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Microfinance for Poverty Alleviation and Women Empowerment: A Case Study of Bandhan

Soumali Bose

Abstract
Innovative micro finance approaches have materialized in India over the past decade, involving the provision of thrift, credit and other financial services and products, with the aim to raise income levels and improve living standards. The most prominent among these microfinance approaches is a nationwide attempt, initiated by Non-Governmental Organizations and also by the State, to create links between commercial banks and NGOs and informal local groups. Micro finance is a participative model that can address the needs of the poor particularly women members. “Bandhan Financial Services” what started as a non-profit organization in the Indian state of West Bengal, to alleviate poverty and empower rural women, soon developed into a microfinance institution. Today, Bandhan serves over 6.5 million borrowers in the most under banked parts of the country, mostly women, and operates from over 2000 branches in 22 Indian states. Last year, Bandhan obtained the Indian Central Bank’s approval to set up a bank. Bandhan Bank was launched on August 23, 2015, signaling a new era in Indian banking. This article aims to comprehend the journey and mechanism of Bandhan to address the dual objective of poverty alleviation and women empowerment, in its journey of a decade and a half.

Keywords: Financial Inclusion, Microfinance, Non-Governmental Organizations, Women Empowerment

1. Introduction
Micro finance has become one of the most discussed subjects in the last two decades all over the world. Today micro finance programs and institutions have become increasingly important components of strategies to reduce poverty or promote micro and small enterprise development. Micro finance is a tool for empowerment of the poorest women. It is essentially for promoting self-employment; and it is not just a financing system, but a tool for social change, especially for women. Micro credit is aimed at the poorest, micro finance lending technology needs to mimic the informal lenders rather than formal sector lending. The origin of Micro finance or micro credit can be traced to 1976 when Mohammed Yunus set up the Grameen Bank experiment on the outskirts of Chittagong University Campus of Bangladesh as an experiment. Grameen we mean ‘rural or village’ in Bangladesh language. These Grameen banks provide loans to the poor who do not have anything to put up for collateral. Grameen banks are the largest rural financial institution in Bangladesh. Their lending guidelines and procedures are mainly for women, 97% are women, in terms of clients and Grameen Bank is doing very well.

1.1. Need for Microfinance: Micro finance aims at assisting communities of the economically excluded to achieve greater levels of asset creation and income security at the household and community level. Access to financial services and the subsequent transfer of financial resources to poor women enable them to become economic agents of change. Women become economically self-reliant, contribute directly to the well-being of their families, play a more active role in decision making and are able to confront systematic gender inequalities. Access to credit has long been considered a major poverty alleviation strategy in India. Micro credit has given women in India an opportunity to become agents of change. Poor women, who are in the forefront micro credit movement in the country use small loans to jump start a long chain of economic activity. Micro finance is accessing financial services in an informally formal route, in a flexible, responsive and sensitive manner which otherwise would not have been possible for the formal system for proving such services because of factors like high transaction cost emanating from the low scale of operation, high turnover of clients, frequency of transaction etc. (Vijay Mahajan and G. Nagasri, 1999). Micro finance and Self Help Group (SHG) must be evolved to see that SHGs do not charge high rates of interest from their clients and improve access to those who cannot sign by making their use through thumb impression.

1.2. Bandhan – Building Ties with the Underprivileged

Mr. Chandra Shekhar Ghosh, Chairman & Managing Director, Bandhan Financial Services decided to start a microfinance organization with the goal of lending money to women entrepreneurs who were marginalized by society but were willing to try their hand at a small-scale business. Bandhan (meaning togetherness) was born in 2001 under the leadership of Mr. Chandra Shekhar Ghosh. Five years later, he registered his organization as a non-deposit taking, non-banking financial company (NBFC) with the Reserve Bank of India (RBI), and Bandhan became Bandhan Financial Services Pvt. Ltd. It now provides loans to people in rural and semi-urban India irrespective of gender, though women empowerment remains its primary goal. Even at the inception stage, Ghosh knew that he wanted a long-term solution to poverty alleviation. Mr. Ghosh says, “We wanted to impact the lives of a large number of people who are not able to have food even twice a day. How can we contribute towards their well-being? First, there has to be a stable flow of income; only then can other areas like health and education be taken care of.” Last year, Bandhan obtained the Indian Central Bank’s approval to set up a bank. Bandhan Bank was launched on August 23, 2015, signaling a new era in Indian banking. The main thrust of Bandhan is to work with women who are socially disadvantaged and economically exploited. Bandhan works for their social upliftment and economic emancipation. To achieve the above objective, Bandhan is basically engaged in the delivery of microfinance services to the poor women.

