

The Big Leap: Tracing the Track of – “Bandhan”

Abstract

Microfinance is a source of financial services for entrepreneurs and small businesses lacking access to banking and related services. Its impact on poverty, interest and profit rates, “over-indebtedness” is often criticized. Reports on the role of commercial banks in microfinance are rare. Bandhan was christened in 2001, RBI advised these new banks to penetrate poverty hit rural areas and promote lending and saving among farmers, small businesses and other sections which traditional banks have been ever reluctant to serve. This paper aims to study “Bandhan” from its inception as a NGO to its performance as a bank.

Keywords: Bandhan, Credit, Rural, Ratio, Microfinance, Bank, Loan.

Introduction

Microfinance is the provision of a range of the poor’s financial service requirements, including credit, savings, insurance and remittance management. Initially the term was closely associated with microcredit- very small loans to unsalaried borrowers with little or no collateral- but the term has since evolved to include a range of financial products, such as savings, insurance, payments and remittances. The goal of microfinance is to give low income people an opportunity to become self-sufficient by providing means of saving money, borrowing money and insurance. The history of microfinance can be tracked as long to the middle of the 1800s when the theorist Lysander Spooner was writing over the benefits from small credits to entrepreneurs and farmers as a way of getting the people out of poverty. But it was at the end of the World War II with the Marshall plan that the concept had a big impact. The today use of the expression microfinance has its roots in the 1970s when organizations such as Grameen Bank of Bangladesh with the microfinance pioneer Muhammad Yunus had started shaping the modern industry of microfinance. Another pioneer in this sector is Akhtar Hameed Khan. At that time a new wave of microfinance initiatives introduced many innovations into the sector. The main reason why microfinance is dated to the 1970s is that the programs could show that people can be relied on to repay their loans and that it is possible to provide financial services to poor people through market-based enterprises without subsidy. Professor Muhammad Yunus and the founder of Grameen Bank was awarded the Nobel Prize 2006 for his efforts to create economic and social development from below. Yunus has first and foremost through Grameen Bank, developed microcredit into an ever more important instrument in the struggle against poverty. Grameen Bank has been a source of ideas and model for the many institutions in the field of microcredit that have sprung up around the world. Microcredit has proved to be an important liberating force in societies where women in particular have to struggle against repressive social and economic conditions. Thus, the microfinance movement in Bangladesh has helped to instill a “culture of credit discipline”. Microfinance in India can trace its origin back to the early 1970s when the Self Employed Women’s Association (“SEWA”) of the state of Gujarat formed an urban cooperative bank, called the Shri Mahila SEWA Sahakari Bank, with the objective of providing banking services to poor women employed in the unorganized sector in Ahmedabad City, Gujarat. The microfinance sector went on to evolve in the 1980s around the concept of SHGs, informal bodies that would provide their clients with much needed savings and credit services. In recent years, critics have brought to light some of the problems associated with micro lending. Most criticisms of microfinance have actually been criticisms of microcredit. Criticisms of microfinance mainly focus on the impact on poverty, level of interest rates, high profits, “over-indebtedness” and suicides. Critics say that microcredit has not increased income, but has driven poor households in a debt trap, in some cases even leading to suicide. It has often



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generated self-employment, but it has not necessarily increased the income after interest payments. There has also been criticism of microlenders for not taking more responsibility for the working conditions of poor households, particularly when borrowers become quasi-wage labourers, selling crafts or agricultural produce through an organization controlled by the MFI. There are not many reports about the role of commercial banks in microfinance. Microfinance in general does not attract commercial banks. Due to this absence of mainstream commercial banks the microlending was being taken over by large number of NGOs. Bandhan was christened in 2001 under the able leadership of Mr. Chandra Shekhar Ghosh, a Senior Ashoka Fellow. The meaning of Bandhan is togetherness and its mission and vision reflects its name. Bandhan was set up to address the dual objective of poverty alleviation and women empowerment. Bandhan's commitment towards triple bottom-line values (social, environmental and financial) is strongly asserted by its intervention in developmental activities. It believes that microfinance is not the last word for development of the poor. Aspiring to holistic development of the poor, Bandhan offers developmental activities in crucial fields of education, health, unemployment, livelihood and the like through its not-for profit entity.

