

## Case Study

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By Kim Jonker

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# Action Case Study

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IN 1972, BANGLADESH WAS IN SHAMBLES. Two years earlier, a devastating tropical cyclone had ripped through the country, killing nearly half a million people and establishing itself as one of the deadliest natural disasters in modern times. A few months later, the Bangladesh Liberation War broke out. Fought to establish the independence of Bangladesh from Pakistan, the war claimed hundreds of thousands of lives and sent roughly 10 million people fleeing to India. When Pakistan surrendered in December 1971, many of these refugees flooded back to Bangladesh, where they found their homes destroyed, their jobs gone, and their economy in ruins.

But Fazle Abed had an idea for how to help. Born and raised in what is now Bangladesh, Abed had spent most of the 1960s in the United Kingdom. There he studied accounting and business as an undergraduate and then worked as a corporate financial officer for Shell Ltd. Abed was in Bangladesh during the cyclone but returned to London during the Liberation War to generate support for the independence of Bangladesh. When the war ended in 1971, he decided to come home. "Being confronted with the massive devastation of the cyclone was a life-changing experience, compounded by the Liberation War," he says. "Ultimately, I decided that I wanted to devote my life to helping my people." Abed left his comfortable life and returned to a remote area of northeastern Bangladesh. He used the proceeds from the sale of his flat in London to establish the **Bangladesh Rural Advancement Committee (now called BRAC)**.

BRAC's **first mission was to meet the immediate needs** of war refugees. In some 200 remote villages, the organization built houses, established health clinics, distributed food, and gave boats to fishermen who had lost theirs in the cyclone. Within a year, the organization had moved most of the refugees out of crisis. Yet the people remained impoverished, and vulnerable to becoming more so.

So BRAC set about **building businesses that would not only help its clients become self-sufficient, but also keep the organization and its numerous programs afloat**. BRAC's first social enterprise was a printing press that supplied books and other printed materials to the organization's schools and education programs. Owning a press was a way to cut printing costs and to reclaim the profits that the private sector was previously getting. At the same time, the

business provided jobs and valuable job training for BRAC's clients, serving the organization's mission to alleviate poverty. In its first year of operation, the press made \$17,400 in profits. By 2007, it was generating \$340,000 in profits.

Now BRAC is the largest nonprofit in the world, reaching 110 million people annually through its health, education, and economic development programs. The organization generates **80 percent of its \$485 million budget from its social enterprises**, which include



PHOTOGRAPH COURTESY OF BRAC

microlending institutions, craft shops, printing presses, and dairy projects. BRAC's successes resonate throughout the country and the world: Major international organizations such as the World Bank credit BRAC and other nongovernmental organizations with turning Bangladesh around economically, in spite of the country's weak governance (two former prime ministers, Sheikh Hasina and Khaleda Zia, are in jail on charges of corruption). Bangladesh is now enjoying such strong economic growth that it could join the ranks of middle-income countries by 2016, the World Bank projects.

Many in the United States are skeptical about social enterprises, pointing out that most are unprofitable and that few nonprofits can sustain themselves solely through income-generating activities. Yet BRAC has managed to buck the trends. Its social enterprises have reaped enormous profits while also benefiting the organization and its clients. BRAC has succeeded by honing the fundamentals of social enterprise: build a strong organization first, choose businesses

*In rural Bangladesh, a BRAC representative discusses the organization's social enterprises and nonprofit programs with an entire village.*



#### CASE STUDY QUESTIONS:

What are social enterprises good for?

What are the building blocks of successful social enterprises?

How should non-profits choose which businesses to pursue?

wisely, know when to let go of struggling businesses, and listen closely to stakeholders.

#### WHY ENTERPRISE?

Social enterprises are trendy, and with good reason. They can give clients jobs, job training, and even markets for their products. In addition, social enterprises can generate surplus cash and thereby secure a reliable funding stream for non-profit programs. More money, in turn, means more fuel for growth.

Growth was particularly important to Abed because the population of Bangladesh had tremendous unmet needs. "The *entire* country was destroyed," he explains. "How could I focus on only one region when all the others also had great needs? It became clear that we needed to scale BRAC's programs across the country." Although BRAC was attracting donations and foreign aid in its early years, Abed did not want to rely on these sources, because they can be unreliable and even fickle.

Moreover, **charitable funding would not support the innovations and experiments that BRAC needed for growth.** "Typically, donors only like to fund things that have already been tested and will work," says Abed. "But pilots are critical for us so we can know what will work and what will not, so that we can grow responsibly and in the right ways."