Bandhan has been engaged in the delivery of microfinance service for the last 13 years. The model followed is individual lending through group formation. All microfinance activities are carried under Bandhan Financial Services Limited (BFSL), incorporated under the Companies Act, 1956 and also registered as a Non-Banking Financial Company (NBFC) with the Reserve Bank of India (RBI). The microfinance operations started from Bagnan, a small village which is 60 kms away from the city of Kolkata. In 13 years, Bandhan has travelled a wide geography of 22 States and Union Territories with special focus on eastern and underdeveloped states of North East. Bandhan Financial Services Pvt. Ltd (BFSPL) was established as a society named Bandhan Konnagar (microfinance activities commenced in 2002) and thereafter, in May 2006, it acquired NBFC Ganga Niryat Pvt Ltd (incorporated in 1995) and rechristened it BFSPL. BFSPL was converted to NBFC-MFI in Sep-13. As on September 2013, the shareholders of BFSPL were Financial Inclusion Trust (FIT): 45.9%, North East Financial Inclusion Trust (NEFIT): 10.3%, IFC: 10.9%, SIDBI: 9.6% and Promoters and Associates: 23.7%. FIT and NEFIT are trusts formed in FY09 with corpus donations from Bandhan Konnagar. The beneficiaries of these trusts are public and trustees are industry professionals. BFSPL’s lending methodology involves formation of a group comprising of 10 to 20 poor women from the same area, following a group based individual lending model, wherein a treasurer, a cashier and a secretary are elected (on rotation basis) from within the group. BFSPL is the largest MFI of India operating through a network of 1864 branches, spread over 19 states and has a managed advances base of Rs 4,562 crore as on Sep-13. Its corporate and registered office is in Kolkata, West Bengal. BFSPL reported a profit after tax (PAT) of Rs 208.54 crore in FY2012-13 on total managed asset base of Rs 5703 crore as on Mar-13, as compared to PAT of Rs 188.12 crore in FY2011-12 on total managed asset base of Rs 4926 crore as on Mar-12. Further, BFSPPL reported PAT of Rs. 120.38 cr on total managed asset base of Rs. 5532 crore in H1FY14. BFSPL had a capital adequacy of 21.1% and Gross NPAs of 0.1% as on Mar-13. BFSPL has also undertaken adequate Corporate Social Responsibility (CSR) initiatives; whereby 5% of its profits or Rs. 2 crore (whichever is higher) is donated to the society Bandhan Konnagar for implementing social activities.

1.3. Development Interventions

Bandhan’s commitment towards triple bottom-line values is strongly asserted by its intervention in development activities. It believes that Microfinance is not the last word for development of the poor. Aspiring to holistic development of the poor, Bandhan offers development activities in crucial fields of education, health, unemployment, livelihood and the like through its not-for profit entity. Besides, Bandhan also has a program exclusively for the hard core poor (generally believed to be bypassed by microfinance). In April, 2014, RBI awarded Bandhan Financial a preliminary licence to set up new banks in India. It’s the first microfinance organization in the country to win a coveted bank licence, staving off competition from 23 companies, including corporate giants such as Aditya Birla Group, Larsen & Toubro and Anil Ambani’s Reliance Capital.

1.4. Bandhan – Operative Mechanism

Bandhan, set up in April 2001, has been helping relatively poor people in areas of the country where banks hardly exist, with bulk of the loans ranging from a minimum of Rs 1,000-Rs50,000 invested in small businesses such as zari work, tailoring, fish and vegetable selling, running small provision stores and so forth. Primarily, Bandhan was set up to address the dual objective of poverty alleviation and women empowerment. Even now, it is following the same mandate as an established financial institution. Bandhan primarily lends to women who organize themselves in groups of between 10 and 20 members. The loan is given to the individual members. The group acts as a control mechanism which ensures that members do not make willful defaults.

