Exploring the Success of BRAC Tanzania’s Microcredit Programme

Dan Brockington ¹ and Nicola Banks ²

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¹ The University of Manchester, UK
dan.brockington@manchester.ac.uk

² The University of Manchester, UK
nicola.banks@manchester.ac.uk

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Brooks World Poverty Institute

www.bwpi.manchester.ac.uk
Abstract

This paper explores the growth of BRAC’s microcredit programme in Tanzania and some of the variety in and patterns of that growth. BRAC’s microfinance programme has grown dramatically and significantly within Tanzania and serves tens of thousands of women across large parts of the country. We examine quantitative data from April 2011 to April 2013, and use observation of groups and client and staff interviews from 2012-2013 to explore that success. We argue that the growth is based upon its effective marketing strategy and the fundamental usefulness of BRAC’s loans to its clients. But the findings also show that members were leaving at the time of the research. This could reflect a number of dissatisfactions that BRAC’s clients have with some aspects of BRAC’s microfinance products and the performance of its staff. The staff problems are confirmed by the staff themselves, both senior and junior. They are consistent with failings, across all of Tanzania, with respect to training and capacity in the finance and microfinance sectors generally. They also reflect the difficulties of cross-cultural adaptation, and learning to work in Tanzanian contexts (for Bangladeshi staff), and learning to work in a Bangladeshi organisation (for Tanzanian staff) that were current at the moment we conducted our observations. The interesting development, which has happened rapidly after this research concluded, is that BRAC’s staffing has changed significantly, with many more senior Tanzanian appointments. This may have considerable implications for the continued development of the organisation.

Keywords

Microfinance, BRAC, Tanzania

Author

Dan Brockington and Nicola Banks
Introduction

This paper explores the conundrum of BRAC’s microcredit programme in Tanzania\(^1\). The conundrum is formed by the exceptional growth of the programme in the country, which is considerably better than any other microfinance scheme. At the same time there is evidence that this growth may be uneven. The challenge of this paper is to resolve the apparent contradiction between these two facts.

Our argument to explain this conundrum is relatively simple. The facts of growth are plain, but it is equally plain that BRAC’s microfinance programme was troubled by the staff performance issues. These issues are generic across the microfinance sector in this country. In BRAC’s case these problems displeased clients and may have been causing them to leave the programme. In BRAC these generic problems were complicated by the challenges of cross-cultural learning inherent when Bangladeshi staff have to learn how to operate in a different cultural environment, and with a different language, and when Tanzanian staff have to learn to work in a Bangladeshi organisation.

It is important to note two qualifications and restrictions to these data and this paper. First, it is not an evaluation of the success of microfinance loans in reducing poverty. Our data suggest that clients welcome the difference loans can make to their lives, but we cannot objectively demonstrate that these changes are due to the loans themselves. We strongly suspect that many are prospering because of these loans. Certainly many clients say so quite unambiguously. But the data does not exist to prove that they are right.

Similarly our data also suggest that BRAC, like most MFIs in most parts of the world, is not providing loans to the poorest Tanzanians. However we cannot determine what sort of clients BRAC ought to be serving, nor how close it is to its target clientele. This paper is not therefore any evaluation of the role of BRAC in tackling poverty reduction in Tanzania.\(^2\)

Rather, we are tackling a prior problem. Namely, if microfinance is to ‘work’, and increase the prosperity of poor Tanzanians, then it will have to be effectively delivered. How robust, therefore, was BRAC during the time of study? How well was it performing as an organisation in meeting its own declared goals of sustaining a healthy microfinance programme? These are the questions this paper explores.

But here the second qualification applies. For BRAC has changed significantly since this research was undertaken. The issues we raise here may well have been superseded by events. In particular there have been dramatic staffing changes in BRAC Tanzania since this research was conducted which may well, happily, already make some of the

\(^1\) BRAC call this a microfinance programme see (http://tanzania.brac.net/index.php?option=com_content&view=article&id=177&Itemid=833). However it is technically more accurate to call it microcredit. Microfinance is broader and involves voluntary savings and sometimes insurance and transmission of money. The issues referred to here are all credit related.

\(^2\) Similarly this paper does not explore whether these loans are effective in reducing poverty or not. We cannot say whether these loans are effectively targeted at the poor, or whether they make their borrowers more prosperous.
recommendations of this research obsolete. We will describe these in detail in the conclusion of the document. Suffice to say here that the organisation has transformed its mid-level management (of Areas and Regions) with many more Tanzanian staff than before. Nevertheless, to the extent that it is useful to learn from particular historical moments in organisations, so it will be useful to consider these findings.

The paper proceeds as follows. The first section outlines the purpose of the research, the research questions addressed and the methods used to answer them, before we outline the conundrum posed by BRAC’s remarkable growth in Tanzania. This section also introduces BRAC and microfinance to the uninitiated. Thirdly, we explore insights from collective branch level data across the country and offer explanations to the conundrum BRAC’s growth presents. We complement these data by exploring perspectives about BRAC’s performance from both clients and employees, before presenting data on the influence of management performance on branch-level performance. Finally we present conclusions and recommendations and discuss their significance in the light of the dramatic staff changes that BRAC has recently implemented.

Research Origins, Questions and Methods

This paper is not the expected product of the research project as it was first planned. The project was originally conceived by Dan Brockington merely as an exploration of BRAC’s success. He was not then aware of any conundrum other than the extraordinary speed and rapidity of the microfinance programme’s growth. However as the work unfurled it became plain that this was not the case of unambiguous success which we had anticipated, but a more complex affair. Because of the generous support and openness of BRAC staff and the access they gave to key data, this has enabled us to explore BRAC’s varied performance more thoroughly.

Research methods entailed a mixture of ‘bottom up’ and ‘top down’ approaches. The former involve meetings with microfinance groups, participant observation of their affairs, and interviews with more junior staff. All this was conducted in Swahili. The latter required analysis of national scale data, and interviews with more senior staff in the organisation (conducted in English). All the work took place in late 2012 and early 2013 and was undertaken by Dan Brockington. Nicola Banks was involved in the final stages of the paper’s preparations due to her experience of managing BRAC’s Research and Evaluation Unit in Uganda.

Methodologically this paper spans two traditions. First it fits within anthropological studies of microfinance, based on participant observation of lending groups and qualitative interviews with clients. The value of this research is the insight it provides into the micro-politics and micro-dynamics of lending groups.

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3 The original idea came from a project proposed by Admos Chimhowu and David Hulme. Our thanks to them for working with us.
4 Notable contributions in that tradition include Collins, Murdoch, Rutherford and Ruthven (2009) and Rahman (1999a; 1999b), amongst others.
Second, it contributes to the study of organisations, and management of development. Some of these studies draw upon anthropological tradition using ethnographic methods of interview and participant observation to glean insights into organisational behaviour and dysfunction within individual MFIs. Others draw upon larger datasets and quantitative methodologies across organisations and countries. This approach has primarily been inspired by the work of Mathilde Maitrot on institutional performance of microfinance in Bangladesh. We combine this with a more typically business-studies and econometric approach to analyzing national level financial trends across all branches.

