
LEARNING, DEVELOPMENT, AND MONEY: LESSONS FROM BANGLADESH

Ian Smillie

ABSTRACT The Bangladesh Rural Advancement Committee (BRAC) has, in its 37 year history, become one of the largest, most diverse and most effective NGOs in the world. Its micro-lending in Bangladesh topped a billion dollars last year, but that is only a small part of a story that includes 36,000 primary schools, nation-wide health programs, a university, a chartered bank, and operations in Afghanistan, Haiti, Sierra Leone, Liberia, and Southern Sudan. BRAC's emphasis on productive new village enterprise is the key to its economic programs, but its hallmarks are social justice and the empowerment of women and the very poorest.

RÉSUMÉ Dans son histoire longue de trente-sept ans, le Bangladesh Rural Advancement Committee (le BRAC) est devenu une des ONG les plus grandes, diverses et efficaces au monde. Son microcrédit au Bangladesh a dépassé le milliard de dollars l'année dernière, et ceci n'est qu'un élément d'une opération qui compte 36 000 écoles primaires, des programmes de santé à l'échelle du pays, une université, une banque à charte et des opérations en Afghanistan, à Haïti, au Sierra Léone, au Libéria et dans le sud du Soudan. L'accent que le BRAC met sur de nouvelles entreprises de village productives est la clé de ses programmes économiques, mais sa distinction repose sur la justice sociale et l'autonomisation des femmes et des plus pauvres.

KEYWORDS BRAC; Bangladesh; NGOs; Micro-lending

IAN SMILLIE is an Ottawa based development consultant and writer. He first encountered BRAC when he lived in Bangladesh during the early 1970s and his book, *Freedom from Want: The Remarkable Story of BRAC*, was published earlier this year in the United States and Bangladesh. A Japanese edition is in production.

FOLLOWING A DEVASTATING CYCLONE IN 1970 AND A LIBERATION WAR THAT claimed a million lives in 1971, Bangladesh emerged from the combined wreckage of the British raj and Pakistan as an independent nation. Sixty-two million people lived in a country the size of New Brunswick, beset by flood and drought, famine, deep-seated poverty, and a ruined infrastructure. The world's aid agencies quickly moved in, but over time, none was as successful as a home-grown organization called the Bangladesh Rural Advancement Committee. This article is about how BRAC became one of the largest and most effective non-governmental organizations in the world.

BRAC began with relief efforts, but its leaders soon saw that the needs were much greater. All of them came from the country's small, educated elite and, although they thought they knew their country, they soon discovered that they did not. They understood, however, that if they were going to make the slightest difference, they would have to think about sustainable development, the longer term, and – given the size of the problems – how they could take what they might learn to scale.

First, however, they would have to understand and master the world of international development assistance. Where effective development is concerned, as with any area walk of life, the emphasis has to be on learning what works and what does not. Information is all very well, but it is not enough. Although frequently conflated, knowledge and information are not the same thing. Knowledge comes from experience, evaluation, learning, and application, and, often, through trial and error. Much can be learned from failure. But in the field of international development, as in others that are funded through philanthropy and institutional grants, there is a strong aversion to risk and an intolerance of failure. Funding applications must convey confidence, and success will be rewarded. Failure will not.

Wilful mistakes and repeated failure, of course, should not be rewarded. But ending poverty, just like any kind of social change, is not easy. If we knew how to create a lot of jobs for very poor people, we would have done it a long time ago. The problem is not failure; it is the failure to learn from failure. It is suppression of failure, the inability to read and think and remember in a project-driven political economy that so badly wants “results” but punishes the very lessons that might, over time, lead to genuine results.

Learning, remembering, and building on experience were all critical to the BRAC approach. Unlike the managers of external agencies, who rarely stayed in Bangladesh more than two or three years, BRAC's leaders and all of its staff were Bangladeshi. They knew the language, the culture, and the context, and because they remained beyond the life of a project, they could see over time what worked and what did not. Because of this, they had no interest in reinventing broken wheels or in pretending that a failure was a success.

