of Poverty Reduction

(CFPR) programme has been initiated by BRAC, and aims to help very poor women move out of poverty and attain more sustainable livelihoods. This programme responds to the often overlooked differences between the poor, and to the fact that different interventions are needed for the poor according to the severity of the poverty they face. Therefore, while the "moderate poor" in Bangladesh can use conventional microcredit packages very effectively, the ultra-poor need a package that combines both protection and promotion of livelihoods/livelihood strategies. CFPR is a special five-year investment programme targeted towards the ultra-poor, which started in January 2002 in three districts of Northern Bangladesh, under which a total of 70,000 ultra-poor households will be covered.

The goal of this programme is to develop a new model that can produce sustainable improvements in the lives of the ultra-poor in Bangladesh. The model consists of a combined package involving the promotion of new income-generating activities as well as a social safety net component to assist poor households to cope with various shocks such as ill-health, or natural disasters. All this support will be given to the women and their households over a period of 18 months, by the end of which they are expected to achieve a relatively more secure base required to join a mainstream microfinance programme. The main components of this programme are:

● Special Investment: providing a productive asset and a stipend to targeted ultra-poor households.

● Social Safety Net Component: provision of support and counselling on an individual basis as well as through groups, on best ways to develop livelihood strategies of ultra-poor families. Helping them cope with crises.

● Employment and Enterprise Development Training: provision of training and follow-up services on how to use the asset provided to generate a sustainable income.

● Essential Health Care Services: provision of basic health care services at subsidised cost and referral arrangements to government clinics.

CFPR aims to reach the poorest and there is no pressure to make the programme financially sustainable in the immediate future. It has secured donor funding for the next five years and will be partly cross-subsidised by BRAC. In practice, this means that programme staff can concentrate on ensuring that there is a definite impact on programme participants rather than worrying about recovering costs at each stage. However, in the long term, for the model to be reproduced and taken up by others, its relative cost-effectiveness will be a factor. See Figure 1 for a visual summary of BRAC's microfinance approach.

3. Impact of BRAC's interventions

3.1 Methodological issues for BRAC's impact assessment studies

The first comprehensive impact assessment study (IAS) on the overall impact of RDP activities was conducted in 1993–4 on 1,500 RDP members and 750 comparable non-RDP households (Mustafa *et al*. 1996). The study had two objectives: to gain a more extensive understanding of the socio-economic impact of RDP in both quantitative and qualitative terms and to assist BRAC in the development of its ongoing capacity to assess the impact of RDP, including identifying the most appropriate methodologies to assess different aspects of BRAC's impact. The study considered four broad indicators to determine the impact on material well-being, vulnerability to seasonality and economic security, changes in women's lives, and participation in loan groups (village organisations).

BRAC conducted two further surveys in 1996 and 2001 which covered more dimensions of impact. In this article we focus on the analysis of a panel data set at household-level consisting of 419 BRAC households and 81 non-members. Members of each of these households were interviewed in depth in both years and thereby we were able to examine changes over time with some degree of confidence. In this analysis, poverty is defined by expenditure scale based on cost of basic needs (CBN) approach. In addition, we had some data from all three rounds of the IAS for 138 members and 81 non-members; this allowed a comparison over three time periods, of villagers own perceptions of their poverty, using food self-sufficiency as an index.

Table 1: Analysis of poverty trends for 1997–2001

Indicators	BRAC		Comparison		Total	
	IAS–II	IAS–III	IAS–II	IAS–III	IAS–II	IAS–III
Headcount index (%)						
All poor	59	52	68	73	61	56
Extreme poor	20	14	35	33	23	17
Moderate poor	39	38	33	40	38	39
Poverty gap	15.2	12.8	22.2	22.4	16.3	14.3
FGT index	5.4	4.4	9.0	8.8	6.0	5.2
Income gap ratio among the poor	0.34	0.32	0.49	0.44	0.37	0.35
Degree of inequality among the poor (% share)	1.42	1.49	5.51	4.41	1.13	1.12
Sen index	.21	.17	.35	.34	.23	.20
Kakwani index	.21	.18	.37	.36	.23	.20

3.2 The impact of BRAC's interventions on poverty

The results of the study indicate that poverty among BRAC households during the second and third impact survey declined from 59 per cent to 52 per cent, i.e. at a rate of 1.75 per cent annually. Extreme poverty among BRAC households also reduced from 20 per cent to 14 per cent. The incidence of poverty among non-BRAC comparison households increased from 68 per cent to 73 per cent. Although the extent of their extreme poverty declined slightly (from 35 per cent to 33 per cent), it was nearly two and a half times higher than the extent of extreme poverty among BRAC households and around twice the overall mean (see Table 1). The results also showed an overall declining trend in the income gap ratio for BRAC and comparison households.