**By generating its own income, BRAC could freely try out new ideas.** For example, BRAC used the profits from its printing press business to pilot a novel oral rehydration program. The program was effectively a nonprofit public health program to teach parents how to make an electrolyte-rich fluid for children with diarrhea. The fluid prevents dehydration, which proves deadly to many millions of children in the developing world every year. BRAC initially trained 4,000 oral rehydration workers (ORWs) and then sent them out to educate some 30,000 families. Accurate and effective teaching was extremely important because if parents gave their children too much of the solution, the children could get even sicker. So BRAC rewarded the ORWs with a performance-based incentive system: The more each parent remembered, the higher the ORW's salary. Over the course of 10 years, BRAC's oral rehydration program reached 14 million of Bangladesh's 19 million households. The program is widely believed by the public health community to have played a major role in halving the country's infant mortality rates, with government surveys showing that 70 percent of families in Bangladesh use BRAC's oral rehydration solution to treat diarrhea.

Emboldened by the oral rehydration program, Abed realized that BRAC could use funds from social enterprises to pilot and spread other types of programs throughout Bangladesh. While the oral rehydration campaign was in full force, BRAC launched its second social enterprise, the Aarong Craft Shops. Aarong helps 65,000 rural artisans market and sell their handicrafts and has become the most popular handicraft marketing operation in Bangladesh. Using revenues from Aarong, BRAC began testing microfinance and primary education initiatives. When the oral rehydration campaign concluded in the 1990s, BRAC was ready to scale up its most successful microfinance and education programs.

Today, BRAC's integrated health, finance, and education programs



are active in 70,000 villages in all of the 64 districts of Bangladesh, reaching an estimated 75 percent of the entire population. Its health programs serve more than 92 million people, its microfinance programs assist more than 7 million borrowers, and its education programs reach more than 1.5 million children.

### BUILD INFRASTRUCTURE FIRST

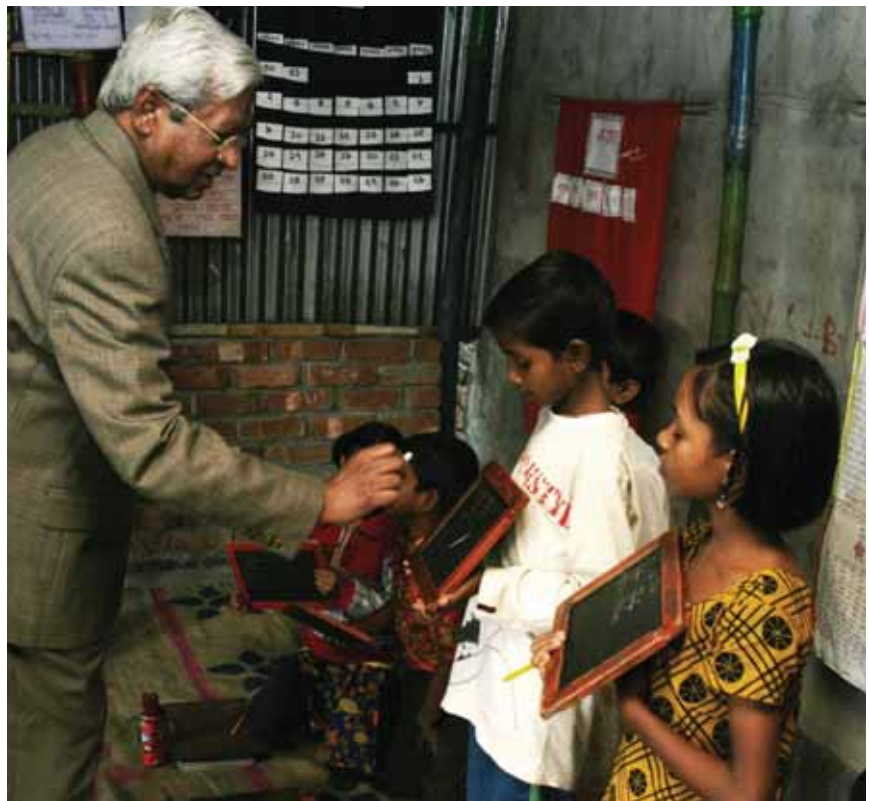
Despite the later successes of BRAC's social enterprises, Abed knew better than to dive immediately into the business of business. Instead, **BRAC spent most of its first decade building its infrastructure**, which now includes a training department, an evaluation department, an internal audit department, and a logistics department. "My background in business and finance helped me understand the importance of having the right infrastructure and management systems," Abed explains. "For example, from my work with Shell, I came to appreciate the importance of budgeting and monitoring, and I understood that BRAC needed to create a solid internal audit department and lay the necessary groundwork for running businesses."

