BANDHAN BANK

Bandhan Financial Services. a Micro Finance Group which has its head quarters at Kolkata has commenced operation as a fully fledged lender from 23rd August with 501 branches across the country .The finance Company ,the largest in India which figured above Grameen Bank in the Forbes list of 50 largest microcredit companies was set up in 2001 by its CEO and Managing Director Chandra Shekhar Ghosh with the objective to "focus on working with socially disadvantaged and economically exploited women ."As per information for June 2015 Bandhan (which means togetherness is operating with 2022 branches across 22 states and Union territories with67,17,331 lakh borrower base , with a loan disbursement of 1,601crores and an outstanding of 10,242 crores .. Since Bandhan is the first microcredit company In India to get a license to operate as a bank and as with other banking facilities it will continue its micro lending department , it is worthwhile to understand the micro credit model followed by it? How it is different from the Self Help Group linked Bank schemes? Moin Qazi Microcredit expert explains The Bandhan Microcredit System

"The Bandhan model of microcredit is tailored around the typical Grammeen Bank model in which credit is purveyed through joint liability groups. The Indian version of microfinance, baptized "Self Help Group", is quite different from Bangladesh's "Joint Liability Group". The most important distinction between the two is that the former lays greater emphasis on financial literacy, building of social capital, empowerment and capacity building of members. These are secondary concerns in the Joint Liability Group model, which focuses more on financial metrics in contrast to the social ones. Self Help Groups were initially the basic constituent units of the microfinance system in India. It was much later that the original Grameen model was introduced in its classical form in India but the Self Help Group model remained as the most authentic indigenous form of microfinance.

. In his autobiography, Mohammed Yunus, the founder of the Grameen Bank describes how, as a professor in Bangladesh, he came to understand the importance of finance for the poor. Horrified by the consequences of a famine, he left the sheltered walls of the university to find out how the poor made a living. When he started making small loans to local villagers in the 1970s, it was unclear where the idea would go. Around the world, scores of state-run banks had already tried to provide loans to poor households, and they had left a legacy of inefficiency, corruption and squandered subsidies running into millions of dollars. Economic theory also provided ample cautions against lending to low-income households that lacked collateral to secure their loans. Yunus vowed to one day make profits—and he argued that his poor clients would pay back the loans reliably. Yunus was one of the early visionaries who believed in the idea of poor people as viable, worthy and attractive clients for loans. That simple notion has put in motion a huge range of imitators and innovators who have taken that idea and run with it, improved on it, expanded it.

In an episode that has now passed into the folklore of microfinance, Yunus encountered a woman who made bamboo stools, Sufiya Begum. The raw materials she needed to make one stool cost only twenty-two American cents, but she made a pitiful two American cents on every stool; because she had no capital, she had to borrow money from middlemen in order to purchase supplies, and sell the stools back to them to repay the loans. Yunus was appalled: `I watched as she set to work again, her small brown hands plaiting the strands of bamboo as they had every day for months and years on end. How would her children break the cycle of poverty she had started? How could they go to school when the income Sufiya earned was barely enough to feed her alone, let alone shelter her family and clothe them properly?'

Yunus paid off the money she and other villagers owed to loan sharks. To his surprise, the borrowers paid him back in full. He discovered that while the credit market was the scene of the most brutal exploitation of the poor with high interest rates leading to persistent indebtedness ending in forced sale of assets and subsequent destitution, it was also the arena in which interventions to break the cycle of poverty were easiest. His pilot programme has now become a movement for both financial and social empowerment–particularly for poor rural women.

It was the start of the microcredit revolution. Traditionally, banks shunned the poorest as bad credit risks, since they have no collateral for loans. But with a series of increasingly ambitious experiments–initially with him as guarantor for bank loans–Yunus established that many of the poorest could be good borrowers: they knew a line of credit was their only chance to break out of indigence.

Yunus emphasizes: "If you go out into the real world, you cannot miss seeing that the poor are poor not because they are untrained or illiterate but because they cannot retain the returns of their labor. They have no control over capital, and it is the ability to control capital that gives people the power to rise out of poverty."