3.3 The poverty transition/movement in and out of poverty

Although graduation out of poverty is the ultimate goal of all development initiatives, the available literature reveals that poverty graduation is a long-term process (Sen 1997). If this is the case, it may still be too early to expect any significant graduation of the poorest BRAC members. At the same time, higher rates of reduction in poverty and inequality among BRAC, compared to non-BRAC households and the national average,[1] indicates that BRAC's development initiatives have had a significant positive impact.

Poverty is highly contingent on external or unexpected events; any sudden crisis can force a non-poor person to move down the poverty scale. One of BRAC's objectives is to reduce the vulnerability of the poor by increasing their capacity to cope with crises, but sometimes

Table 2: Poverty trend analysis by member category among the panel households (%)

Poverty status	IAS–II Status		BRAC (IAS–III)			Comparison (IAS–III)		
	Sample (No.) BRAC Comparison		Extreme poor	Moderate poor	Non-poor	Extreme poor	Moderate poor	Non-poor
Extreme poor	85	28	25.9	49.4	24.7	53.6	25.0	21.4
Moderate poor	163	27	14.1	34.4	51.5	18.5	55.6	25.9
Non-poor	171	26	8.8	35.7	55.6	26.9	38.5	34.6
Total	419	81	14.3	37.9	47.7	33.3	39.5	27.2

Table 3: Movement in and out of poverty among the panel households by membership category (% of all households)

Particulars	Spell: 1996/7–2001		
	BRAC	Community	Total
A. Stayed non-poor during the spell	22.7	11.1	20.8
B. Escaped poverty during the spell	25.1	16.0	23.6
Escaped from extreme poverty	5.0	7.4	5.4
Escaped from moderate poverty	20.1	8.6	18.2
C. Became poor during the spell	18.1	21.0	18.6
Became extreme poor	3.5	8.6	4.4
Became moderate poor	14.6	12.4	14.2
D. Stayed poor during the spell	34.1	51.9	37.0
Stayed in extreme poverty	5.3	18.5	7.4
Stayed in moderate poverty	13.4	18.5	14.2
Moving from extreme to moderate poverty	10.0	8.6	9.8
Sliding down from moderate to extreme poverty	5.5	6.2	5.6
E. Total (A+B+C+D)	419 (100)	81 (100)	500 (100)

connected shifts in and out of poverty are inevitable.

Table 2 presents some of these movements in and out of poverty of different poverty groups over the previous four-year period. According to the table, 25 per cent of BRAC households who were extremely poor in the first year were able to move above the poverty line, while another 49 per cent shifted to the category of "moderate poor". Only 26 per cent remained in the same group. Among the comparison group of extremely poor households, the rate of graduation was 21 per cent. The rate of moving from the extreme to the moderate poverty group was almost double among BRAC households. The rate of graduation from moderate poverty was also higher for BRAC. On the other hand, the retention rate of non-poor households in the same category was significantly higher for BRAC. Fifty-six per cent of BRAC households who were non-poor in 1997 stayed in the same category in 2001 compared to 35 per cent among the comparison households. The rate of downward mobility towards extreme poverty among BRAC's initial non-poor was significantly lower compared

to its rate among the initial non-poor comparison households (8.8 per cent *vs* 26.9 per cent).

Table 3 gives an overall picture of poverty fluctuations by classifying the entire sample into four broad categories. The categories are: (i) those who remained above the poverty line during the period of analysis; (ii) those who moved above the poverty line; (iii) those who recently became poor; and (iv) those who continued to stay poor. As shown in the table, during the period of the study, 23 per cent of BRAC and 11 per cent of comparison households were able to stop their downward poverty movement and to remain above the poverty line in 2001. One-fourth of BRAC poor households moved above the poverty line and graduated to the non-poor group. For the comparison households the rate of graduation was 16 per cent, i.e. 9 per cent lower than BRAC. About one-third of BRAC and half of the comparison households stayed poor during the survey period. To summarise these points:

