

### BRAC BANK

#### Introduction

This is a proposal to set up a bank the private sector at the initiative of BRAC which is a Society registered under Societies Registration Act 1860. The objectives of the proposed bank are the alleviation of poverty and empowerment of the poor.

BRAC Bank will be a public limited company with an authorized capital of Tk.50 crores and a paid up capital of Tk.25 crores. 75% of the capital will eventually be provided by the clients of the bank, while individuals and agencies engaged in the uplift of socio-economic status of the poor will hold the remaining 25%.

BRAC Bank will consolidate the existing credit activities of BRAC and work with the organizations and banks having similar objectives to alleviate poverty.

#### A. Principle Features of BRAC Bank.

- 1) **Legal entity:** BRAC Bank will be a public limited company registered under the Companies Act 1994 and will be operative under the Banking Companies Ordinance 1991.
- 2) **Capital:** The authorized and paid up capital of the company will be Tk.50 crores and Tk.25 crores respectively.
- 3) **Ownership:** 75% of the share of the bank will eventually be owned by the clients. 25% will be held by the BRAC and other individuals and organizations engaged in poverty alleviation and empowerment of the poor. Shares offered for sale but not immediately subscribed to will be bought by BRAC. Thereafter these shares will be sold to the BRAC Bank's clients in order to attain the desired ratio of ownership.
- 4) **Management:** The management of the Bank will be vested in a Board constituted under the provisions of the Companies Act 1994 and Banking Companies Ordinance 1994.
- 5) **Experience and Resource Base:** BRAC Bank will start its operations through the acquisition of a portion of credit activities of BRAC, known as Rural Credit Program. This part of BRAC's operations has an outstanding loan of Tk.322 crores, an investment of Tk.20 crores and other assets of approximately Tk.48 crores (as on December 1996). Thus BRAC Bank will commence its business with an asset of over Tk.390 crores. The bank will also inherit more than one thousand staff experienced in credit and savings mobilization operations.

Since initially BRAC Bank will not have enough resources to finance the purchase consideration. BRAC will create a long-term loan for the amount required in excess of paid up share capital.

6) **Special Features Relating to Poverty Alleviation:**

- i) **Target Group Strategy:** BRAC Bank will attach special emphasis to the target group strategy of development.
- ii) **Institution Building:** The Bank will emphasis creation of self managed institutions of its clients. These institutions will be based at the clients' localities.
- iii) **Training:** A special feature of BRAC Bank will be the provision of training for its clients. The aim of the training will be to increase the capability of the borrower to utilized loans effectively.
- iv) **Technology:** The Bank will encourage the use of new and improved technologies in order to increase employment opportunities and productivity of the poor. The credit activities will be structured in such a way that the use of appropriate technology is ensured and the poor can benefit from improved technology.
- v) **Collateral Free Lending:** BRAC Bank will provide credit without security. The poor who do not have resources to offer as collateral have, so far, been denied access to formal credit. However BRAC Bank will not normally seek collateral for providing credit and will use peer pressure to ensure timely repayment which has already proved effective.
- vi) **Service at the Doorstep:** BRAC Bank will provide service at the doorsteps of the customers. Unlike the traditional banking system, BRAC Bank worker go to the villages regularly to collect savings and loan repayments.
- vii) **Women's Development:** BRAC Bank will attach special attention to women in development.

**B. Summary of Last Five Year's Credit Programme of BRAC**

Last five years growth of loan disbursement and loan outstanding:

Year	Cumulative Loan Disbursement (Crore Tk.)	Outstanding Loan (Crore Tk.)
1992	222.00	75.00
1993	372.00	107.00
1994	594.00	162.00

1995	962.00	234.00
1996	1,468.00	322.00

### C. Growth and Expansion:

The proposed Bank will endeavour to expand and grow as fast as possible without making any compromise on effectiveness and efficiency.