In detail these methods entailed observing procedures at the meetings of 20 microfinance groups in four regions in Tanzania with 474 clients. In keeping with the exploratory nature of this research this was not a systematic sample that covered the country. Rather the research was most intensive with groups and in a region (Manyara) with which Dan Brockington was most familiar and could be most confident of the results. The coverage expanded to two other regions (Dodoma and Morogoro), selecting these regions as Dan Brockington was able to train researchers effectively to carry out the group surveys there. Brockington undertook visits to 14 groups and trained assistants to visit six. Each group was visited on at least three separate occasions and we spoke to clients individually (292 of them) to learn about the history of their loans and value to them. We also undertook participatory wealth rankings of clients in each group with its chairwoman. We used this exercise to categorise 428 clients into wealth groups. These are based on wealthy categories based on access to assets used in Loiske’s work.

Brockington also conducted three separate village surveys of household assets in the region (Manyara) where most of the client microfinance groups studied were located. He surveyed three villages, visiting 154 households, and used a participatory wealth ranking exercise with village leaders to categorise a further 1,315 households in these villages. We have used these surveys to compare BRAC’s client base with livelihoods and prosperity of households in the wider region.

With respect to interviews, Brockington has interviewed 42 BRAC employees. These comprised 24 junior staff (8 credit officers and 18 monitors); four branch level staff (managers and accountants); two area managers; two regional managers; seven senior staff working in the country office in Dar es Salaam and two working across the East African region. Interviews covered current and former roles in the organisation which increases their value as all branch managers and monitors had formerly served as credit officers. Interviewing the 18 monitors was important as their worked covered all of BRAC’s branches in Tanzania. This allowed us to compare findings from our study regions more broadly across the country.

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7 Maitrot 2014.
8 (Loiske 1995).
The national-scale data entailed an analysis of the monthly branch level trend reports from April 2011 to April 2013. These provide detailed records of borrower numbers, loan size, branch surpluses and deficits, loan write-offs and so on. We also examined human resources records from 2012 onwards to learn of trends in staff retention, resignation and lay-off. Analysis was conducted using Excel and SPSS, with the latter providing the nucleus of the clusters presented below.

Finally an important part of this exercise has also been sharing and discussing findings with BRAC staff in Dar es Salaam and Uganda. Brockington circulated a written report to the organisation (on which this paper is based) and presented the same in person to the country headquarters in June 2013. BRAC feedback then, and by email afterwards, combined with a further meeting in April 2014, has been useful in helping us to understand these data. Indeed throughout this research we have benefitted from exceptionally high levels of help, support, openness and general friendliness of all BRAC staff. We are most grateful for that.

There are significant limitations to these methods. The regional coverage is limited (only four visited out of eight). The groups and clients consulted (20 out of over 7,500 groups and 292 out over nearly 100,000 active clients) are not a representative sample. Similarly the number of employees consulted is small of over 1,000 staff. These findings are, moreover, timebound, in that, as we noted in the introduction, there have been staff changes which mean that some of these findings no longer apply.

However we maintain that the work we report below is valuable. Such sample sizes are normal in qualitative research. Its purpose is to suggest hypotheses for exploration in larger, better resourced research. It is in this spirit that we offer these findings. Indeed part of its value derives from that fact that BRAC’s microcredit programme in Tanzania remains surprisingly unstudied. There is a substantial grey literature and informal reports written by BRAC staff and visiting students, about diverse aspects of its work, particularly in Uganda, but microcredit in Tanzania is not covered. There is also a paper which examines the general success and expansion of BRAC into Africa. We have drawn on these while writing this paper, but otherwise have not had comparative studies to act as sounding boards.

The Conundrum of BRAC’s Growth and Performance in Tanzania

BRAC and Microfinance – an introduction

BRAC is the world’s largest NGO, and one of the most successful. Formed just over forty years ago it has contributed to the amazing economic and social improvements in Bangladesh. It employs 100,000 people there in diverse programmes which include education programmes, microfinance, disaster relief public health, a University and numerous commercial enterprises. It has, since 2002, expanded its operations, becoming an international NGO and operating development and microcredit programmes in other parts of

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9 Reports from 2009 to 2013 are available here: http://munshisulaiman.com/reports.html
the world, notably in Africa where it has offices in Liberia, Sierra Leone, South Sudan, Uganda and Tanzania. In 2013 it was declared to be the best NGO in the world by The Global Journal.\textsuperscript{11}

Central to this success story has been BRAC’s role in the revolution of microcredit (and more recently microfinance) in development. Microcredit is a means of lending money to poor people who are unable to borrow money from formal institutions because they lack collateral. It substitutes collateral with social capital by getting stable groups of poor borrowers to act as each others guarantors. When one fails to repay, the others do so on their behalf. Thus guaranteed, lenders are able to take the risk of lending to the poor.

Microcredit is controversial. It represents a market-led and profit-driven solution to development\textsuperscript{12}, with evidence from some countries to suggest that it can be associated with increased debt, stress and impoverishment.\textsuperscript{13} This leads to an increased interest in the social performance of MFIs and the concept of ‘mission drift’ – namely that the social concerns of microfinance become subsumed by the drive for profit.\textsuperscript{14} At the same time microfinance has ardent advocates ranging from the technical to the celebrity (Bills Clinton and Gates)\textsuperscript{15}. Most evaluations of microfinance today present more nuanced views that recognise both its strengths and limitations.

Understanding the context in which microfinance operates in countries like Tanzania reveals why bringing financial services to the poor have the potential to yield dramatic returns. In several contexts evaluations have shown microfinance to yield positive returns in income and asset accumulation, consumption, resilience, and in some cases, female empowerment\textsuperscript{16}. Its great advantage is that it means that poor people no longer have to rely on high cost informal money-lending where interest rates are high. In parts of rural Tanzania they can exceed 200\% per annum. One of the dimensions and experiences of being poor is not having access to credit to start or expand a business, or the emergency liquidity required to cope with risk, and that it is can be difficult to save money. Because it offers ways of tackling credit constraints, microcredit has expanded dramatically across the world. BRAC’s expansion into Africa is part of this rise, albeit on a continent that has proved difficult microcredit to succeed in.

\begin{flushleft}
\footnotesize\textsuperscript{11} http://www.brac.net/node/1384#.UvPBb_YuLtI
\footnotesize\textsuperscript{12} Cohen 2002; Woller 2002; Rodman 2011.
\footnotesize\textsuperscript{14} Meyer 2002; Fernando 2006; Weber 2006; Chang 2007; Copestake 2007; Cull et al 2007; Dichter 2007; Gutierrez-Nieto et al 2009; Bateman 2010; Mersland and Strom 2010; Roy 2010; Armendariz and Szafarz 2011; Hermes and Lensink 2011; Bedecarrats et al 2012; Louis et al 2013; Piot-LePetit and Nzongong 2014; Serrano-Cinca and Gutierrez-Nieto 2014.
\footnotesize\textsuperscript{15} Matin, Hulme and Rutherford 2002; Alba and Park 2003; Littlefield et al 2003, 2004; Osmani et al; Dunford 2006; Abed and Matin 2007; Yunus and Jolie 2008.
\end{flushleft}
Part of the appeal of microcredit is its simplicity. The basic elements are easily replicable and can be applied, with minor (or even no) modification in diverse contexts. In BRAC the essential elements are these. Loans are made only to women who are organized into cells of five and groups of about thirty women. Cell and group members collectively act as guarantor of each others loans. Weekly group meetings, at which attendance is compulsory, are held in which repayments are collected and new loans agreed. Interest payments are paid on simple interest (24%) calculated when the loan is awarded. The principle and the loan are paid off together over 40 fixed installments, once a week.

Loans also serve as a means of building up compulsory savings in that a proportion of each loan is retained by BRAC. This ‘security deposit’ can be taken out by the client after repaying the loan in full, should they wish to leave BRAC entirely. Alternatively they can leave the deposit with BRAC, and build it up by taking a larger loan (using the original deposit as part of the 10% required for the next security deposit).