Bandhan as a banking entity would be access to low-cost current and savings account deposits at five to six per cent, which will reduce its cost of funds and help scale up lending to poor. Bandhan borrows from banks at interest rates as high as 18 per cent, which means it charges 20 to 25 per cent per annum from small borrowers. Bandhan had distinct functional business units with clearly demarcated roles and responsibilities to look after its operational needs Entire model is based on ‘simplicity’ and ‘customer centricity. “A borrower does not come just for a lower interest rate, they come for the relationship.” Bandhan followed a group-based approach for extending financial services. Therefore, the involvement of a co-borrower reduced the risk for Bandhan because the co-borrower put peer pressure on the borrower, which encouraged them to pay on time. The loans were repaid on a weekly, fortnightly or monthly basis.

Table 1.1: Microfinance in West Bengal – Regional Rural Banks and Bandhan

Name of RRB/MFI	No. of SHGs/Groups	Loans Outstanding (March 2007) Rs lakh
Paschim Banga GB	4796	1583.99
Bangiya GB	59194	7576.70
Uttar Banga KGB	8940	1265.20
Sub Total (All RRBs)*	**72930**	**10425.89**
Bandhan (MFI)**	**21891**	**12219.70**

Source: *NABARD, Bandhan Annual Report, 2007*

Although no authentic database is available regarding MFI operations in the state or the districts, it is known that Bandhan has emerged as one of the fastest growing MFIs in the Eastern parts of the country and has been ranked first in India and second in the world on the Forbes list of 50 microfinance institutions in the year 2008. Bandhan, registered as a society, started its microcredit programme in the 2002. By March 2008, it has been operating in 7 states in 31 districts which include all the 19 districts of West Bengal. Bandhan is operating through 16 Divisional Offices, 80 Regional Offices and 502 Branches covering 13104 villages. The growth of loan portfolio of Bandhan has been very impressive. From a very modest figure of Rs 1.2 Crore in the year 2003-04, the loans outstanding have increased to Rs 330.96 Crore in the year 2007-08. 2.6 It is interesting to note that total loans outstanding to micro clients by Bandhan as on 31 March 2007 is more than the loans outstanding to SHGs by all the three RRBs operating in the state of West Bengal taken together. Similarly, in Coochbehar district also, the outstanding portfolio of Bandhan is higher than the SHG linkage portfolio of all banks taken together. This is in spite of the fact that Bandhan has started its operations in Coochbehar district only in the year 2005. The district provides an opportunity to understand why an MFI is able to increase its outreach and depth while the formal financial institutions are not able to reach out to the poor in a comparable manner.

Table 1.3: Microfinance operations of Bandhan at a glance (As on 31 March 2008)

Particulars	Micro Loans	Micro Enterprise Programme	Micro Health Loans
Year of Commencement	July 2002	January 2006	February 2007
No. of groups	43,472	-	-
No. of members	1,017,925	5,424	186
Cumulative loan disbursed (Rs million)	749.12	22.37	0.17
Loans Outstanding (Rs million)	3,205.62	103.57	0.46
Repayment Rate (On time)	99.99%	99.99%	100%

Source: *Annual Report, 2008*

1.5 Microfinance Products of Bandhan

Bandhan currently offers three loan products to its clients. It has also tied up with Life insurance Corporation (LIC) to provide insurance cover for the entire loan amount availed by the clients in case of death. A brief description of its loan products is given below

- **Micro Loans**

Bandhan gives micro loans to its clients for a uniform tenure of one year. It follows a group based individual lending approach adapted from ASA, Bangladesh. A group of 10-25 women is formed who are expected to meet regularly every week. A member becomes eligible for her first loan from Bandhan after she has attended two successive group meetings. Loans are disbursed individually and directly to the borrowers. The group has an important role in recovery of installments from the member severy week. The target group of Bandhan for its microloan programme comprises poor women from rural and urban areas.

The terms of loans are as follows:
(i) The first loan is between Rs 1000 and Rs7000 for the rural clients and between Rs 1000 and Rs 10000 for urban clients.
(ii) Subsequent loan is Rs 1000 to Rs 5000 more than the previous loan
(iii) The loan is to be repaid through 45 equal weekly installments within 52 weeks (one year). There is a grace period of 7 weeks.
(iv) Interest rateis 12.50% per annum calculated on flat rate basis
(v) A Security Fund equal to 10% of the principal amount is collected from the borrowers at the time of sanctioning the loan. No interest is offered by Bandhan on this security fund. However, if the spouse of the borrowers expires during the currency of loan, Bandhan gives her a grant of Rs 3000.
(vi) The Security Fund is returned to the borrower on the day she pays the last loan installment. In addition a Risk Fund equal to 1% of the principal amount is collected from the borrower to provide insurance cover to the outstanding portfolio of the client in the event of her death. This insurance cover is provided by Bandhan through LIC