Deposits, disbursements, outstanding loans and number of borrowers will increase as follows:

Year	No of Customers (lac)	No. of Borrowers (lac)	Savings fund of customers (crore)	Amount of loan disbursed (crore Tk.)	Outstanding Loan (crore Tk.)
1997	20	18	170	700	425
1998	22	20	204	850	510
1999	24	21	245	1,025	615
2000	25	23	300	1,250	750
2001	26	24	360	1,500	900
2002	27	25	400	1,700	1,000
2003	28	26	480	2,000	1,200
2004	29	27	560	2,300	1,400
2005	30	28	600	2,500	1,500
2006	30	28	640	2,650	1,600

### D. Rationale for Setting Up a Bank:

#### 1. Attain the Objective of Annual Development Plan:

An estimated 60% of the 120 million people of Bangladesh live below the poverty threshold. No development effort can succeed without bringing this large majority into the mainstream. The annual development plan had very rightly set its main objective as poverty alleviation and creation of employment through human resource development. To achieve this objective target group strategy has been recommended. The target groups have also been identified in the plan document. They are: the landless agricultural labourers, the small farmers and the off-farm labourers. The document also specifies five programs to achieve increased productivity of the rural poor by ensuring their employment. These are: (1) institution building, (2) Technology and Training, (3) Credit, (4) Other Input and (5) Market.

BRAC Bank is proposed to be set up to alleviate poverty and create employment opportunities for the poor.

#### 2. Opportunity / Demand:

An estimated 60% of the 120 million people of Bangladesh live below the poverty threshold. Only a small portion of this group is covered by credit programs run by the government and NGOs. It is expected that by the turn of the century these credit programs will cover only a third of the required number of poor families.

There is a large gap between the supply and demand for credit services and an opportunity for creating more institutions to provide services to the millions of poor people.

### 3. Donor Perception:

BRAC's Rural Credit Program (RCP) is being supported by a consortium of donors. They provide a total amount of some Tk.150 crore. Ministry of Relief & Rehabilitation, Government of Bangladesh provided Tk.19 crore, Palli Karma Sahayak Foundation provided Tk.10 crore. The donor agencies feel that by converting the credit program into a bank:

- i) The funds made available by them will be protected
- ii) The depositors interest will be safeguard
- iii) The objectives of poverty alleviation and empowerment of the poor will be fulfilled.

### 4. Interest Shown by Foreign Investors:

Different foreign organizations have expressed their keenness to participate in the ownership of the proposed BRAC Bank. Out of the South Shore Bank of Chicago, USA is worth mentioning.

### 5. Organizational Advantage:

This proposal is being submitted primarily at the initiative of BRAC which has the experience of running successful credit programs. It is committed to poverty alleviation and empowerment of the poor and it has experience and dedicated staff.

BRAC has taken the initiative to establish a Bank because:

- It has vast experience and track record of successful administration of small, collateral free, supervised credit undertaken to create employment opportunities for the rural poor.
- BRAC has a staff complement experienced in the kind of activities the proposed BRAC Bank is likely to undertake.
- BRAC has the human and physical infrastructure to support the credit program with training of the borrowers and the staff.
- BRAC has the institutional capacity to identify and develop micro-enterprises for credit support.
- BRAC strongly feels that in order to serve the poor on a continuing basis its existing credit activities must be brought under a formal / legal structure.