Consequently, BRAC weaned itself from donations very slowly. Established in 1974, BRAC still received all of its funding from donors in 1980 (see "The Slow Growth of Income" on page 77). Even 11 years later, BRAC generated only 3 percent of its total budget through social enterprises. Only 25 years after its founding was BRAC earning most of its funding through its businesses. "Somewhat ironically," notes Abed, "as we become less needy of donor funding we become even more attractive to donors."

As BRAC expands, it leans heavily on its organizational foundation. Take BRAC's training department. BRAC established its training division in 1978, when the organization had fewer than 300 staff members and revenues of less than \$1 million. Over time, the training division became responsible for the professional development of all BRAC staff, fostering an entrepreneurial, business-oriented culture. For example, BRAC developed a middle-manager training program that teaches analytical skills and includes a social venture plan competition. BRAC has pursued numerous social venture ideas that arose out of this competition, such as a model high school. The organization currently devotes roughly 10 percent of its personnel budget to training. It also continually updates its programs, with recent offerings such as *Management Skills* and *Effective Meetings*.

"Many other nonprofits get trapped doing short-term program work and use a lot of short-term contract workers," says Abed. "These nonprofits don't build their organizations to do bigger things. I decided early on that for BRAC to serve the nation and conduct successful social enterprise we needed to train people."

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BRAC founder Fazle Abed does the numbers at a school his organization runs. Soon high-speed Internet will supplement existing technologies.

PHOTOGRAPH COURTESY OF BRAC

BRAC's internal audit and financial monitoring department also smoothes the path for sustainable social enterprises. In 2007, for instance, the department conducted internal audits in 5,011 locations. When the department audited the microfinance program, it found that some branch managers were giving a second loan to clients who could not pay back their first loan. Because of this finding, BRAC computerized its entire microfinance program so that it could more closely monitor all of its loans and curtail ineffective practices.

In recent years, BRAC has expanded into Afghanistan, Sri Lanka, Sudan, Tanzania, and Uganda. As was the case in Bangladesh, the organization is **first building strong organizations and saving the launch of social enterprises for later**. "BRAC needs time to connect with the needs of the people in these countries," explains Abed. "It takes at least five years of operating on the ground before it is possible to discern the needs of the people and to assess social enterprise opportunities."

### CHOOSE BUSINESSES WISELY

Having built a strong organization, BRAC next considered which businesses to pursue. The nonprofit was and remains very choosy about the types of businesses it launches, using **three criteria to judge potential enterprises**. First, the enterprise must align with the organization's mission to help lift people out of poverty with job training, income, capital, and improved health. Second, it must

complement BRAC's existing programs. Finally, the business opportunity must meet a market need.

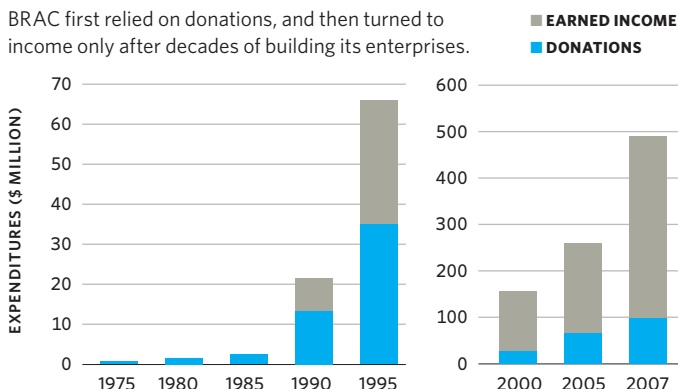
In 1990, for instance, BRAC began making microloans to poor women who wanted to raise milk cattle. But when Abed met with one of the program's borrowers, she revealed that she was having a hard time getting the milk to market, and that even when she could, she received only one-third of the price that milk sellers received in Dhaka, Bangladesh's capital.