Problem

Bandhan started as an NGO and in 2006 got its status as an NBFC. It further grew to be one of the first MFIs to have granted a banking license. Acquiring the status of a bank increased the responsibilities and challenges for Bandhan. This paper tries to understand as Bandhan now has the standard banking laws which might restrict its banking approach to the rural sectors, whether it will deviate from its main objective, i.e., to provide financial help to the unbanked rural section or not.

Methodology

Research Question

To study "Bandhan" from its inception as a NGO to its performance as a bank.

Type of Research

It is both quantitative and qualitative. Hence, it is a mixed method (triangulation).

Research Design

Descriptive, Explanatory, Case Study.

Methods of Data Collection

Secondary data collected from different sources.

Methods of Data Analysis

It is both qualitative and quantitative. Hence, it is a mixed method which involves textual analysis including statistical means and pictorial or diagrammatic representation. The method also deals with content analysis.

Inference

With a backdrop of microcredit it is difficult for Bandhan to start up as a rural cum urban bank. As a bank, it may face many problems in its way to penetrate into the rural cores and provide supportive loans to the rural poor as well as to the urban seekers.

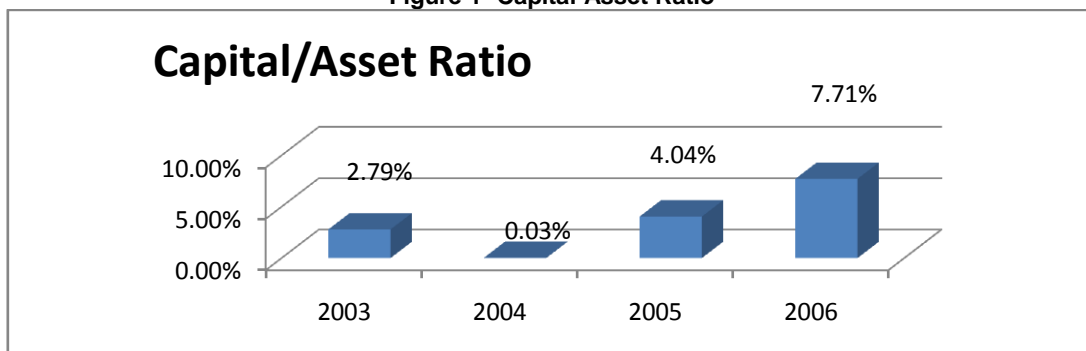
Analysis and Findings

Bandhan was christened in 2001 under the able leadership of Mr. Chandra Shekhar Ghosh. The meaning of Bandhan is togetherness and its mission and vision reflects its name. The main thrust of Bandhan is social upliftment and economic emancipation of women who are socially challenged and economically exploited. Mr. Ghosh started his mission as he joined an NGO in Bangladesh, BRAC, one of the largest developmental organizations in the world. The interaction with villagers and the poor inspired Ghosh to work in this sector. He returned to India and worked for several NGOs. His work exposed him to the dire need of money (loans) in villages and the massive exploitation by private and local money lenders who even charge 200% to 300% interest for small loans. He started Bandhan in 2001 with a savings of Rs. Two lakhs and had three employees. It was a daily challenge for him as he slowly scripted the success story of one of the largest microfinance institutions in today's India. It began its operations from Bagnan, a small suburban town, 60 km away from Kolkata and now operates in 22 states and Union Territories. To achieve their objective, Bandhan engages in the delivery of microfinance services to the poor women residing in rural and urban areas across the country. The model followed is individual lending through group formation. Bandhan's commitment towards triple bottom-line values (social, environmental, financial) is strongly asserted by its intervention in developmental activities. The financing structure of Bandhan during its operations as an NGO as follows:

Table1: Finance, Bandhan 2003 to 2006

Year	Major Milestones
2001	Mr. Ghosh Start up Microfinance ₹. 2 lakh Initial Capital.
2005	Expands microfinance activity to Kolkata, launches 100 th branch. Reaches 100,000 Clients.
2007	Ranked India's 1 st & world's 2 nd largest in Forbes list of top 50 microfinance firms.
2009	Launches 1000 th brand, covers 2 million clients. SIDBI buys 11% stake for ₹. 50 Cr.
2010	Ties up with western Union for money transfer, loan disbursal rises To ₹.2000 Cr.
2011	IFC acquires 11% stake in the firm for ₹. 135 Cr.
2014	Gets RBI licence to start a bank (Principal Approval). Has disbursed ₹. 29,990 Cr. to 5.5 million Clients so far

Figure 1- Capital Asset Ratio



Source: www.mixmarket.org.