- **Micro Enterprise Programme**

The Micro Enterprise Programme Has Been Started by Bandhan in January 2006. The Micro Enterprise Programme Aims At providing individual loans for undertaking micro enterprises to the clients who after taking one cycle microloan have reached a stage where they need high amounts of microenterprise loans. Under this programme 80% of the borrowers are those micro loan clients who have graduated to taking up microenterprises. Loans are required to be invested in existing enterprise. The client should directly be involved in running the enterprise. It is also stipulated while sanctioning the loan that the client should generate employments opportunity for at least one poor person in her vicinity.

Important product features are as follows:
(i) The first loan ranges from Rs 20,000 to Rs 50,000 with an increase of Rs 5000 for every subsequent cycle.
(ii) Disbursement and repayment in cash.
(iii) Repayment in 1 year by 45 equal weekly installments.
(iv) Grace period of 7 weeks – 3 weeks on medical grounds and 4 weeks for important religious/social events.
(v) Rate of interest is 12.50% per annum calculated on flat rate basis.

- **Micro Health Loans**

Realizing that many clients used the micro loans given by Bandhan for meeting unforeseen medical expenses instead of using them for income generating activities, Bandhan launched micro health loan product in February 2007 to enable its clients to meet the emergency needs of clients and their families (husbands and children only). To be eligible for a micro health loan, the client should have completed two cycles of micro loan and has exhibited good repayment behavior.

Important features of micro health loans are as follows:
(i) The micro health loan size ranges from Rs 1000 to Rs 5000 depending upon the requirements of the client.
(ii) The repayment period of micro health loans is also one year like the other two products.
(iii) However, repayment structure is flexible. The clients are given a choice to repay either in weekly or monthly installments depending on their convenience. The repayment schedule is fixed in consultation with the clients.
(iv) Repayment starts two weeks after the date of disbursement.

The micro loans continue to be the main portion of Bandhan's loan portfolio reaching out to more than 10 lakh clients in 7 states. The product development reflects the ability of the institution to learn from the field and its commitment to meet the genuine credit needs of the poor.

Table 1.2: Loan Portfolio of Bandhan

No	Loan Product	Loan Amount	Tenure	Rate of Interest
1	Suchana (Micro Loan)	₹ 1,000 - ₹ 15,000 Subsequent increase upto ₹ 10,000	12 months	22.40 %
2	Srishti (Micro Enterprise Loan)	₹ 16,000 - ₹ 50,000 Subsequent increase upto ₹ 10,000. Loan does not exceed ₹ 35,000/- in the first cycle	24 months	22.40 %
3	Samriddhi (Micro Small and Medium Enterprise Loan)	₹ 51,000 - ₹ 5,00,000	12/18/24 months	22.40%
4	Suraksha(Micro Health Loan)	₹ 1,000 - ₹ 10,000	12 months	12.00%
5	Susikhsha (Micro Education Loan)	₹ 1,000 - ₹ 10,000	12 months	12.00%
6	Fisheries	₹ 10,000 - ₹ 1,00,000	12/24 months	22.40%

