



BRAC Case Study
Conducted by TriLinc Global

Company Description:

Large NGO dedicated to eliminating hunger and poverty. BRAC (Bangladesh Rural Advancement Committee) believes that poverty must be tackled from a holistic viewpoint, transitioning individuals from being aid recipients to becoming empowered citizens in control of their own destinies. Over the years, BRAC has organized the isolated poor, learned to understand their needs, piloted, refined and scaled up practical ways to increase their access to resources, support their entrepreneurship, and empower them to become active agents of change. Women and girls have been the central analytical lens of BRAC's anti-poverty approach, recognizing both their vulnerabilities but also their thirst for change. Today in Bangladesh alone, BRAC works to combat poverty in 70,000 villages and 2000 slums, and reaches three quarters of the entire population with an integrated package of services for rural and urban communities. BRAC employs more than 100,000 people - microfinance officers, teachers, health staff, and enterprise managers - to be on the very doorstep of the poorest families making our services accessible, relevant and adaptable. BRAC has learned over time to find the poorest of the poor - those who are destitute and outside the reach of most NGOs - and help them rebuild their lives from scratch and achieve financial independence.

Company Type:	Investor	Intermediary / Provider	MFI
	X		X
Relevant Principle(s): <i>(Check all that apply)</i>	X	1) Risk Mgmt is a shared responsibility among MFIs, Investors and Donors	
	X	2) Measuring risk is a central part of measuring performance	
		3) Adopt a comprehensive approach to managing balance sheet risks	

Headline:

MFI obtains lower cost capital through microcredit securitization made possible by measuring risk for Investors.

Problem Statement:

How could BRAC raise funding at lower costs than bank loans in order to maximize their social mission impact?

Summary:

MFI was seeking to raise funds, the lower the cost the better, in order to continue growing in size, scope, and effectiveness. Having built up a strong track record and pipeline of reliable loan repayments, the possibility was realized to create an innovative financial solution.



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Take Away / Lesson Learned:

KEY BENEFIT: MFI was able to raise \$180 million USD at 200 basis points lower financial cost than bank loans.

- 1) Detailed portfolio analytics is critical for performance, raising capital, and effective mission achievement.
- 2) Anything is possible, including Microcredit Securitizations.

Body of the Case:

BRAC was able to launch the world's first Microcredit Securitization, receiving USD \$180 million in financing over 6 years as of 2006. This was made possible by the very large pool of microloans serviced by BRAC with over 90% full on time repayments. During the transaction, a special purpose trust was created to purchase BRAC's receivables from its microcredit portfolio and issue certificates to investors. FMO purchased one-third of the certificates while Citibank, backed by a FMO guarantee and a KfW counter-guarantee, purchased another one-third. The remaining one-third went to Citibank, N.A. Bangladesh and two other Bangladeshi banks. This groundbreaking securitization would not be possible without ongoing, sophisticated portfolio analytics with sufficient transparency and standardization to enable such an investment. The financing cost of this deal was around 12%, about 200 basis points lower than BRAC's traditional source – bank loans.

Application of Principle:

- 1) Risk management a shared responsibility in this case between multiple donors and investors, predicated on BRAC's proven track record, and ongoing maintenance, of sound lending practices and excellent repayment history, coupled with precise data monitoring, reporting, and analytics.
- 2) The quantification of risk, or lack thereof, in BRAC's portfolio of microloans provided the performance metrics needed to make securitization possible.

Replicable Practices:

- 1) Large pools of microloans with proper portfolio analytics and reporting can be made into securitizations.
- 2) Nations need legal and regulatory framework in place to enable such.
- 3) Any MFI large or small can implement the same portfolio analytics and risk management systems as BRAC, the technology is very affordable and scalable.