● Poverty among BRAC households reduced by seven percentage points from 59 per cent to 52

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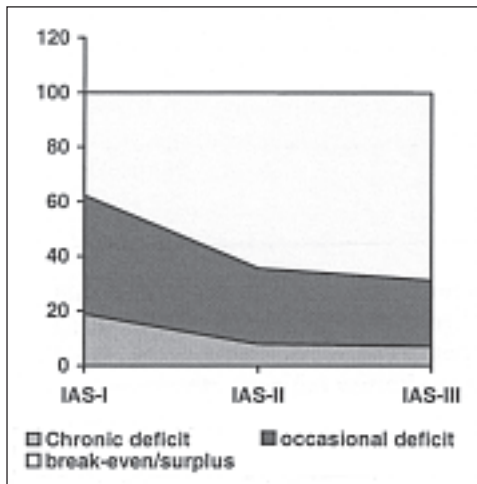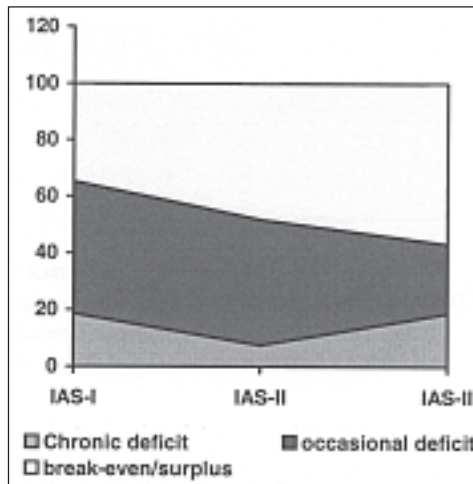**Figure 2: Changes in poverty perception of BRAC members**

Legend: □ Chronic deficit ■ occasional deficit
□ break-even/surplus

Figure 3: Changes in poverty perception of comparison hhs

Legend: □ Chronic deficit ■ occasional deficit
□ break-even/surplus

per cent during the last four years. The rate of reduction of poverty among BRAC households was 1.75 per cent annually;

● Although poverty among BRAC households reduced significantly, an increasing trend in the incidence of poverty was observed among non-BRAC comparison households;

● BRAC had a significant impact in the upward mobility of the poor. It also helped to reduce downward mobility of the non-poor;

● The percentage of households who remained poor – both extreme and moderate – was significantly higher for the comparison group;

● The extremely poor group, especially the BRAC extreme poor households, were fairly successful in terms of upward mobility. The rate of upward mobility was 28 per cent higher for BRAC.

3.3.1. Trends in poverty perception of the respondents

As described above, we also used a subjective assessment of poverty based on villagers' own perceptions relating to food self-sufficiency. Extreme poverty is defined as those who faced a chronic food deficit during the reference period;

the moderate poor comprise the households who occasionally encountered a chronic food shortage. The non-poor households were those who had either enough food, or a surplus.

The subjective assessment of poverty was higher amongst comparison households than in BRAC households, although a declining trend was observed for both groups. Net reduction in overall poverty was higher for BRAC. The incidence of extreme poverty increased by only 1 per cent among BRAC members, compared to 11 per cent amongst the non-BRAC members. The overall results for this sample from all three IASs are shown in Figures 2 and 3. There are two phases[2] and the results show a sharp decrease in perception of poverty in the first phase and a relatively slowed trend in poverty reduction in the second phase among BRAC households. Results of the comparison households also show an overall declining trend in poverty, but an increasing trend in extreme poverty was observed in the second phase.

3.4 Determinants of income poverty mobility

BRAC has been able to measure the state of poverty movement but cannot yet explain the underlying causes of these changes, which is a weakness of the analysis. However, a partial explanation is provided

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Table 4: Determinants of per capita rural household expenditure growth: 1996 and 2001 panel survey data