Development occurs when people produce things. In the thesaurus, produce suggests other words: make, manufacture, grow, breed, create, process, fabricate, contrive, manufacture, organize, build. To invest is not the same as to produce. For development to occur, investments have to be made in productive enterprise. Productive enterprise does not mean hedge funds, capital-intensive technology in places where jobs are paramount, or the kiosk economy.

Let me explain what I mean by “kiosk economy” because it is important to an understanding of the BRAC approach. Everywhere in the developing world, in the biggest cities and the smallest villages, you will see people, usually women, sitting beside a small heap of vegetables or cigarettes or used clothing, hopeful of making a couple of sales in a day. Mostly, these people are not the producers of what they sell. Few of them actually make anything. They buy low and hope to sell a bit higher. Their value added is that they gather things together in one place, or they travel to buy goods elsewhere and bring them back to the village, and they are willing to sit all day waiting for customers. They provide a service that is often useful. But they are not producers. They are often desperate and may well be the only source of cash income in the family.

Enter microfinance. We are told by Muhammed Yunus, founder of Grameen Bank, that a small loan can get poor people out of poverty. He also tells us that the borrower knows best, and that it is not his place to tell his clients what they should spend their money on. Tiny loans, combined with the ingenuity of the poor, can end poverty—even among the very poorest. In his 2006 Nobel Peace Prize lecture, Yunus said,

“Three years ago we started an exclusive programme focusing on the beggars. None of Grameen Bank’s rules apply to them. Loans are interest-free; they can pay whatever amount they wish, whenever they wish. We gave them the idea to carry small merchandise such as snacks, toys or household items, when they went from house to house for begging. The idea worked. There are now 85,000 beggars in the program. About 5,000 of them have already stopped begging completely. Typical loan to a beggar is \$12.”

Now who would ever say that a Nobel Peace Prize laureate, one who has loaned \$6 billion or more and achieved a 99% repayment rate, is blowing smoke? Certainly not me.

But it is going to take a lot more than \$12 and the sale of some toys and snacks to move people from destitution to any kind of decent life. Microfinance is not a panacea. And high repayment rates are not the same thing as success. Microfinance has demonstrated that it can help a family by adding to its income, but loans to women who already have long days does not create new jobs; it can add to a family’s income, and that is no bad thing. But if it is assumed that borrowers know best, they will stick pretty close to what they already know, because any kind of risk taking for poor families can lead to disaster. So where it assumed that the borrower knows best, microfinance tends to fund more of what people already know: chickens, cattle fattening, rice husking. Or a small kiosk operation.

So the question arises: is there any new market in the average African or Asian village for more chickens now that additional women are keeping them, thanks to microfinance? Is there any new market for fattened cattle or husked rice? No. What mostly happens is that work simply shifts from those who were doing it before, to others. If this helps the poorest, again, it is no bad thing. But nothing new is being produced. Nothing new is being made. There is no significant change in the village economy. BRAC recognized from its earliest years that this was one of the most significant challenges it faced in creating meaningful development in Bangladesh. Microfinance might help to fuel the engine of development, but it was not the engine.

BRAC learned as well about technology and organization. Technology is not just hardware; it is a combination of knowledge, techniques, and concepts. It is tools and machines and farms and factories. It is organization, processes and people. The cultural, historical, and organizational context in which technology is developed and applied is the key to its success or failure. In short, technology is the science and the art of getting things done through the application of skills and knowledge. Too much aid and too many development projects have focused on very small parts of this equation, sending equipment or trying to introduce a new kind of organization without reference to the context or to the other factors that will be required to make it work.

Fast forward to 2009. In my view, BRAC today is bigger and better, and deeper and wider, than any non-governmental organization (NGO) in the world. Given the context and the problems it faced, its achievements are astonishing. It runs 36,000 primary schools; it has a university; its printing press, hatcheries, handicraft operations, and feed mills are among the biggest in Bangladesh. The surface area of the fishponds it has financed is the equivalent of 9,600 football fields. All of these operations either supply or market the outputs of people who have taken small loans.