So in 1998 BRAC established the BRAC Dairy, which primarily purchases and markets the milk that its microlendees produce. To collect and process the milk for the dairy, BRAC has set up 80 milk-chilling centers across Bangladesh. The BRAC Dairy and milk collection centers employ more than 500 people. In 2007, the project generated \$1.15 million in surplus cash, which was enough not only to support the workers and dairy farmers, but also to expand operations. The BRAC Dairy is also becoming increasingly competitive with other Bangladeshi dairies: Its market share increased from 20 percent in 2006 to 35 percent in 2007.

Meanwhile, BRAC discovered that its borrowers were not profiting much from their cattle—in part because the breeds of cattle to which they had access did not reliably produce much milk. To improve the breeds of livestock throughout Bangladesh, BRAC created an artificial insemination (AI) program in 1998. BRAC operates one bull station and a network of 70 storage facilities across the country, training more than 1,000 AI workers. These workers not only deliver high-quality semen and inseminate cows, but also provide wrap-around services such as vaccination, pregnancy

## The Slow Growth of Income

BRAC first relied on donations, and then turned to income only after decades of building its enterprises.



NOTE: Expenditures is the sum of overhead, program expenditures, enterprise expenditures, and capital expenditures. SOURCE: BRAC

diagnosis, and calf delivery. BRAC pays the workers a fixed fee per insemination, which means that the more work the AI worker completes, the greater is his income. BRAC's AI program generated \$60,000 in profits in 2007. At the same time, it not only granted job skills and income to people across Bangladesh, but also supported the microentrepreneurs, dairy and chilling-center employees, and consumers—many of whom are also poor—further down the value chain.

Similarly, as part of its mission, BRAC wanted to improve teacher training and curricula in its network of more than 50,000 one-room

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rural schools. The organization decided that high-speed Internet access was the best way to get information to teachers. Yet Bangladesh did not have nationwide high-speed coverage. So BRAC partnered with San Francisco-based gNet to create bracNet, which is building Bangladesh's high-speed network from scratch. As with other BRAC-run social enterprises, bracNet is expected to become a sustainable enterprise.

"At the most fundamental level, **all of our social enterprises arise from the needs of our programs and our clients, and they typically address market failures**," Abed says. "Thus it would be impossible for us to develop an enterprise that did not align with our mission and program, because the starting point is always the mission and program."

## KNOW WHEN TO LET GO

**BRAC is picky not only about which enterprises it starts, but also about which ones it keeps.** In the late 1980s, the organization entered the motorized irrigation pump business. According to the business plan, groups of landless borrowers would take out BRAC microfinance loans to buy and operate the pumps, which they would then sell to farmers. The farmers, in turn, could use the pumps to water their crops during Bangladesh's winter dry season, when there is too little rain for farming most crops. By the winter of 1992, more than 700 BRAC pumps covered an estimated 27,000 acres.

Yet trouble was brewing: Rice prices were falling, as were crop yields. Farmers couldn't pay back the pump salespeople, who in turn could not pay back their microloans. In 1996, Abed decided to shut the operation down. "This was a project with far too many moving parts over which BRAC and the pump operators had insufficient control," writes Ian Smillie in a forthcoming book on BRAC. BRAC sold most of the pumps on the thriving private market. Then, using a cash reserve dedicated to the purpose, the organization refunded 100 percent of the payments that borrowers had made on their loans.

Although BRAC has shut down most of its money-losing social enterprises, it sometimes preserves those that make outsized contributions to poverty alleviation. For example, some of BRAC's milk-chilling stations are not collecting enough milk to break even in the near term. Yet the organization keeps the stations open because they are located in extremely poor areas that would suffer greatly from the removal of access to fair prices.

## LISTEN TO THE PEOPLE

Through its many programs, BRAC has established a nationwide network of workers and clients who can guide the creation and management of new enterprises. Its health service alone employs

## Should You Start a Social Enterprise?

The vast majority of nonprofits lack the infrastructure and expertise to launch successful businesses. Is your organization in the minority that's ready for revenue? Here is a guide to help you decide. —K.J.