Note that it is possible for clients to default in this system. Clients can simply disappear (particularly in more mobile urban populations). Group members may refuse to make up payments for colleagues who fail to pay and try to persuade credit officers to chase the defaulter herself. Credit officers may take on that task and fail to find the defaulter or make her pay. Nonetheless the risk of default is substantially reduced through the ‘essential innovation’ that group collateral affords.17

This basic practice is overseen, in BRAC’s case, by a relatively simple structure. Groups are serviced by credit officers who record repayments and who confirm that new loans are supported by group members. New loans are given each week from the main branch offices. Credit officers work from branches, with about four to six credit officers at each branch. Each branch therefore runs around 50 groups, and has about 1500 clients. Branches, their credit officers and groups are managed by branch managers under the oversight of area managers, and the areas grouped into regions run by regional managers.

The rhythm of microfinance varies according to one’s place in the system. For members the key moments are the weekly meetings when they must repay their loans, stand in for any defaulters, and ask their peers to support new loans. Credit officers run up to three groups each morning, and spend the rest of their day on paperwork and chasing any defaulters or checking potential new clients. Branch managers oversee all groups, visiting as many as possible. Area managers visit each branch once a week, and are present when loans are disbursed. They ensure that the appropriate funds have been banked each week from loan repayments and that all accounts are balanced.

**BRAC’s Growth in Tanzania**

While these practices and structures are relatively simple and supposedly could be replicable by all manner of institutions, BRAC stands out for the size of its operations and the speed with which it has grown. This is simply an order of magnitude bigger than the

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17 (Collins et al. 2009).
Tanzanian norm. Most microfinance operations peak at around 25,000 members. But BRAC has established over 7,600 borrower groups with a total of over 125,000 members and nearly 100,000 active borrowers. More than that, however, is the speed with which it has grown. For BRAC has only been operating in Tanzania since 2005, but in that time has been able to establish 112 branches across the country (Table 1). This is all the more remarkable because this growth was achieved at a time when microfinance growth was, nationally, static. Research by the Financial Sector Deepening Trust shows that access to microfinance grew from just 4.4% of the population to 4.5% between 2009 and 2013.\textsuperscript{18}

The rapid expansion had left BRAC with an interesting demography in its employee structure. All credit officers are Tanzanian women. So are all monitoring staff and branch managers (who are recruited from the credit officers). There are very few Tanzanian men employed, only the occasional accountant. At the other end of the scale, almost all higher level management, including all but six of the 24 area managers, were, at the time of this research, Bangladeshi men. The expansion of the client base had been faster than the training and capacity building of Tanzanian staff to take on senior positions within BRAC’s structure. It is this attribute which has now been transformed, in only a few months, by recent staff changes, as we will discuss in the conclusion.

The expansion of BRAC, which has attracted so much attention and acclaim has also been reasonably lucrative. As a result of growing so quickly BRAC has been able to pay off the costs involved in its establishment in the country. Figure 1 shows that cumulative surplus now put the programme in the black on its initial investment.

Table 1: Growth of BRAC branches

<table>
<thead>
<tr>
<th>Region</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arusha</td>
<td>5</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>13</td>
</tr>
<tr>
<td>Dar es Salaam</td>
<td>5</td>
<td>9</td>
<td>1</td>
<td>11</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tanga</td>
<td>6</td>
<td>1</td>
<td>4</td>
<td>7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mwanza</td>
<td>5</td>
<td>1</td>
<td>2</td>
<td>5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Morogoro</td>
<td>4</td>
<td>1</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Zanzibar</td>
<td>5</td>
<td>2</td>
<td>7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shinyanga</td>
<td>5</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dodoma</td>
<td>5</td>
<td>1</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Iringa</td>
<td>2</td>
<td>3</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mbeya</td>
<td>3</td>
<td>2</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kilimanjaro</td>
<td>3</td>
<td>6</td>
<td>2</td>
<td>11</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mara</td>
<td>1</td>
<td>3</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manyara</td>
<td>3</td>
<td>2</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kagera</td>
<td>5</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Singida</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tabora</td>
<td>4</td>
<td>1</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grand Total</td>
<td>10</td>
<td>31</td>
<td>27</td>
<td>37</td>
<td>7</td>
<td>112</td>
</tr>
</tbody>
</table>

\textsuperscript{18} Financial Sector Deepening Trust 2013
The regions listed in the table refer to Tanzanian administrative regions. BRAC pools branches across several Tanzanian regions for its own administrative purposes, hence branches in Iringa, Mbeya and Dodoma are part of BRAC’s ‘Iringa region’, and those in Shinyanga, Singida and Tabora are part of BRAC’s ‘Shinyanga region’ and so forth. BRAC operated 8 regions in Tanzania at the time of this research. It has now divided its administration into 10 regions.

**Figure 1: Cumulative Surplus from BRAC microfinance loans**

The dips in surplus every December reflecting the annual write-off of bad debts that can accrue.

**Explaining the appeal and growth of BRAC’s Microfinance programme**

One of the reasons, perhaps the most important, behind BRAC’s growth is that clients really value BRAC microfinance loans. After having interviewed and collected histories from hundreds of women in numerous lending groups across different regions we have found that the loans are reported to have made an almost universally positive and welcome difference to borrowers’ lives.

In part these loans have been useful because they allowed women to construct reliable livelihoods which generate fast returns. Initial loans are generally for between 100 and 150,000/- (US$60-90). These typically rise to an average of between 400 and 500,000/- ($240-$300) across the whole organisation. Typically loans of this size allowed clients to invest in a variety of businesses, such as charcoal sales, chicken rearing, clothing sales, grocery stores, tea shops, tailoring, bars and vegetable shops as well as agriculture. Others pursued more long term strategies investing in the construction of better homes or the education of their children or other relatives. In other cases loans were a welcome means of coping with risk and misfortune. They provided an immediate liquidity vital for responding quickly to accident or illness.
These interview data are remarkably consistent, and Table 2 provides an indication of them. BRAC loans are considered helpful and useful. Their consequences are welcomed almost universally. This is consistent with other unpublished reports from Uganda.\textsuperscript{19} Although the sample size is small it is one in which we have considerable confidence. Brockington observed several groups over a period of several months, during 13 months of continuous fieldwork, and some of these were located in a village which he has been visiting for many years, and where Dan Brockington’s wife was born. If BRAC loans were causing social problems on the scale that have been reported for microfinance loans in other parts of the world then he would have learnt about this from his friends and relatives in the village.

Table 2: Interviewee attitudes to BRAC loans.

| BRAC has really helped me. I farm and I farm without problems, and business goes well. | BRAC imesaidia kwa kweli. Kulima nalima bila shida biashara inaenda vizuri. |
| On the one hand it completely helps us and on another side it has raised our [business] acumen. | Kwa upande mwingine inatusaidia kabisa kwa upande mwingine inaleta kuchangamaka |
| It has brought significant change because I did not have the means to buy a metal roof, now I can. | Imeleta mabadiliko makubwa maana sikuwa na uwezo wa kununua baati sasa nimewezu. |
| BRAC has been a real help for my children. | BRAC imesaidia kweli kwa ajili ya watoto wangu. |
| It has brought me success. | Imeniletea mafanyikio. |
| It has brought significant success. Without BRAC I would have had to shut down [that shop] | Imeleta mafanyikio makubwa; bila BRAC ninge-lishafunga pale. |
| I have not had any problem educating my children. | Sijapata shida lolote kusomesha watoto wangu. |

We make no attempt to quantify the nature of the contribution or difference that microfinance is making to livelihoods. Our methods make that impossible. But that is not the point. Given the literature which has raised questions about the problematic consequences of microcredit on the poor in terms of debt and impoverishment, as the previous section discussed, it is important to recognize that the general contribution and difference this scheme is making is welcomed by clients.