From the diagram we can see that initially the Capital-Asset ratio was 2.79% in the year 2003.

Then it declined to 0.03% in 2004, after which it had a steady increase to 7.71% in 2006.

Figure 2- Deposits to Total Assets Figure 3- Debt to Equity Ratio

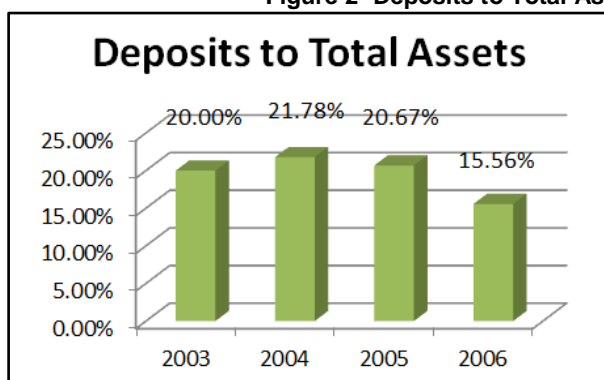
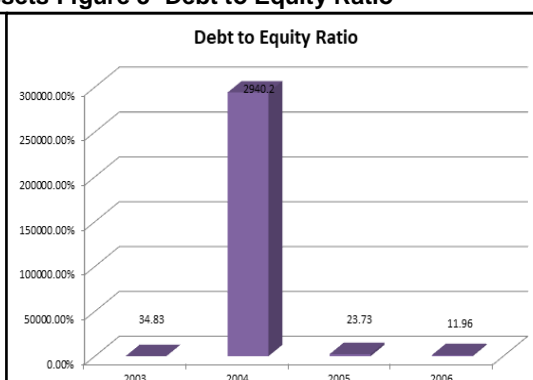
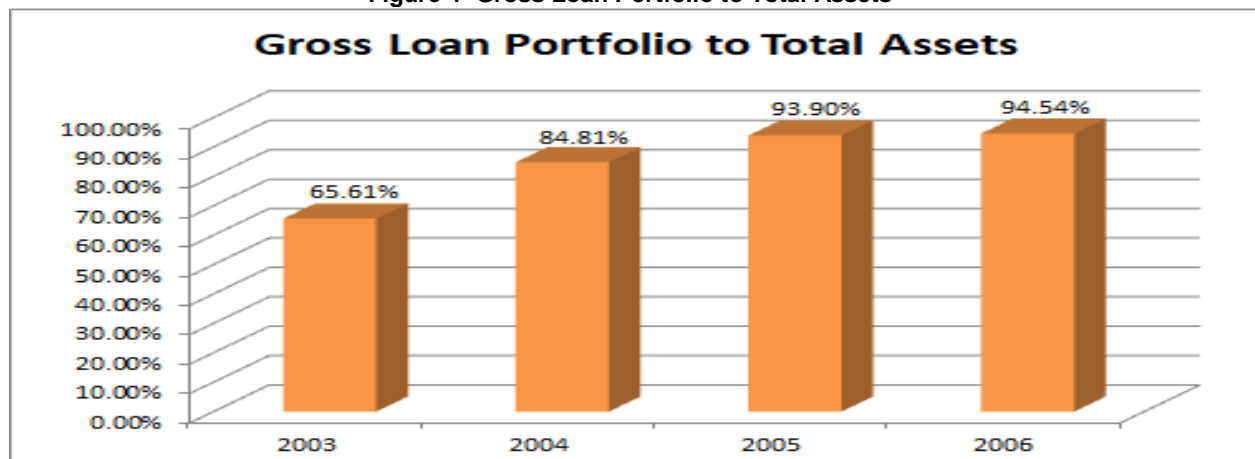


Fig.2 Depicts that in 2003 the Deposits to Total Assets ratio was at 20.00%, then it climbed to 21.78% in 2004, after which it gradually declined to 15.56% in 2006.