	MAYBE	NO
<b>You want to launch an enterprise because...</b>	<p>You've managed your nonprofit programs so well that it's time to expand them</p> <p>You understand the benefits and opportunity costs of social enterprise</p>	<p>You like to be on the cutting edge, and all the cool organizations are launching social enterprises</p> <p>A potential funder may give you a grant if you start a business</p>
<b>Your commitment to your mission...</b>	Is laser-like and focused	Is wavering and distractible
<b>Your culture...</b>	<p>Is entrepreneurial and gives staff freedom to solve problems</p> <p>Believes that social enterprise can address market failures</p>	<p>Is bureaucratic and discourages initiative and problem solving</p> <p>Distrusts business and market incentives</p>
<b>Your board and staff...</b>	<p>Have business experience</p> <p>Base their decisions on data and analysis</p>	<p>Lack business experience</p> <p>Base their decisions on instinct</p>
<b>Your operations...</b>	<p>Tend to function smoothly</p> <p>Reflect a long-term strategy</p>	<p>Are often out of control</p> <p>Leave management and staff too overwhelmed to plan ahead</p>
<b>Your monitoring and evaluation systems...</b>	<p>Generate timely, accurate, and thorough information</p> <p>Could expand to include new enterprises</p>	<p>Generate information that tends to be too little, too late</p> <p>Are already overtaxed</p>
<b>Your business ideas...</b>	<p>Align with your mission</p> <p>Complement your existing programs</p> <p>Meet a market need</p> <p>Are likely to generate surplus cash</p>	<p>Do not align with your mission</p> <p>Do not complement existing programs</p> <p>Do not meet a market need</p> <p>Are unlikely to generate surplus cash</p>

70,000 community health volunteers across Bangladesh. BRAC constantly asks workers and clients to suggest ideas for new social enterprises, as well as to offer advice about how to improve established businesses and programs. Microfinance borrowers, for example, must attend a group meeting every week. At these meetings, BRAC staff members record borrowers' feedback and then deliver it to the larger organization.

**Feedback from the field is also a cornerstone of BRAC's monitoring and evaluation activities.** For instance, BRAC regularly conducts focus groups as part of its program assessments. One such focus group led to the creation of BRAC's new Program for the Ultra-Poor, which currently serves 132,000 women. The focus group revealed that some of the poorest families in Bangladesh could not participate in BRAC's microfinance program because they did not have the wherewithal to borrow and repay.

"They needed grants rather than loans," says Abed. And so BRAC designed a program that would "hold the hands" of Bangladesh's poorest 10 percent by giving them grants and stipends for the first two years of their participation, he says. Then, most of the clients "graduate," becoming full-fledged microfinance borrowers.



BRAC combines listening to the people with thoroughly analyzing programs from the top down. Indeed, many consider BRAC to have the best evaluation approach of any nonprofit in the world. Its approach includes both internal program monitoring and external, independent auditing that reports to the audit department, rather than to program heads. This separation ensures that the external auditors' findings are independent of the programs'. In this way, conclusions about the various programs' outcomes and results are more likely to be accurate and unbiased because they are informed

“It takes at least five years of operating on the ground before it is possible to discern the needs of the people and to assess social enterprise opportunities,” says Abed.

by separate, independent sources. This independence is critical in assessing performance, but most organizations do not enforce it.

#### IS BUSINESS YOUR BUSINESS?

Many Americans seem to think that social enterprise exists only in the United States. Yet for the past few decades one of the most successful nonprofit social enterprise organizations has been operating in Bangladesh. That organization, BRAC, shows that nonprofit organizations can launch social enterprises that work on a large scale.

Much of BRAC's success stems from the leadership and expertise of its founder. Recently, Abed has been recognized with several

awards, including the 2007 Henry R. Kravis Prize in Leadership. More than 30 years ago, Abed envisioned an organization that would reach the poorest people in the farthest reaches of Bangladesh. His background in business helped him execute that vision. “Often people are very skeptical of nonprofits running social enterprises, and with good reason: It requires two vastly different cultures to coexist side by side,” says Abed. “Our social enterprises are successful because we run them like businesses while at the same time staying focused on our nonprofit mission.”

Not all nonprofits are in a position to mix profits with programs, however. Organizations that are considering a revenue-generating business should take a hard look at their motivations, organizational cultures, and resources. (For a checklist, see “Should You Start a Social Enterprise?” on page 78.) Upon

reflection, most will find that they should stick to more traditional fundraising, rather than pursuing moneymaking ventures.

For the few organizations ready for business, however, social enterprises can expand their reach, advance their missions, and deepen their capacity to innovate. BRAC's enterprises, for example, have allowed the organization to reach the poorest, most isolated villages in Bangladesh with novel, successful programs that address many different needs at once. They also give BRAC independence from donor funding. This financial independence is indeed very compelling, not only for organizations making their way in the nonprofit world but especially for the clients they serve. ■

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