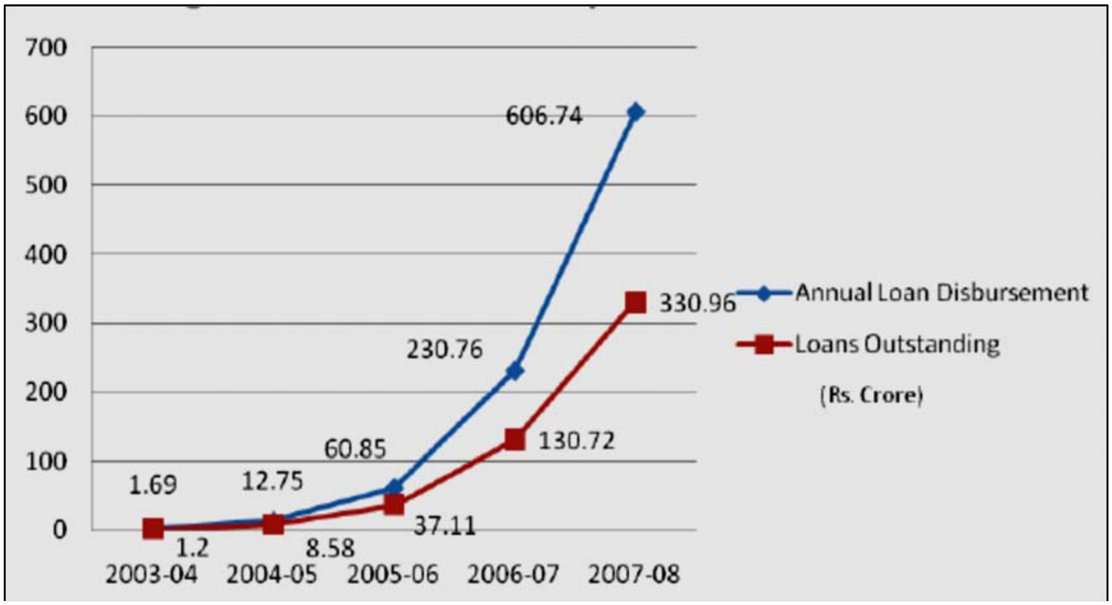


Fig 1.1: Growth in Loan Portfolio of Bandhan

Image Source: www.businesstoday.in

2. Bandhan - Expanding Footprints

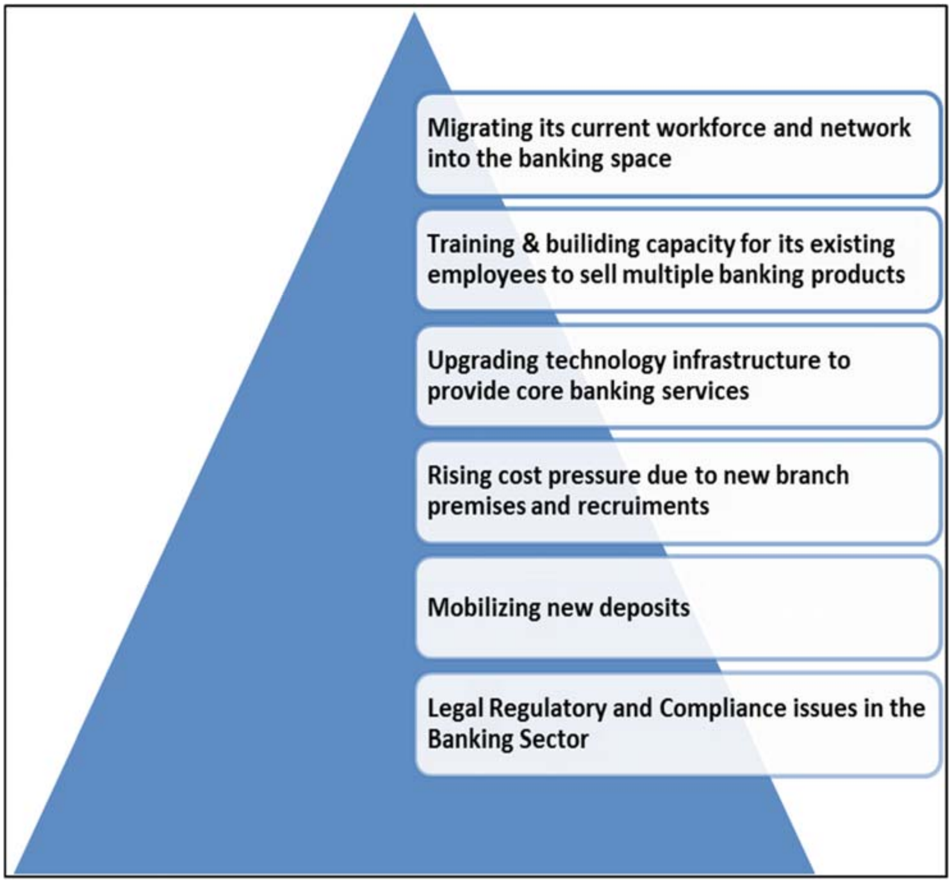
With a humble beginning in West Bengal, Bandhan has now its footprints across the East and North-East, up to Uttar Pradesh and Maharashtra in the West. It has not ventured into the South on such high scale and thus saved itself from the setback suffered by other MFIs in Andhra Pradesh a couple of years ago. Unlike other MFIs, Bandhan saved itself from the ironies of multiple lending that caused the Andhra Pradesh crisis. Chasing an untraveled path, Bandhan initially spread in those areas lacking any formal financial mechanism to give loans. Things have radically changed over the years as these terrains too are now witnessing competition among financial institutions.