One of the reasons for BRAC’s success in microfinance therefore is that it is offering a product which is valued and important in people’s lives. This high appreciation of BRAC’s loans can be attributed to two characteristics of BRAC’s clients, and one aspect of the more general microfinance market.

The clients are largely businesswomen, and were already so before the loans. Of the 292 clients we interviewed 272 had put their loans into an existing business of some sort, but only 40 used the loans to invest in entirely new businesses (20 of whom already had other businesses). BRAC loans have been so useful in part because the economic infrastructure (ie client businesses) already exists to make these loans almost instantly productive. For BRAC staff we spoke to who had worked in Bangladesh, the breadth and depth of women’s income earnings was the main difference between microfinance in the two countries. As one senior manager put it, in Bangladesh only 10% of clients might have their own business –

\textsuperscript{19} (McClatchey 2013)
the money is put into businesses operated by male relatives – but in Tanzania all of the clients have their own businesses.

The second quality of BRAC’s clients is that they were not, in the regions where we worked, the poorest households. The wealth ranking and categorization revealed that the majority of BRAC clients were from relatively wealthy groups. This is visible in Table 3. We have included in this table for comparative purposes the three local village level surveys conducted in the same region in which most of the microfinance groups which were visited were located. The table shows that the poorest two groups are not represented at all in BRAC’s client groups.

Table 3: Wealth Groups of BRAC clients

<table>
<thead>
<tr>
<th>Wealth Group</th>
<th>Wealth Group Characteristics</th>
<th>Clients (percentage) N = 428</th>
<th>Comparator Villages (percentage) N = 1,315</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Immensely Rich; Knows no barriers; has cars, lorries etc</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>2</td>
<td>Very Rich; Many cattle and much land; may own a tractor but not a lorry. Has businesses and land in towns</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>3</td>
<td>Rich; Employs casual labour. Has several businesses and land</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>Owns their own house and business, some land, can employ casual labour occasionally.</td>
<td>72</td>
<td>44</td>
</tr>
<tr>
<td>5</td>
<td>Some income earning assets (house / shop / business); does not employ labourers; rarely performs casual labour</td>
<td>18</td>
<td>31</td>
</tr>
<tr>
<td>6</td>
<td>Poor; depends on casual labour work for daily needs; few if any livestock or assets.</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>7</td>
<td>Extremely poor; Unable to get work easily; suffering from alcoholism and/or illness.</td>
<td>0</td>
<td>6</td>
</tr>
</tbody>
</table>

This pattern is to be expected in that part of the definition of these poorest groups is that they do not have business assets to invest in. Acquiring a BRAC loan and investing it in a business would mean membership of at least group 5. However, of the middle strata of asset owning families (rows 3-5), BRAC loans are disproportionately taken by the wealthier two groups, with a smaller proportion from the poorest of the asset-owning classes. Loans to the two upper wealth groups constitute 82% of all BRAC loans, but these groups comprise just 60% of the population of the three middle income groups.

This suggests a further reason for the success of the loans for BRAC clients is that they are already well placed to profit from them. They are less vulnerable to the risks and misfortunes of poverty because they are less poor than many Tanzanians. Moreover they are better able to use loans productively in businesses because they already have other sources of wealth which also support their businesses and their loan repayments. This finding – that better-off people are best able to benefit from microfinance loans resonates with much of the serious empirical literature.20

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The final reason for the success of BRAC loans is that they face little competition, particularly away from the main urban centres. It was plain from talking to clients that BRAC was offering loans to women who otherwise would have few or no other sources to which they could turn for relatively low cost capital. Few other loan companies are offering the relatively small loans that BRAC was offering, and especially few outside of the larger cities. A number of clients also mentioned that BRAC’s intensive and unique way of selling loans (initially through door to door surveys, thereafter through word of mouth) has proven remarkably successful in getting the programme started.

The Conundrum: decline amidst vigorous growth

However behind these apparently healthy figures and robust growth lies a conundrum. There is not a simple success story here of growing branches, clients and loans. In fact, over the last two years the growth in numbers that has fuelled the success of BRAC has reversed. Active borrowers have declined steadily over the two years for which data are available (Figure 2). The decline in loans resulting follows a similar pattern.

Figure 2: Number of borrowers

We need to place this loss of borrowers in context. It is quite normal for microfinance programmes to lose clients who cannot cope with, and repay, loans. These tend to be clients who are borrowing smaller amounts and for the first time. Those who cope with the first loan usually stay on to take out larger loans. In that respect there is a natural winnowing process as groups refuse new loans to members whose problematic behaviour and defaulting added to their burdens.

There are three possible reasons, however, why a decline in borrowers could be problematic. First, if the microfinance programme has a strong social agenda to work with
the poorest people possible, then a programme which excluded the poor, or whose members excluded their poorest colleagues, would fail in its objectives. Declining numbers would be a problem if it was caused by poorer women leaving the scheme because they could not afford to stay in it.

Second, it could be a problem purely on financial terms if so many people leave that the operation becomes unsustainable financially. A group of 30 members can be run by a credit officer just as well as she might run a group of 15. The returns on larger groups are simply greater than those from smaller groups. If too many members leave, and groups become too small, then the unit costs of operations will exceed unit income. Likewise if not enough members stay on to take out larger loans surplus will also decrease – or at least not fulfill its potential.

For example consider two groups, one of 15 and the other 30 clients. If all clients have the same basic loan of 200,000 shillings (approx. $140) then the interest rate (25%) over 40 weeks of the loan term would mean that each member, annually, contributes interest payments of 60,000 shillings to BRAC. The smaller group earns BRAC over 900,000 shillings a year (gross), the larger more than 1.8 million shillings, with no extra cost on staff resources. Similarly a group of thirty whose members all took out 400,000 shilling loans would collectively contribute 3.6 million shillings per year to BRAC in interest payments, again with no extra cost on staff resources. Another way of saying this is that for microfinance programmes to thrive financially, they have to operate at appropriate economies of scale. This is shown in Figure 4. The administrative costs of BRAC branches in Tanzania tend to decline as the number of borrowers increases.

Please note that this is a purely financial argument which ignores social objectives. It may be entirely appropriate for microfinance managers to prefer small group sizes because, although more expensive, they allow greater gains for poorer people. Our point here is not to suggest that groups should be as large as possible. Rather we are merely observing the consequences of declining group membership.

The third problem is that a reduction in borrower numbers, can introduce vicious cycles of change at the group level. For if some members leave too few can be left to bear the remaining risk of default, and they are no longer able to share the risk of supporting each others loans. Groups can thus become unviable.21

Figure 4: Monthly administrative costs per borrower for each branch plotted against the number of borrowers.

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21 (cf. Barua 2011)
Thus there are two possible outcomes of a decline in client numbers. If the less able clients leave, and the more prosperous remain in sufficient numbers, a surplus could be maintained. However, if too many people leave, including the better-off clients with larger loans, then the surplus could decline. The latter appears to be the case at BRAC recently as shown in Figure 5. This graph shows that BRAC’s microfinance programme is earning less money from the loans it is making. If we discount the dips every December (which simply reflect the annual book-keeping write-off of bad loans) there is still a secular decline in surplus from January 2012 onwards.