Explanatory variables	Dependent variable: CHNG_R=Rate of growth in per adult annual expenditure of households			
	Beta coefficients	Std. Error	t value	Sig.
(Constant)	242.432	44.476	5.451	.000
Changes in village level condition				
Changes in village level vibrancy	.508	.240	2.121	.034
Households initial condition				
Dummy for education of hh heads				
Primary	7.499	6.139	1.222	.222
Secondary or above	10.730	6.450	1.664	.097
Dummy for sex of hh head	-7.316	7.688	-.952	.342
Networth for IAS–II	.737	.264	2.797	.005
Per adult expenditure for IAS–II (taka)	-6.200	1.701	-3.645	.000
Per adult expenditure square for IAS–II	5.191E-04	.000	2.566	.011
Per adult expenditure cube for IAS–II	-1.631E-06	.000	-2.171	.030
BRAC's assistance				
Length of BRAC membership	.143	.046	3.123	.002
R square	.336			
Adjusted R square	.324			
F	27.52			
N	500			

by an analysis using an income growth model. It is assumed that fluctuations in poverty are mainly related to changes in income. Thus, positive income growth would lead to upward mobility and vice versa. Although household endowment is very important, there also are other macro factors relating to the income growth of a household. To explain variations in income growth among the survey households, a micro income-growth model has been adopted. The village-level initial conditions and changes in village-level economic vibrancy over the last four years are considered here to explain the growth rate of households over the subsequent four-year period. Here the dependent variable is rate of growth per adult annual expenditure during the survey period.

Village-level vibrancy is a composite variable, created by aggregating individual scores of eight indicators to express the extent to which households living in the given villages were able to access certain facilities, such as schools. The scores ranked from zero to five. Village-level data was generated through the village profiles. Household level initial condition variables include household physical initial net-worth, and households' initial human wealth, proxied by education and sex of household heads and the initial level of expenditure. The length of BRAC membership is considered a proxy for receiving BRAC services. It is expected that increasing length of membership increases the probability for receiving a higher amount of BRAC services.

A summary of the regression results for the income-growth model are presented in Table 4.

The results of this multivariate analysis partly explain the movements in and out of poverty. The positive relationship between the dependent variable, expenditure growth, and changes in village-level vibrancy indicate a higher probability

of upward mobility for households living in villages where some structural changes have taken place. The positive coefficient for households' physical wealth also indicates that the upward mobility of a household can be expedited by strengthening its physical and human asset base. This was the variable with the highest significance level. The household head's education level, when at secondary-level or greater, also played an important role to cope better with downward mobility. As reported in other studies, female-headed households showed significantly lower income growth. The results also confirm that BRAC as a development actor also played a vital role in expenditure growth, which ultimately reduces the risk of downward mobility pressure.

Although households' poverty mobility is associated with income growth, there are other risk factors that may affect an individual household, but may not be common for all. All the explanatory variables considered here explain only about one-third of the variation in income growth rates at the household level.

There could be several other factors relating to poverty mobility at the household level not considered in the analysis. The BIDS (Bangladesh Institute of Development Studies) study (Rahman *et al*. 1996) found causes of downward mobility being of three types. The first cause was unexpected crisis, such as a natural disaster; the second was related to domestic issues, including increase in dependency or a split in the family. The third cause was structural factors, including inflation, declining employment and earning opportunities, lack of access to capital and reduced entry to tenancy market etc. In the case of upward mobility, a predominant role was played by structural factors, such as an increase in the scope

for employment and higher income, greater access to the tenancy market and diversification of income sources.

4. Conclusion

This article has stressed that the poor are not a homogeneous group and that BRAC follows a more diverse approach to reaching different poverty groups. Reaching the poorest segment of the population through microfinance is currently an issue of concern for the whole sector and BRAC's various programmes, detailed above, provide a model for graduation to microfinance. Regarding impact on income poverty, the results of the data analysis show that, whereas poverty among non-RDP comparison households increased, it declined at an annual rate of 1.75 per cent among RDP member households. Figures indicate that the poverty gap also declined sharply among the latter group. RDP made significant contributions in the upward mobility of the poor. The extremely poor RDP households also did reasonably well in terms of upward mobility.

Although the poverty level of almost half of the RDP members increased, this was significantly less than for non-RDP clients, thus demonstrating the important role of microfinance in reducing vulnerability.

The results of the multivariate analysis show significant positive association of poverty graduation with households' initial wealth base and changes in village-level infrastructure. This indicates that for making significant change in the lives of the poor, necessary steps should be taken for the strengthening household's physical asset base and also for providing rural infrastructure.

Notes
1. One per cent annual as mentioned in Rahman *et al*. (1996).

2. The first phase is defined as the period between IAS–I and IAS–II surveys and the second phase is defined as the period between IAS–II and IAS–III surveys.

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