Ratio for the years 2003 to 2006. It has a high increase from 34.83 in 2003 to 2940.2 in 2004 where it reaches its peak after which it declines to 11.96 in 2006.

Figure 4- Gross Loan Portfolio to Total Assets



The above figure indicates the Gross Loan Portfolio to Total Assets Ratio for the years 2003 to 2006. It can be found that there is a gradual increase in the Gross Loan Portfolio to Total Assets Ratio from 65.61% to 94.54% for years. It became a NBFC (Non-Banking Financial Corporation) in 2006 to become eligible for financial investments from Indian and foreign banks. It further grew into becoming one of the first MFIs to have been granted a banking license. But, why does it need a banking license while it does the basic activity of banking, i.e., lending. Even

though NBFCs perform functions similar to that of banks, there are few differences. One of them is that a NBFC cannot accept demand deposits, it is not a part of the payment and settlement system and as such, a NBFC cannot issue cheques drawn on itself and deposit insurance facility of the Deposit Insurance and Credit-Guarantee Corporation is not available for NBFC depositors, unlike banks. By 2013, the operations of Bandhan had spread over 22 states and 245 districts (172 of which are under-banked) operating through 2000 branches, 13000 staff,

distributing monthly microfinance loans of Rs. 1000 crores with services like insurance and pension being offered in tandem. Special program to target the most marginalized of the poor and hand-holding them for two years with consumption stipends, training assistances have also been launched by Bandhan. As it gears up to start operations, Bandhan's founder Mr. Chandra Shekhar Ghosh aims at extending services beyond credit to economically weaker sections who have been deprived of these services so far.

According to Mr. Ghosh, non-performing assets and defaulters are not an issue for his new bank. But, recruiting people for rural services will be a challenge. The microfinance activities are carried on by Bandhan Financial Services Pvt. Ltd. (BF SPL), incorporated under the Companies Act, 1956. Bandhan has been engaged in the delivery of microfinance service for the last 13 years. Some of the loan products offered by Bandhan are as follows:

Table 5: Loan Products Offered by Bandhan Financial Services Pvt. Ltd

<u>Product Name</u>	<u>Loan Size Range (₹)</u>	<u>Loan Term (Months)</u>	<u>% Female</u>	<u>% Urban</u>	<u>Loan Purpose</u>
Suraksha Loan (Health Loan)	1,000 - 10,000	12	100%	20% - 40%	Other, It can be used only for emergency health needs. , Can NOT be used for business
Suchana Loan	1,000 - 15,000	12	100%	20% - 40%	Business
Srishti Loan	16,000 - 50,000	24	100%	20% - 40%	Business
Susikhsha Loan	1,000 - 10,000	12	100%	20% - 40%	Education
Fisheries Loan	10,000 - 50,000	12 - 24	80% - 100%	20% - 40%	Business