**Figure 5: BRAC Monthly Surplus as a percentage of outstanding loans**
Please note two things about this graph. First, our use of surplus is not also a suggestion that surplus should be used as the sole measure of the health of microfinance schemes. This is a contentious issue in microfinance debates with one school holding that microfinance must pursue social objectives (such as poverty alleviation), if necessary at the expense of surplus. Another school holds that microfinance has to be self-sustaining and maintain a surplus to enable that. Our use of surplus as a measure does not imply any stance in that debate. The point is simply that BRAC’s microfinance programme in Tanzania is expected to produce a surplus, and so, on its own terms, surplus is a measure of the robustness of the programme.

Second, we am not saying that this level of returns is unsustainable. We cannot determine that. Excepting the dips every December the programme is still producing a surplus. Whether they are too low or not is not for this paper to determine. After all in a programme with strong social objectives, low levels of surplus are quite compatible with broader goals – if the cause of that low surplus is the higher costs of working with poorer people. Figure 5 may in fact simply be proof of a healthy, socially conscious microfinance programme at work.

Our point here is simply that the conjunction of fewer loans, fewer borrowers and declining surplus is at odds with the rapid healthy expansion of the programme in its early years. This therefore is the conundrum that we have to explain. How is it possible for an organisation to appear to thrive and expand so vigorously, and then appear to decline? To explore this conundrum we must first examine the performance of its different branches more carefully. For behind the picture of aggregate growth lies considerable variety. Then we will take a closer look at what it is like to borrow from BRAC, and to work for it. We will therefore first consider client perspectives on the organisation and its loans. Then we will consider the testimony of its staff.

**Explaining the Conundrum 1: Branch performance over time**

To analyse the growth of BRAC’s microfinance programme the crucial step is to explore how performance varies according to the age of the branch. When we look at aggregate figures from any given month (shown in Figures 1-4 above for example) these will include returns from branches which are 6 years old, others which are four years old, and others less than two years (and all the ranges in between). However, if we control for the age of the branch and we explore trends in key performance indicators as a function of the age of the branch, potentially vital patterns emerge.

In the first instance, with respect to surplus, we find that surplus, during the period of these data, tend to increase in the initial years of a branch’s life but thereafter they decrease. This is shown in Figure 6. This graph shows that when a branch is first established does not generate much surplus. That is expected. It is still building up a portfolio of loans. As branches get older for the first few years they produce more surplus as these loans are returned and clients take out other loans. But then, after 4.5 to 5 years their surplus begin to decline.
Figure 6: Average Surplus per branch over two month intervals. The x axis gives branch age in years. The sample size, ie number of branches for each age interval is shown at the bottom of the graph.

Note this graph excludes Zanzibar whose data are unusual because of a large write off of bad debt. Furthermore some older branches, including in Zanzibar are now generating a surplus.

These trends are not driven by any changes in the expenses or income of microfinance operations. Both income and costs per borrower tend to increase steadily as branches age, with surplus, per borrower, showing little change. This is depicted in Figure 7.

Figure 7: Income, expenditure and surplus per borrower against branch age
Rather the changes in surplus over time appear to be substantially driven by the number of borrowers, which matches almost exactly the change in surplus (Figure 8). Indeed in a regression analysis the number of borrowers explains 84% of the variance in surplus over time (p<0.001).

**Figure 8: Changes in borrower numbers against branch age**

To explore the detailed patterns in Figure 6 we need to break the data down into smaller groups which perform in similar ways. Three groups emerged from the cluster analysis performed, which we term the Strong, Young, and Weak branches (Table 4).

Strong branches, with thriving membership; they constitute 26% of branches but account for 81% of BRAC microfinance income.
Younger branches which do generally create a surplus, but do not display dramatic returns. These account for 39% of branches and 17% of surplus.

Weak branches, which are making a loss and losing members. These are also, generally, the oldest branches in the organisation. These branches make up 35% all branches but account for just 2% of surplus.

Table 4: Summary Statistics of Branch Cluster Performances

<table>
<thead>
<tr>
<th>Group</th>
<th>Average Age</th>
<th>Total Surplus</th>
<th>Average Monthly Surplus</th>
<th>Average Borrowers</th>
<th>No of Branches</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weak</td>
<td>4.78</td>
<td>75,578,222</td>
<td>77,755</td>
<td>778</td>
<td>39</td>
</tr>
<tr>
<td>Strong</td>
<td>3.84</td>
<td>3,446,290,891</td>
<td>4,753,505</td>
<td>1,413</td>
<td>29</td>
</tr>
<tr>
<td>Young</td>
<td>2.99</td>
<td>711,282,589</td>
<td>646,621</td>
<td>848</td>
<td>44</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>4,233,151,702</td>
<td>1,513,461</td>
<td></td>
<td>112</td>
</tr>
</tbody>
</table>

The same information can also be shown graphically to see how these different headline figures of overall performance play out over time. First, Figure 9 shows the distribution of data points. Note here that most of the older branch data, and therefore the dramatic declines shown in Figure 6 are provided by Weak branches. The Young groups dominate data from 3.8 years and below. But age does not determine group membership. Strong groups can be found in all but the oldest branches.

Figure 9: The Age Distribution of Data from Branch Groupings

Second we can see that these different groups demonstrated dramatically different trends in average monthly surplus. Figure 10 shows that all branches start from similar levels of
surplus, but that the Strong groups rise dramatically and maintain their performance. The Young groups never take off in the same way, demonstrating much gentler levels of growth. They never make a loss, but their levels of surplus are much lower. Finally the performance of the Weak groups is much more erratic, and often in the red.

These differences are important. Figure 6 and Figure 8 suggested a simple trend of branches produce less surplus as they became more than 5.5 years old. However the performance of the Strong groups in Figure 10 suggests continued healthy returns with age – and a qualitative difference between their returns and those of the other groups. It is hard to imagine that they would demonstrate the same sorts of decline which have afflicted the weaker groups.

**Figure 10: Average Monthly Surplus of Weak, Strong and Young Branches**

The dip in surplus in Weak groups at 5.6 years is due to a write-off of bad debt in the Zanzibar branches.

Driving these differences in surplus are fundamental differences in borrower numbers. Figure 11 shows that the Strong groups are strong because they undertake, and sustain, a strong rise in borrower numbers during the first 4.5 years of their life. Thereafter they decline, but not to an extent which threatens surplus. The Young groups in contrast never take off in the same way. They have, on average, just 68% of the membership numbers of the strong groups, and generally less than 900 members. The Weak branches start well, with a rapid rise in numbers but that soon begins to decline quickly, and thereafter more slowly, with numbers hovering around 700 in the last months. Note that their decline in numbers is slower than that of the Strong groups in the last years of their respective records, but the Strong groups, although declining faster, are doing so from a higher starting point and maintain their surplus.
The basic principle at work is simply that if borrower numbers are high then branches are more likely to create a surplus. This reflects the fact that larger groups and branches can benefit from the essential economies of scale that determine the surplus of microfinance. These data do help us to redefine the original question with which this research began. In place of the question ‘Why has BRAC’s microfinance programme been able to grow so dramatically’ we have another question: ‘Why has BRAC’s microfinance growth been so patchy?’ And given that membership drives by success or failure, this question can also be rephrased as ‘what causes branch membership to grow or decline?’ To explore what might make clients stay in, leave or decline to join BRAC’s microfinance programme we need to attend more carefully to what it is like to be a member of these groups, and what tensions they experience.