Its dairy processes 70,000 litres of milk a day, and all of the milk is derived from people with one or two cows. There are no dairy herds and no cattle farms. The technology here, to stay with that terminology, was complicated but it was not brain surgery. Animal husbandry, vaccination programs, new cattle breeds, and fodder production were among the new inputs into a livelihood that village women were already familiar with. The organization of milk collectors, testing stations, chilling plants, and a fleet of tankers to gather and transport the milk to the processing plant was part of the marketing that was required. BRAC started with what the borrowers knew, but the organization it brought to the investment was enormous. The dairy and BRAC's other operations are all about investment, production, enterprise, and organization. And they have shown that in rural areas and places where a "free market" does not exist, outside agency is essential.

Last year BRAC's microfinance lending topped \$1 billion, and that does not count the operations of the BRAC Bank that deals exclusively with small and medium enterprise. BRAC is the biggest international NGO in Afghanistan and has operations in, among other places, Sudan, Uganda, Tanzania, Liberia, and Sierra Leone.

What is most interesting about BRAC is that it had to learn the hard way. Nothing came easily. When it started in 1972, it was just as self-assured as any foreign aid agency in its approach to poverty. The organization bought completely into the idea of integrated rural development; it thought for a while that literacy was the answer, and it joined the donor craze for family planning. It accepted commonly held ideas about community development. It dabbled in one-off income generation projects. But it soon realized that poverty was very deep seated. Poverty has to do with village power structures, insecurity, ignorance, and fear, and with the fact that without help, poor people cannot stray very far from the coping strategies they keep in reserve for the annual flood or the inevitable famine.

As it developed, BRAC began to realize that the poor had to be targeted. This isn't a new idea today, but there are still organizations that talk about community development as

though everyone in a community, especially the poor, can and should participate, and that benefits will spread evenly to all. BRAC found that this just doesn't work.

BRAC also learned that productive new enterprise was the key to development. People had to produce, and their output had to meet a demand. Organizing inputs and helping with the marketing – creating opportunities for small borrowers all the way along the supply and marketing chains in places where these did not exist – became an essential part of the BRAC operation. BRAC learned that money and organization were not enough. People had to understand their place in society and their rights if they were going to exercise discretion and take risks; hence BRAC's huge educational and legal rights programs. And of course people have to be healthy, hence BRAC's massive public health programs and its investments in oral rehydration and TB eradication.

BRAC learned a few other things as well. It learned that if it could get the mix right – education, health and enterprise – it could take its programs to scale. Or, rather, it understood that where tens of millions live in abject poverty, and where governments are weak, small demonstrations of what can be done are not enough. They have to be taken to scale, or they have little value. "Small is beautiful," BRAC's founder, Fazle Hasan Abed often says, "but big is necessary." It was E.F. Schumacher who wrote the book *Small is Beautiful*, which generated the appropriate technology movement in the 1970s. The subtitle of Schumacher's book was 'Economics as if People Mattered,' which is a good tag line for everything BRAC has accomplished.

BRAC realized from the beginning that it could not rely on foreign donors for everything. It also knew that domestic philanthropy could never be developed to the scale needed for the kind of operation it was creating. Microfinance, if it is well managed, can pay for itself, and, in BRAC's case it does. But where do you get independent funding for 36,000 primary schools, a university, a nation-wide oral rehydration program, and TB eradication, as well as legal aid, seed farms, a plant breeding station, clinics, advocacy, and the experimentation that is required to take successful innovation to scale?

BRAC's printing operation, which turns out millions of textbooks and posters and other teaching aids for its schools, also takes commercial contracts. Its 2006 surplus was \$600,000 and this was turned back into the education program. In 2007, the dairy returned \$1.2 million to the core programs. The sales from BRAC's feed mills, hatcheries, and handcraft operations all return a surplus to the core program. As their model, BRAC had taken notice of the Oxford University Press, owned by the university but returning a surplus to the university's operating costs.