2.1 The Journey so far

Bandhan primarily lends to women who organize themselves in groups of between 10 and 20 members. The loan is given to the individual members. The group acts as a control mechanism which ensures that members do not make willful defaults. Bandhan as a banking entity would be access to low-cost current and savings account deposits at five to six per cent, which will reduce its cost of funds and help scale up lending to poor. Bandhan borrows from banks at interest rates as high as 18 per cent, which means it charges 20 to 25 per cent per annum from small borrowers.

Bandhan had distinct functional business units with clearly demarcated roles and responsibilities to look after its operational needs. Entire model is based on ‘simplicity’ and ‘customer centricity. “A borrower does not come just for a lower interest rate, they come for the relationship.” Bandhan primarily lends to women who organize themselves in groups of between 10 and 20 members. The loan is given to the individual members. The group acts as a control mechanism which ensures that members do not make willful defaults. Bandhan as a banking entity would be access to low-cost current and savings account deposits at five to six per cent, which will reduce its cost of funds and help scale up lending to poor. Bandhan borrows from banks at interest rates as high as 18 per cent, which means it charges 20 to 25 per cent per annum from small borrowers. Bandhan had distinct functional business units with clearly demarcated roles and responsibilities to look after its operational needs. Entire model is based on ‘simplicity’ and ‘customer centricity. “A borrower does not come just for a lower interest rate, they come for the relationship.”

2.2 Challenges Ahead



The choice of Bandhan and IDFC by the RBI as the first two to be granted bank licences among the 26 which had applied, has surprised many. Among those still waiting are biggies such as the Aditya Birla Group, the Reliance ADA Group, the Bajaj Group, the Shriram Group, L&T Finance, India bulls and LIC Housing. Why these two? In the last two decades, the RBI has cautiously allowed a dozen new banks to emerge, but of the seven which have survived - and whose share of deposits and lending in the entire banking sector is around 15 per cent - most are indeed clones of the banks which already existed, offering the same services. Given their background, Bandhan is expected to be different. The RBI is also undecided about whether granting banking licences to big corporate houses is a desirable step. Besides, corporate houses are unlikely to set up banks any different from the existing ones. There are just 54 credit accounts per 1,000 population in eastern India, almost half the average of the rest of country. Chandra Shekhar Ghosh wants to change that, taking forward the work the organization he founded—Bandhan, India's largest giver of tiny loans—has been doing. Armed with a permit from the Reserve Bank of India, Indian's banking regulator, Bandhan is set to turn areas like districts of South 24 Parganas in West Bengal; into a test site fora whole new approach to financial inclusion in India. In that sense, there is a lot riding on how Bandhanfares. Chandra Shekhar Ghosh sees it as an opportunity to end the artificial scarcity of fair banking services to the poor of the East.

The transition to a bank, however, is not going to be easy. Banks have mandatory obligations – there is priority-sector lending, there is the requirement of rural branches, there is statutory liquidity ratio (SLR) and cash reserve ratio (CRR) to be maintained which basically means leaving assets idle. Bandhan will have no problems with priority sector lending or rural branches for, as Ghosh points out, its entire portfolio is priority sector compliant while the RBI's requirement is only 40 per cent. "We only need to meet the SLR and CRR requirements," says Ghosh.

3. Conclusion

“Bandhan” means “bonding.” For Chandra Shekhar Ghosh, Chairman and Managing Director for Bandhan, who started the institution with two staff members beside himself, Bandhan stands for bonding with communities, customers and staff in some of the poorest and remote parts of India. "Today, 60% (of Bandhan's customers) do not have bank accounts and the 40% with accounts do not use them regularly," says Ghosh, "Microfinance institutions can serve well in these areas." Over the years, the poor of these regions were the target of both informal and formal moneylenders. Thus, they were naturally precarious to enter into a vicious circle and continuing with it. With its transformation into a full-fledged bank, Bandhan will be able to offer small, unsecured loans worth $20 to $1,000 to many more rural and semi-urban borrowers. It will also be able to broaden the range of financial services it can offer to underserved customers, especially women, across India. The customer base of Bandhan will grow many times over in the next five years. Bandhan as a bank with its social vision and affordable lending rates will be able to cater to the needs of the poor in a bigger way and with much larger foothold all across India.

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