Explaining the Conundrum 2: Clients views about BRAC

Despite the general contentment with the consequences of loans for their lives individually, clients were keen to tell Dan Brockington of a number of frustrations and tensions that they experienced with the organisation as a whole. Primarily there were dissatisfactions among BRAC microfinance clients about the way in which loans are administered to them. Some of these stem from BRAC’s microfinance rules and product availability, some from the behavior of its staff, and the cultural challenges of working in Tanzania that BRAC’s microfinance programme faces. It was remarkable, however, how consistently these views were reported in different groups across the country.

It is important to emphasis that many of the problems reported below reflect broader issues of staff capacity and quality that afflicts the finance and microfinance sectors nationwide. The work of the Financial Sector Deepening Trust of Tanzania, makes plain that there are significant challenges with respect to staff quality and probity that afflict all organisations. What follows is therefore not a list of problems which are peculiar to BRAC. Rather they are
manifestations within BRAC of more general country wide challenges that are given a particular flavour by some aspects of BRAC’s organizational character.

In detail the tensions are due to three main issues. First there are challenges with BRAC’s microfinance products. These include the small loan size; small increment of increase of subsequent loans; long lending period; immediate repayment requirements (sometimes the day after taking a loan); difficulty of recovering the security deposit; perceived excessive paperwork; inflexibility as to using the security deposit to pay back overdue payments; not being able to transfer between branches easily; and, lack of bonuses or benefits for trusted customers. Note that some of these issues (such as small loan size and small increment in increasing loans) are likely to reflect the relative wealth of BRAC’s client base. Note too that some of these complaints may simply reflect appropriate caution required before lenders allow borrowers to take on more debt.

Second, there are widespread complaints as to the behavior of the credit officers. Problems include extracting ‘thanks money’ from clients in return for renewing loans (forbidden by BRAC); not returning all the repayments collected; stealing money; taking loans out in clients’ names and then running off; making it difficult for clients to take their security deposit; and, finding numerous ways of extorting funds from clients. These reflect problems of staff ethics which are reported across the sector.

The final issues are the language difficulties. At the time that the research was conducted, hardly any of BRAC Tanzania’s Bangladeshi microfinance staff spoke Swahili well enough to talk to their clients. These staff were entirely dependent upon their credit officers and branch managers to understand what their clients want. Even where all the parties speak English these interactions can be problematic because of the frequently low levels of English among all concerned. This is why the dramatic increase in more senior Tanzanian staff could be so important for the organisation.

As a result of the language barrier mid-level staff faced significant challenges. It was difficult for them to listen to their clients’ needs and problems. Two examples capture the difficulties the organisation faces. One was related by a monitoring officer who described an area manager speaking to a group of clients and the credit officer was translating. When the clients asked the credit officer what the manager had been saying she replied that they were not to delay when paying ‘thanks money’. The second, and more poignant case reported was that of a client who repeatedly tried, and failed, to leave BRAC and have her security deposit returned to her. In the end she disappeared for some time, leaving her security deposit. On her return she was asked (in Swahili) by the credit officer whether she wanted to take out a new loan. ‘No’, she replied (in English) ‘I have been improving my English. I want to speak to the Area Manager so that I can get my security deposit back’.

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22 Senior staff means from the Area Managers upwards. Only 6 out of 24 Area Managers are Tanzanian.
23 This was relayed to Dan Brockington by the credit officer who had been obstructing her attempts to regain the security deposit.
We cannot leave the story there however. If we present a picture of BRAC’s hard working clients let down by the staff (and by implication management) failings of the company this would not be accurate. For BRAC’s clients are also finding ways to twist BRAC’s systems and practices so that they work better for them – for they have found ways to take out multiple loans.

If the business of borrowing money can become too tiresome then, instead of simply leaving BRAC (with attendant difficulties of recovering the security deposit) then a common response of clients is not to take out more loans, but nonetheless to remain in the organisation (as they say in Swahili ‘tunapumzika’ – ‘we rest’). Commonly these clients effectively ‘sell’ their loan taking ability to other group members. Woman A will take the loan, but will give it to woman B (for a small sum). Woman B may in fact also be taking loans in the name of women C, D and E. Taking multiple loans is a widespread practice. It provides benefits to the woman whose name is used (she is paid a small fee by the person who is actually using the loan) and it provides a form of social support – a relatively painless way of doing a friend or relative a favour. For those taking the extra loans this behaviour allows them to access a loan commensurate with their business needs and circumvent the tiresomely small loans that BRAC’s microfinance programme offers even to well established customers.

Multiple loans are hard forms of behaviour to detect. Dan Brockington’s observations suggest that they could account for between 10 and 25% of all loans. But it can be very irregular – absent in some microfinance groups and prevalent in others. Moreover they are more likely to occur among the stable and well-behaved groups who create fewest costs and most surplus for BRAC. Taking loans for other people is a form of trust, and this builds up most strongly in these well-behaved groups. In other words it is likely to be a feature of the more successful clients and branches.

Multiple loans are not allowed by BRAC’s microfinance programme. It is already making a considerable effort with its monitoring, auditing and branch managers’ supervision to detect and prevent multiple loans. Indeed, the transaction costs of trying to detect multiple loans more vigorously may be prohibitively high for both BRAC and for members. However we have not heard good reasons for this prohibition from senior BRAC staff. We have been told that loans were given for clients’ own self-development and not to pass on to other people. But passing on loans is indeed a form of self-development. It builds social capital, provides some immediate return (the payment from the person receiving the money) and improves access to larger loans later. It shows just how innovative these microfinance clients are.

This poses a challenge to BRAC microfinance however, as were this practice to cease, and outstanding loans in a branch be cut by between 10 and 25% of current levels, then it would substantially threaten the business model of the organisation. BRAC’s microfinance programme would be earning interest on far fewer loans, and some of its groups might become too small to function well.

Let us state this more baldly. Without clients taking multiple loans BRAC’s microfinance programme is likely to create much less surplus than it currently is. Moreover the incentives
not to act on this issue reach right down to the roots of the organisation. It was clear from this research that credit officers are aware of it and turn a blind eye. After all it provides an added opportunity to extract thanks money. Branch managers (all themselves former credit officers) will be well aware that it could be happening, but must be careful that they are not to zealous in their attempts to expose it. For it would necessitate considerable disciplinary action and make it harder for them to reach their targets.

Explaining the Conundrum 3: The views of BRAC’s staff

Interviews with BRAC staff provided further insights into the state of the organisation. First, both senior and junior staff confirmed many of the problems of which their clients complained. Junior staff told Dan Brockington about the ‘thanks money’ they extracted. They could not hide the fact that their colleagues had absconded with clients’ (and sometimes fellow credit officers’) money. Credit officers would persuade clients to take out loans in their name, and then give the money to the credit officers, only to disappear before the loan had been repaid, leaving the client to complete the repayments. And many credit officers were quite clear that it was standard practice to make it difficult for clients to leave BRAC by making it harder for them to pick up their security deposit.