The model was important because a question arose when it came to establishing a BRAC bank to deal with small and medium enterprise, one step up from microfinance. Fifteen days before the bank was to open, with staff hired and everything set to roll, BRAC was served with a High Court injunction. It had been hit with a case of public interest litigation, engineered by a Dhaka University professor. He charged, and the High Court judges eventually agreed, that a charity could not invest in a bank. Whether the litigation was launched in the public interest or as act of public mischief was beside the point. Years of effort in creating the bank now perched on the edge of an abyss. There was, however, one glimmer of hope: in their decision, the judges did say that a charity

could invest money in a commercial enterprise if the profits were wholly devoted to a charitable purpose.

That was the whole point of the bank, and it encouraged BRAC to continue. The Appellate Division of the Supreme Court finally ruled that a charitable organization could invest money in a commercial operation in order to earn money for its charitable work, whether the funds had been raised locally or internationally. It was, in some ways, a landmark decision because it expanded the definition of what a nonprofit organization could do, and it justified all of the income generation enterprises that BRAC had initiated since the 1970s.

There were other kinds of criticism. Despite BRAC's Herculean achievements in education, some said that it was doing little more than running a parallel education system and that, in so doing, it lets government – which has the ultimate responsibility to educate its citizens – off the hook. BRAC is impatient with this kind of criticism, saying that it is a Bangladeshi organization and that if the government can't educate Bangladesh children, others with the capacity to do so should not be blocked. As long as BRAC can continue to turn out a million new literate girls every three years, it will. Besides, it says, its 36,000 schools do not compete with government schools; they take only dropouts, children who have already been failed by the formal system.

BRAC is of interest to nonprofits everywhere for a variety of reasons. First, it is successful in meeting its core objectives: it has brought millions of poor families out of poverty and has done so by breaking through all kinds of glass ceilings that prevented women from learning and earning and understanding their rightful place in society. It has done this by learning itself what works and what does not. Its investments in staff training for development, in management development, and in evaluation and research have been enormous. Second, it insisted that if things worked, they had to be taken to scale. Nobody else, not the government, the World Bank, or the private sector, was going to fall down in awe at the success of a few small cooperatives. If BRAC wanted replication, it had to be able to show, through scale and financial sustainability, that the lessons it had learned were workable in the real world.

BRAC also understood that if it was going to preach sustainability to the poor, it needed financial independence of its own. In a world where the political economy of giving can actually work against learning and long-term impact, BRAC decided that it had to earn money to finance those parts of its work that were not financially sustainable. In the end, BRAC had to go to the Supreme Court to defend its right to do so. And in a reversal of the standard north-south giver-receiver paradigm, BRAC has inaugurated branches in the United States and Britain where it is now raising money directly from those who once gave through intermediary organizations. Today BRAC is 80% self-financing.

Some look at BRAC and see a huge nonprofit conglomerate, something that few could aspire to and something that is no longer representative of the NGO genus. "It is not an NGO," the critics say. "It is a business; it is a parallel government."

There is another way of looking at it, however. Sheldon Annis once said of NGO efforts to end poverty that "small scale" can merely mean "insignificant," "politically independent"

can mean “powerless or disconnected,” “low-cost” can mean “underfinanced” or “poor quality,” and “innovative “ can mean simply “temporary” or unsustainable.”¹ BRAC has shown that none of this has to be the case. BRAC, and others like it in Asia and across the developing world, are charting new territory for what non-governmental organizations can and may be in the years ahead.

NOTE

¹ Sheldon Annis. (1988). Can Small-Scale Development be Large Scale Policy? In Sheldon Annis, & Peter Hakim (Eds.), *Direct to the Poor: Grassroots Development in Latin America*. Boulder: Lynne Reinner, 1988