### 6. Experience of BRAC:

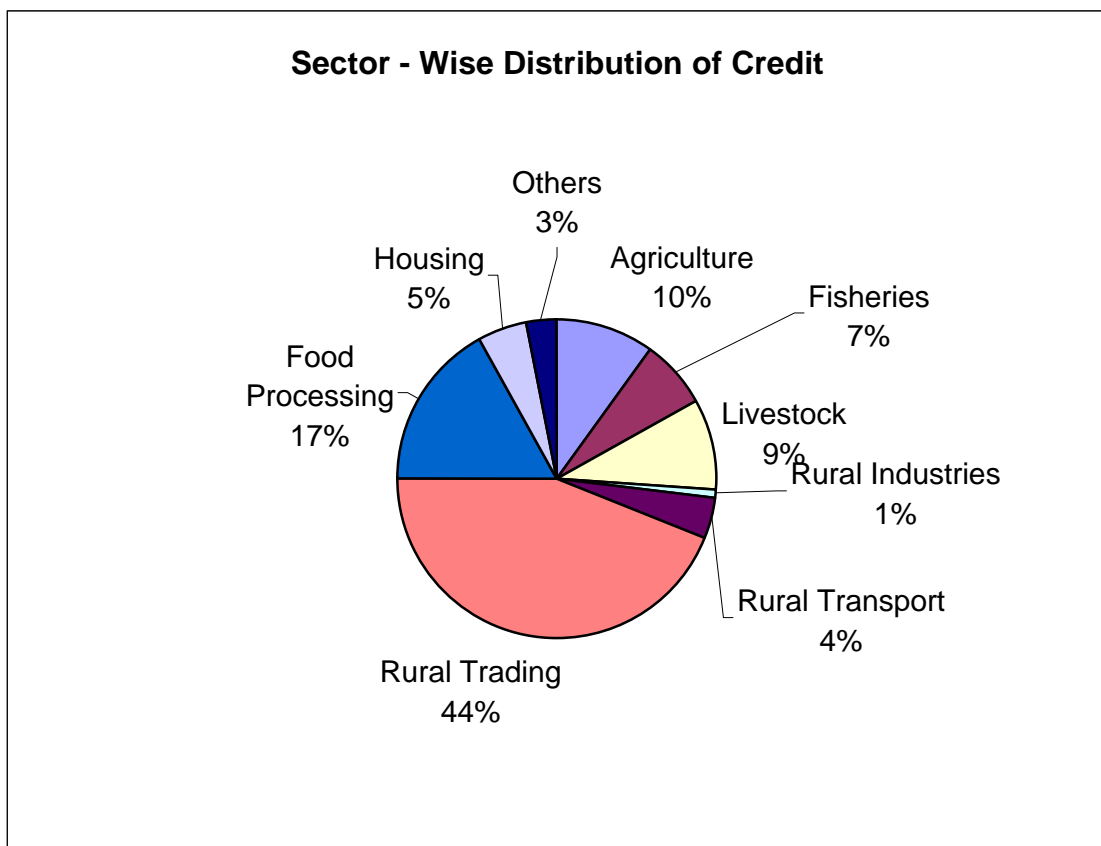
BRAC's credit program for the rural poor started in 1974. Over the past 23 years experience has been gathered through implementation of various programs, processes and strategies. Some relevant data on BRAC's credit operations are set out below:

Starting date of credit program	1974
Number of villages covered	32,000
Total disbursement (Cumulative)	1,472 crore
Outstanding loan	322 crore
Realization Rate (%)	98.5%

Number of loanees	16 lac
Number of beneficiaries	80 lac

**Sector-wise distribution of credit:**

Agriculture	10%
Fisheries	7%
Livestock	9%
Rural Industries	1%
Rural Transport	4%
Rural Trading	44%
Food Processing	17%
Housing	5%
Others	3%
<b>Total</b>	<b>100%</b>



**7. Management Capability:**

BRAC has adequate managerial and other support staff competent to operate the proposed BRAC Bank. Currently 16,887 with more than 3,000 postgraduate degrees of Masters and above are employed at BRAC.

It has full-fledged management support departments and divisions as under:

- Training & Management Development Program Department.
- Finance & Accounting Department.
- Internal Audit Department.
- Logistics & Transport Department.
- Electronic Data Processing Department.
- Monitoring Department.
- Research & Evaluation Department.
- Rural Enterprise Department.
- Engineering Department.

The proposed Bank will have full access to the services of these management support departments.

#### **8. Training and Advisory Services:**

In the area of training, BRAC Bank will have dual responsibility. First, the staff has to be trained in order to equip them for serving its customers effectively. Secondly, the borrowers will have to be trained in new skills and technologies.

To meet the enormous training needs strong decentralized facilities will be needed. BRAC is already in an advantageous position on this count. It has a training division equipped with manpower and training curriculum and modules and is capable of imparting training to a large numbers of borrowers at a time. There 11 training centers spread out at Savur, Rangpur, Comilla, Pabna, Faridpur, Jessore, Modhupur, Sreemongal, Rajshahi, Mymensingh and Rajendrapur with residential facilities for 1,100 trainees.

#### **9. Identification of Rural Enterprises:**

BRAC has an experienced team working to identify and develop new and profitable enterprises which can be undertaken by the poor people in a rural setting. The team comprises agriculturists, fisheries and livestock graduates, sericulturalists, engineers, technologists, marketing experts and management specialists.

#### **10. Providing Continuity to BRAC's Existing Credit Program:**

BRACs present credit programs are run under different projects with limit lives. In order to serve the poor continuously and effectively these programs must be brought under an entity which ensures perpetual existence. Secondly, BRAC is unable to mobilize the resources in rural areas required to run a large credit operations without a banking charter. Thirdly, BRAC wishes that its credit operations should have oversight of the central bank which is charged with the responsibility of maintaining financial sector discipline.