Area and regional managers we interviewed (then all Bangladeshi) also complained about the weaknesses of their junior colleagues but expressed it in a slightly different idiom. Their complaint was about the probity and quality of their junior Tanzanian colleagues, particularly in comparison to their equivalent staff in Bangladesh. Tanzanian colleagues were frequently said to be not as ‘serious’ about their jobs as equivalent staff in Bangladesh. Their work ethic was said to be weaker, they were not committed to BRAC as an organisation, and they were less trustworthy. This perceived better performance was often attributed to the family ties and duties that are perceived to be much stronger in Bangladesh than Tanzania. Dan Brockington was told that these family ties would make some forms of behaviour and corruption virtually impossible in Bangladesh. In particular it would make it extremely difficult for staff to risk cheating clients, or worse disappear or abscond with money. To do so would bring a collective blight on your family. BRAC senior management also complained on the other hand that their junior staff were too willing to leave their jobs and seek further education, or simply not appear to want to stay with the organisation for life, as many of them were expecting to.

However interviews with the credit officers also threw more light on why they might not value their jobs with BRAC particularly highly. Credit officers complained of low levels of job satisfaction, low pay and stressful conditions. Some have had to make up shortfalls in loan repayments from their own salary – and it has been frequently reported that their salary is forcibly deducted to cover overdue payments. They are shouted at in public and before clients by managers, which is not culturally acceptable in Tanzania.

BRAC cannot be held responsible for all these difficulties. Running microfinance groups is hard work. The better staff frequently told Dan Brockington how strict you had to be all the time – insisting on repayments, fining for non-attendance or being late. They were extracting
money from relatively poor people and that will always be hard. Unless credit officers were
tough the groups would get the better of them. If one client is let off a repayment then all
clients will expect the same treatment. Good credit officers were known for how well their
groups performed. In that respect being a credit officer is rather like being a teacher, if you
are effective, your classes will be well behaved, if not they will give you the run around.
Some of the dissatisfaction Dan Brockington heard was simply the complaints of credit
officers who could not handle difficult groups.

But other aspects were within BRAC’s purview to tackle. Wages could be more competitive,
and would have to be if they were to attract better qualified Tanzanians. There was a lot of
dissatisfaction with being shouted and sworn at in public. It was clear this was an issue
across the organisation, if not in every area. And it offended all Tanzanians, clients and staff
alike. Dan Brockington has witnessed clients comforting their (corrupt) credit officers after
they had been shouted at.

Another issue which BRAC might be able to tackle is the vulnerability of credit officers’ jobs.
They have short term contracts which makes them feel insecure. The last problem is clear in
HR data for credit officers (Table 5). Between January 2012 and April 2013 10% of
microfinance credit officers lost their jobs, and a further 15% of staff left on their own accord.
Without comparative data from other microfinance organisations we cannot tell whether this
level of turnover is unusual. But losing one in four employees over a 15 month period is
likely to be high, as is sacking one in ten. These data suggest that credit officers feeling of
insecurity and vulnerability are well-founded.
Table 5: Loss and Retention of Microfinance Credit Officers Jan 2012-April 2013

<table>
<thead>
<tr>
<th>BRAC Region</th>
<th>Area</th>
<th>Left / Resign</th>
<th>Sacked</th>
<th>In post</th>
<th>Total</th>
<th>Retention rate</th>
<th>% of staff sacked</th>
</tr>
</thead>
<tbody>
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<td>Arusha</td>
<td>Arusha E.</td>
<td>7</td>
<td>4</td>
<td>29</td>
<td>40</td>
<td>73%</td>
<td>10%</td>
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<td></td>
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<td>5</td>
<td>3</td>
<td>19</td>
<td>27</td>
<td>70%</td>
<td>11%</td>
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<tr>
<td></td>
<td>Manyara</td>
<td>5</td>
<td>2</td>
<td>30</td>
<td>37</td>
<td>81%</td>
<td>5%</td>
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<td>DSM C.</td>
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<td>9</td>
<td>20</td>
<td>34</td>
<td>59%</td>
<td>26%</td>
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<td></td>
<td>DSM N.</td>
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<td>3</td>
<td>21</td>
<td>30</td>
<td>70%</td>
<td>10%</td>
</tr>
<tr>
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<td>9%</td>
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<td>8</td>
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<td>42</td>
<td>62%</td>
<td>19%</td>
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<td></td>
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<td>26</td>
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<td>8%</td>
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<td></td>
<td>Tanga II</td>
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<td>19</td>
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<td></td>
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<td>1</td>
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<td>Shinyanga</td>
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<td>2</td>
<td>19</td>
<td>23</td>
<td>83%</td>
<td>9%</td>
</tr>
<tr>
<td></td>
<td>Tabora</td>
<td>2</td>
<td>5</td>
<td>23</td>
<td>30</td>
<td>77%</td>
<td>17%</td>
</tr>
<tr>
<td>Zanzibar</td>
<td>Zanzibar</td>
<td>4</td>
<td>1</td>
<td>31</td>
<td>36</td>
<td>86%</td>
<td>3%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>124</strong></td>
<td><strong>82</strong></td>
<td><strong>607</strong></td>
<td><strong>813</strong></td>
<td><strong>75%</strong></td>
<td><strong>10%</strong></td>
</tr>
</tbody>
</table>

But perhaps the most damning evidence of problems in performance are visible in the lack of change in key measures of microfinance branch performance as staff experience grows. Figure 12 below shows the experience of credit officers in each branch against change in borrower numbers and outstanding loans (both compared to previous 2 months), levels of surplus and surplus as a proportion of the outstanding loans. Each dot on the graph represents one month's data for one branch.
Figure 12: Branch performance against years of credit officer experience (x-axis): A. Change in borrower numbers; B. Change in current principal; C. Surplus each month; D. Surplus as a proportion of outstanding loans.
If credit officers’ performance improved with experience then we should expect to see upward trends on all those graphs. In fact experience appears to make no difference to performance. This indicates that staff are not learning and that BRAC is not improving the performance of its credit officers. Once again, we must stress that this is not necessarily a feature of BRAC alone. These sorts of failings are common across the sector and are, according to the Financial Sector Deepening Trust, reported by numerous microfinance organisations. The Human Resource environment of Tanzania therefore is challenging. It is clear however that BRAC was yet to respond effectively to those challenges in Tanzania at the time of this research.

Managing Microfinance

The clear implication however of these HR data, and the widespread complaints from the groups attended is that BRAC was not managing its junior staff effectively. The language difficulties of the time meant that the organisation mid-level management are entirely reliant on their junior staff to implement any changes and any of the organisation’s policy. But they could not tell what their staff are saying to their clients or what their clients wish to say to them. This made it difficult for the senior management to implement organisation policy and any changes.

We do not have sufficient data to comment on how management practices vary within the country. That would require more interviews with more branch, area and regional managers, and with their staff, to see what difference management approaches produced in terms of branch performance. It would require a different sampling strategy, that was based on the varied branch performance data (Brockington did not gain access to the branch level trend data until late in the study).

It is, however, possible to observe some patterns in these data which suggest further research possibilities. One of the intriguing patterns which emerges is the difference between branches into those that were supervised by Tanzanian Area Managers and those that were supervised by Bangladeshi Area Managers. Sorting the three groups of branches (Strong, Weak and Young) by the nationality of the area manager produces five subgroups:

The Strong group can be split into two: a really strong collection run by Bangladeshi managers outperforms another strong group of branches run by Tanzanian area managers.

The Weak group also divides into two, with a Tanzanian area manager doing better in terms of numbers but worse in terms of surplus than the Bangladeshi Area Manager. Note that there is only one Tanzanian area manager in this group.

The Young group remains unchanged. All are supervised by Bangladeshi area managers.