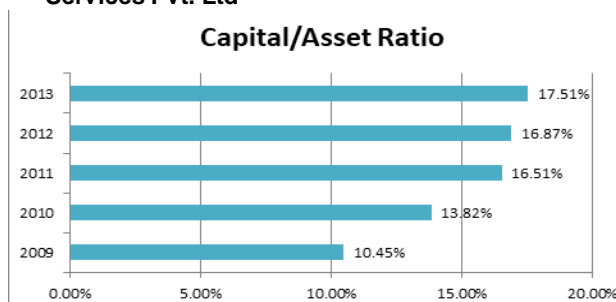
On the first day, the bank will have a loan book of Rs. 11,000 crore, 501 branches, 10 million customers and a net worth of Rs. 3,200 crore. With microfinance continuing to be Bandhan's spine, the next big question that needs to be resolved is of the choice of it's banking model. Bandhan is among the first generation MFIs and follows the Grameen model of banking. Under this model, credit decisions are taken at the branch level, which facilitates quick disbursement of loan in about a day's time. New generation MFIs like Ujjivan and Janalakshmi, on the other hand, follow the retail banking model, where credit is disbursed after credit appraisal at a centralized unit. In these MFIs, the credit disbursement usually takes about five days. For the Indian economy, the granting of banking license to Bandhan has been like the rush of cool air in the desert and credit should go in equal measures to Reserve Bank of India and it's foresighted Governor. As RBI has granted the banking license, Bandhan would be able to raise deposits from retail investors and offer financing at a cost much lower than the present 23% (for micro-loans) and to have it's own resources from the depositors. The banking platform will help the firm to scale up it's model as it would have access to low-cost current and savings bank account deposits and thus, to serve India's millions of "unbanked poor" under the license terms. The banking license signals redemption for India's microfinance sector. Mr. Ghosh's Bandhan was one of the two candidates that won a banking license by the Reserve Bank of India from a field of 25 aspirants. The other one is IDFC Ltd. RBI wants these new banks to penetrate poverty hit rural areas to promote lending and saving among

farmers, small businesses and others whom traditional banks have been ever reluctant to serve.

Behind the Shiny Façade

According to Yunus, it is doubtful whether Bandhan will be able to continue it's focus on small loans after it becomes a bank. This is because of the standard banking laws which create banking for the rich. The law has it's own limitations. After becoming a bank, it has to take collateral which the poor borrowers will not have. But, now being a bank, without collateral the law prohibits from lending. Financing structure of Bandhan is as follows:

Figure 5:Capital/Asset Ratio of Bandhan Financial Services Pvt. Ltd



The above figure indicates the Capital/Asset Ratio of Bandhan for the last five years. It can be seen that there is a gradual increase in the capital/asset ratio for years which is a healthy indicator.

Figure 6:Debt to Equity Ratio

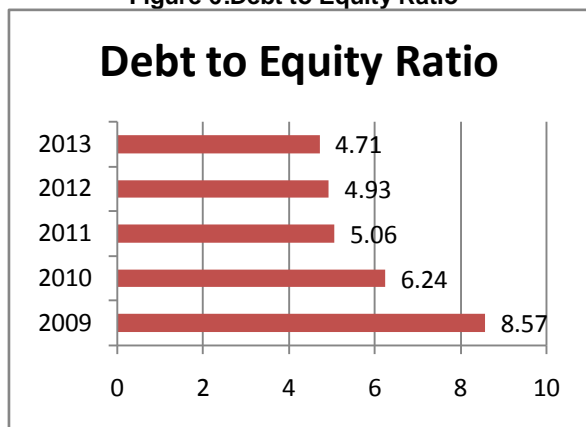


Figure 7: Gross Loan Portfolio to Total Assets Ratio

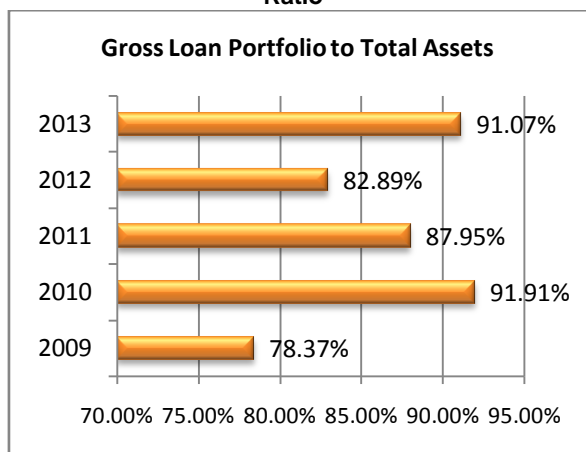


Fig.6 indicates the Debt to Equity Ratio for the last five years. It can be seen that there is a gradual decrease in the debt to equity ratio which improves it's borrowing capacity for future expansions planned.Fig.7 indicates the Gross Loan Portfolio to Total Assets. It can be seen that it was 78.3% in 2009 and then climbed to 91.91% in 2010, then again decreased to 82.89% in 2012 and again climbs to 91.07% in 2013. It is also an indicator of the performance of the institution and it's contribution to the goal of financial inclusion.