When Yunus formalized this loan-making arrangement as the Grameen Bank in 1983, the bank adopted its signature innovation: making borrowers take out loans in groups of five, with each borrower guaranteeing the others' debts. Thus, in place of the hold banks had on wealthier borrowers who did not pay their debts—

foreclosure and a low credit rating—Grameen depended on an incentive at least as powerful for poor villagers: the threat of being shamed before neighbors and relatives. Since traditional credit ratings and past credit histories were unavailable for most microfinance borrowers, repayment of the loans was guaranteed through a process known as "building and placing reliance on social capital". The collateral created through the process of joint liability through group lending is termed as "social collateral" or "moral collateral". With individual financial histories having been built over the years and the borrowers realizing the importance of making their loan repayments on time so that others are not starved of credit by their default, and to keep up their reputation as honest borrowers for getting easy access to credit in future, the Grameen Bank has now moved to individual loans, with the individual reputation of borrowers replacing the group guarantee.

The model of microfinance in Bangladesh, as it originated at Grameen Bank, involved tiny loans with fixed terms and amounts to women, group liability, weekly meetings, forced payments into a group savings account, and a set of 16 social pledges chanted each week while standing at attention.

The Joint Liability Group (JLG) system, the basic unit of microfinance in Bangladesh as well as that of all private microfinance players in India including Bandhan,, was, in its classical avatar, an operationally intensive model with strong emphasis on adherence to simple yet well designed processes. A group of borrowers get together and form the basic unit–the Joint Liability Group; five is the most common number of members but membership can range from four to ten. Coming from the same neighborhood, they know each other well enough to understand the cash flows and requirements of the members' households and have insight into the ability and willingness of members to repay. This model helps financial institutions to overcome the difficulties involved in screening individual borrowers. The borrowers are poor women who have absolutely nothing that could be repossessed. They have no credit record, little education, no formal employment history. The costs of checking the creditworthiness of these potential clients and servicing their loans would be an astronomical percentage of the tiny amount they would borrow.

Before any one group member obtained a loan, the entire group had to undergo a training session, spanning one to two weeks, to learn the bank's strictly enforced rules and procedures and to help members develop their business skills. After the initial training period, each group member attended weekly group meetings with an officer of the bank. Up to ten groups of borrowers in one area federated into a "centre" and elected a centre chief and deputy centre chief. Several centers in turn formed a branch. Each group formulated and considered loan requests which were reviewed and approved by the centre chief, a bank worker, a programmed officer, and finally the bank's branch and zone manager. All loan requests were discussed candidly at group meetings; transactions between the bank and individual members of each group did not remain confidential. The group scrutinized each member's prospective enterprises and business proposals, ensuring that they were well thought out and therefore more likely to make a profit from which the loan recipients could repay the loan. Group members strove to keep business ideas that were not feasible from being approved and to share ideas to make businesses more profitable. Moreover, in forming their groups, members screened out prospective borrowers deemed unlikely to repay a loan. Once the Bank approved a loan, group members monitored how the money was used. This ensured that borrowers were more likely to operate their business properly since they would frequently be examined by their peers.

Peer pressure was also sustained by the sequence of loans. Say, for example, that one member of a newly formed group received a loan. The other four members were ineligible for loans until the initial borrower demonstrated regular payment of the weekly installment. Each JLG thus had an incentive to encourage a delinquent member to make her payments, or it could resort to making the missed payments as a group. Second loans were not approved for any one member until the accounts of all members were settled. In other words, the group ensured mutual accountability and served as a form of moral or social collateral. By relying on the borrowers themselves to monitor loans and guarantee repayment, the bank was able to forego close analysis of individual loan applications, thereby lowering the high transaction costs that discouraged individual loans to small businesses. And by grouping borrowers, the bank staff could service more loans with fewer contacts required by the bank staff.

Two other factors also contributed to loan repayment success. First, most loans were for shorter periods. Borrowers initially received a small loan, so as not to overwhelm them with cash. Once the borrower repaid the first loan, subsequent loans could be larger and have a longer repayment period. This incremental lending technique provided incentives to the borrower and minimized the risk to the bank. The Grameen model was embraced by most countries and became an international model, albeit with tweaks relevant to each country. One weakness of Grameen replications was an emphasis on loans at the cost of fostering savings habits, which was the key ingredient in the original Grameen model. In several countries, this deficiency wrote the obituary of microfinance.

The initial motivation for microfinance was, to a great extent, gender neutral. It emerged, however, that women entrepreneurs invested the profits from their businesses in ways that had a longer-lasting, more profound impact on the lives of their families and communities. This unassailable truism became a fundamental premise of the microfinance business model and the success of microfinance as a poverty alleviation tool.