We can see these subdivisions in the figures below. The first, Figure 13, shows average monthly borrower numbers for the five different groups. It shows that underpinning the success of the Strong branches in Bangladeshi run areas is the large size of the branches. Strong branches in areas run by Tanzanian managers can reach similar peaks two years after their strong Bangladeshi counterparts.
After 4.7 years branches in both strong groups begin to lose numbers at equal rates, but note that, from Figure 14, branches in areas run by Bangladeshi managers are able to generate more surplus from very similar numbers to branches run in Tanzanian areas. A key difference here is that
Bangladeshi Area Managers are better able to keep expenses down, per borrower, than Tanzanian Area Managers (Figure 15).

**Figure 15: Average expenses per borrower for Strong branches run by Tanzanian and Bangladeshi Area Managers**

Clearly therefore the best performing branches were those run by good Bangladeshi area managers. But most of the good branches were in fact run in areas managed by Tanzanian managers (16 of the 29) and, nearly 75% of branches in areas run by Tanzanian managers were Strong, moreover they were always either all strong, or all weak. Whereas only four Bangladeshi area managers (of 24) have Strong branches, and these are mixed with other more variable branches (Table 6).
Table 6: Distribution of Area Performance

<table>
<thead>
<tr>
<th>Bangladesh AMs</th>
<th>Weak</th>
<th>Strong</th>
<th>Young</th>
<th>Tanzanian AMs</th>
<th>Weak</th>
<th>Strong</th>
<th>Young</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dar es Salaam South</td>
<td>4</td>
<td>-</td>
<td>1</td>
<td>Arusha East</td>
<td>5</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Dar es Salaam North</td>
<td>5</td>
<td>-</td>
<td>-</td>
<td>Tanga-2</td>
<td>-</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td>Dar es Salaam</td>
<td>5</td>
<td>-</td>
<td>-</td>
<td>Korogwe</td>
<td>-</td>
<td>4</td>
<td>-</td>
</tr>
<tr>
<td>Zanzibar</td>
<td>7</td>
<td>-</td>
<td>-</td>
<td>Mwanza-2</td>
<td>-</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td>Arusha West</td>
<td>1</td>
<td>-</td>
<td>3</td>
<td>Mara</td>
<td>-</td>
<td>4</td>
<td>-</td>
</tr>
<tr>
<td>Manyara</td>
<td>-</td>
<td>-</td>
<td>5</td>
<td>Singida</td>
<td>-</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td>Dodoma</td>
<td>2</td>
<td>-</td>
<td>3</td>
<td>Total</td>
<td>5</td>
<td>16</td>
<td>0</td>
</tr>
<tr>
<td>Mbeya</td>
<td>-</td>
<td>4</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Iringa</td>
<td>1</td>
<td>-</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rombo</td>
<td>1</td>
<td>-</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hai</td>
<td>3</td>
<td>-</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kilimanjaro</td>
<td>1</td>
<td>-</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Morogoro</td>
<td>-</td>
<td>4</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tanga-1</td>
<td>1</td>
<td>3</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mwanza-1</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kagera</td>
<td>1</td>
<td>-</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tabora</td>
<td>-</td>
<td>-</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shinyanga</td>
<td>-</td>
<td>-</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>34</strong></td>
<td><strong>13</strong></td>
<td><strong>44</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

It is hard to interpret these patterns. It could be a function of the smaller size of these areas: areas run by Tanzanian managers have fewer branches (three to four). Other areas have at least five branches. It is possible also that these areas have been deliberately selected for new Tanzanian area managers because they were relatively straightforward to run, as all of these area managers will have been taking on these responsibilities for the first time. It could be an indication that BRAC has been able to train up and effectively support strong local staff. And it could also reflect the fact that Tanzanian Area Managers enjoy effective management skills because they are better able to communicate with their clients and better supervise the actions of their credit officers. Whatever the explanation it certainly makes the new appointment of many more Tanzanian mid-level managers an exciting and important development. To this we now turn.

The staffing transformations in BRAC Tanzania’s microfinance programme

BRAC senior management has been aware of the need to have more Tanzanians in place in area and regional management for some time. However it was proceeding cautiously, some observers felt too cautiously, because of unpleasant experiences, and large-scale losses occasioned poor Tanzanian managers. It continued to invest however in the training and placement of Tanzanian required to fill management positions.

In August 2013, just as this research was completing, there was a change in the country leadership. There was a restructuring of the microfinance programme, the 24 areas were re-organised into 28, the 8 regions into 10, (the number of branches remained unchanged). Thereafter a much more rapid programme of appointing Tanzania managers was put into place.

The changes have been dramatic. Whereas once 6 of 24 area managers were Tanzanian (25%) now 24 of 28 are (86%). A further 20 new area managers are trained up ready to fill vacancies should they
arise. Whereas there were once no regional managers who were Tanzania, now two out of ten are. Moreover five of the ten regional accountants are Tanzanian (up from zero).

These changes are not simply the product of new leadership. The training in preparation for it has been going for some while – and BRAC has spent over $350,000 in such training. However the speed of its implementation is remarkable. All this has happened in just 10 months.

These changes could date this research rather rapidly. In the long duree this work can be seen to have been undertaken at a particular moment in BRAC’s history in Tanzania. That history comprises both rapid growth, and coming to terms with staff capacity problems that have seen incidences of corruption and mismanagement. Our research was carried out at just as BRAC finished adjusting and putting measures in place to cope with those problems, and just before it rolled out a series of staffing changes that built on these previous adjustments.

It remains to be seen what difference these changes make. It might well be possible that Tanzanian area managers will help initiate a new period of growth and improve client satisfaction. It might be that their installation has been too fast, and some have had to take on troubled regions which require more experience to manage well. It will take time for these changes to take effect more generally, but it will be very interesting to observe what difference it makes.

Conclusions

The rapid growth of BRAC’s microfinance programme is providing a highly valued and important service to tens of thousands of Tanzanian women who would not otherwise be able to afford these loans. These women are sustaining their families, educating their children, growing their businesses and building their houses because of this highly valued work. The rapid growth of the programme reflects therefore the unusual, if not unique service it is providing. It has found a gap in the market; the gap has embraced it.

However, despite these genial conditions not all of BRAC’s branches have been able to flourish equally strongly. A minority are thriving, but two larger groups have either remained small or present considerable difficulties. Success and failure hinges on the number of borrowers at each branch. Interviews with clients and BRAC staff suggest that the loss of clients was driven by dissatisfactions arising from the performance of staff. This in turn reflected the problems that BRAC has had in coping with generic difficulties common to the entire microfinance sector in Tanzania.

A remarkable peculiarity about the programme in this respect was that, at the time this research was undertaken, so few of the senior management, and particularly the area managers, are comfortable working in Swahili. This made it difficult for clients to communicate with them. They were almost entirely reliant upon their more junior Tanzanian staff to do so. Note, interestingly, that Swahili is not a fundamental requirement for strong performance. There are branches that thrive despite these language difficulties. Nevertheless BRAC was not helping itself by still struggling with language barriers seven years after beginning to work in the country. The recent promotion of large numbers of Tanzanian staff to more senior positions may make it much easier for BRAC middle management to cope with the problems and practices of junior staff. Prior to these new appointments there was clearly a cadre of capable area managers emerging within BRAC, who are clearly being well trained and supported.
We have also seen that, despite these difficulties, Tanzanian clients are adept at making BRAC’s programme work for them. There is a core of strong branches who are not likely to show any declining performance with age. There is in other words, a great deal of good work to build upon and continued demand for it.
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