Figure 8: Gross Loan Portfolio to Total Assets Ratio of Bandhan Financial Services Pvt. Ltd.

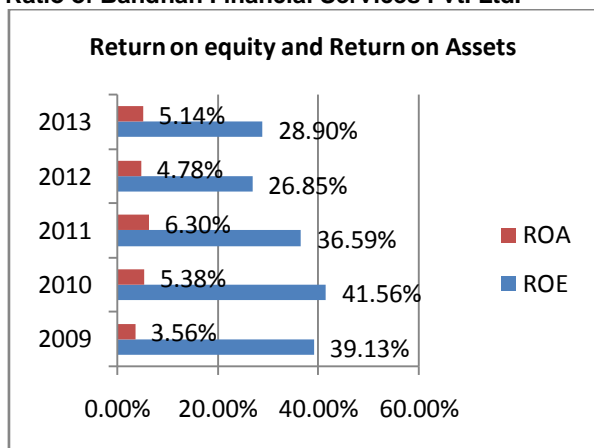


Figure 8. indicates the Return on Equity and Return on Assets. It can be seen that ROA has a gradual increase from 3.56% in 2009 to 6.30% in 2011, then it declined to 4.78% and again climbed to 5.14% in 2013. The ROE increased from 39.13% in 2009 to 41.56% in 2010, then declined to 26.85% in 2012 and then again increased to 28.90% in 2013.

Some hurdles that might hinder the growth of Bandhan are as prescribed:

1. SLR and CRR requirements: This is a big requirement as banks have mandatory obligations to maintain their Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) at 21.50% and 4% respectively. Bandhan may not face real difficulty with priority sector lending or rural branches, as it's entire portfolio is priority sector while the RBI's requirement is only 40%.
2. Geographical centre for operations can also be considered as a challenge. As trust is a major factor for banking, there can be chances that the client base in rest part of India other than east may be willing to experiment with a new bank.
3. Acquiring human resources from upper to lower level management will again be a challenge. A bank needs management driven with vision and clarity, setting up a board that can take the right directions and decisions can be considered as one of the important factors. The existing staff is also a concern as most of them are either graduates or undergraduates and Bandhan would need to acquire people with better field experience qualification and skills to improve on their banking dream.
4. Keeping the profitability for initial years can be a concern as most capital would be utilised to set up new operations, like increasing the number of branches, buying new technology, acquiring human capital, setting up of ATMs etc.
5. Lack of technology can also be a hindrance as their clientele would belong mostly to rural parts where internet connectivity is minimal. This would restrict bank from using latest methodologies of online banking and would put on a track of sluggish manual operations.
6. The bank may also face stark competition from other commercial banks, these may not be active in rural markets, but would have a strong urban client base.

Policy Prescription

Bandhan's journey from an NGO to a bank has been a successful one. Even after becoming a bank, Bandhan's core commitment is to provide financial help to the unbanked rural sector and the upliftment of the poor women and to the marginalized section. But, there is a difference between serving as an MFI and as a bank. A bank is more appropriate for urban sectors because of the standard banking laws which create banking for the rich. As an MFI, collateral free loans were disbursed which now would be a difficult proposition to continue with. A better risk management approach would have to be adopted to sustain and grow. Therefore, to maintain it's objective, Bandhan should set up a rural bank like the Grameen Bank. Bandhan should create a new law and allow

separate banks for the poor. They may call it microfinance banks. They can take deposits and lend money.

Conclusion

We want to believe that it would not be so risky for Bandhan to operate as a bank. With an experience of 13 years as a successful MFI, it would not be difficult to start its operations. Their financial status is good and many organisations have started funding their project by now. The bank and its CMD are determined to stick to their main objective that is to provide financial products and services in unbanked rural area and to achieve the financial inclusion through women empowerment & provide employment for alleviation of poverty in rural area. Currently bandhan's main asset is their existing customers and their trust on their services becomes a major step in setting up of a bank. Their unique ways of working would lead Bandhan as one of the successful banks in banking sector.

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