



A Case Study On

BANDHAN -An Organization of Hope for the Poor

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The Livelihood School

Abstract

Can micro credit interventions alone focus both on institutional sustainability and promoting large scale livelihoods? Micro credit operations by BANDHAN provides some testimony to the same. Headquartered in Kolkata, today BANDHAN is one of the fastest growing MFIs in the country with a customer base of 0 .2 Million borrowers with an outstanding loan of INR 410.42 Million in just within five years ! It has managed to reduce its interest rates to 12.5 per cent, thanks to the adoption of an efficient, low cost, decentralized and lean operation method borrowed from ASA, Bangladesh. The strategy of opting for a loan-based model has helped BANDHAN secure funds at competitive rates. Its borrowers are women, and engaged in a range of wage generating activities., Thus it not only helps in increasing the asset base of the borrowers and strengthening their livelihoods but also make significant contributions to the growth of the local economy. It has generated large-scale wage employment opportunities for the landless and poor. Besides, the economic benefits under micro credit interventions has made significant contributions in terms of women empowerment, and family well being. BANDHAN was recently awarded with USD 50,000 in a global competition for its pilot program to graduate the poorest clients into regular microfinance programs.

1. Introduction

The fact that a single micro finance organization has been able to provide access to micro credit to around 0.2 million customers in rural Bengal is truly remarkable. BANDHAN, an MFI providing micro credit services to the poor, has emerged as the single largest MFI in West Bengal and one of the country's fastest growing MFIs in India in just over three years.

Mr. Chandra Sekhar Ghosh with his experience in micro finance and rural development work with Village Welfare Society (VWS) in Kolkata saw a huge gap in access to micro credit to the poor. He realized that there was a huge gap in the understanding and functioning of the ten existing micro finance institutions and ventured out to promote BANDHAN as a capacity building institution in 2000, with the objective of turning around weaker MFIs into stronger ones. He soon realized that in the absence of any practical demonstrable example of micro credit, much of the training inputs would remain on paper, and no significant contributions can be made. In 2002 an exposure visit to Bangladesh changed the future course of BANDHAN and it decided to undertake micro credit activity on its own.

Back with the technical support from ASA Bangladesh, and financial support from SIDBI, BANDHAN started its MF activity with a modest INR 2 million loan fund. Just in over three years the micro credit portfolio of BANDHAN has grown in leaps and bounds and today it has emerged as one of the strongest micro credit organizations. As of March 31, 2006 its operations are spread across 14 Districts of West Bengal covering 253 Blocks reaching out to nearly 0.2 Million borrower clients in 5,241 villages. The total loan outstanding as on March 31, 2006 was INR 371.118 Million with an on time repayment track record of 99.98 per cent.

Most of the BANDHAN's borrowers are small and marginal households (about 64% belonging to backward classes and minority community). Loans are provided for a range of activities, mainly in income generating activities, which gives a regular and sustained cash flow. Small business and petty trading activities account for 56 per cent of its portfolio.

The credit operations are simple, need based and professional. All of BANDHAN's clients are women. BANDHAN believes that true empowerment can come only when women have access to credit.

Armed with small loans, BANDHAN's clients have expanded their business. They have also employed co-workers (landless and poor) to help them in their work thus providing job opportunities to others in the village who are mostly women. Thus, the improved credit has also lead to increased livelihood opportunities to non -clients of BANDHAN.

The thrust is on identifying lending opportunities that are backed by sustained cash flows, which ensure that the repayment is securitized.

The women groups are purely credit groups with pre-decided time lines for sanction of loan. Thus a woman joining a group is assured from day one that she will get a loan in the f

ourth week. The first loan is between INR 1,000-5,000 for rural areas and upto INR 7,000 for the urban areas. The tenure for all loans is fixed at 46 weeks. The loan repayment is in equated weekly installments. Each member contributes 2 per cent of the loan towards a risk fund which is used as and when a borrower dies.

The present study documents the process by which BANDHAN has facilitated the livelihood augmentation of large number of rural poor in a short span of time.

2. Objective and Methodology

The case study design is based on the premise that unlike most development interventions, the interventions in microfinance look for returns of finances employed and institutional sustainability. The objective of the study is to see how the organization has addressed both its institutional sustainability and the livelihood needs of the poor .

The study focuses on the following aspects of intervention :

- a. Objective of the Intervention;
- b. Nature and Design of Intervention The methodology followed ;
- c. The organics of the Institution; and
- d. The impact of micro finance on the livelihoods of the poor

The methodology followed for data collection is stated below:

The case writers circulated the case study protocol (please refer to Annexure 1) in advance to enable the organization to prepare for our visit.

The case writers undertook a desk study of the reports, manuals and other relevant documents available with BANDHAN. It was followed by discussions with the Chief Executive and Senior Staff in Kolkata. The Draft report was shared with BANDHAN which was followed by a presentation.

Two locations were selected for an in- depth study to map the impact of the credit services on the lives of the borrowers. In the Konnagar Branch the case writers interacted with 33 borrowers who had gone through the two or more stages of loan cycle. At Shantipur Branch interaction took place with the Tantis - people engaged in different stages of value addition in saree weaving.

2. Organizational Context

BANDHAN started its intervention in 2002 with a branch headed by Mr. C.S. Ghosh and

four staff members of which two were deputed by ASA Bangladesh as part of its technical support. Operations in the first year were started with the support of Small Industries Development Bank of India, which decided to support BANDHAN based on the strength of its technical collaborator ASA- Bangladesh. Today BANDHAN reaches out to over 0.2 Million members (0.167 Million of whom are borrowers) in 5241 villages in 14 Districts of West Bengal. It has disbursed 208,231 loans over the last three years; the cumulative disbursement as on March 2006 was INR 755.631 Million (loan outstanding INR 371.118 Million). Annexure 2 provides details of the BANDHAN's performance over the years.

Two third of the clientele come from backward classes and minority community., who are skilled and this is the genesis of BANDHAN's intervention design. According to Mr. C.S. Ghosh, "women of rural areas in Bengal possess skills but they do not have any access to credit facility of any sort. They are economically poor and thus do not qualify for getting loans . and if you need to impact on poverty directly then the women should be supported with Income Generating Activities.

The main source of income of BANDHAN and the expenditure is as follows :

- Income: (Percent wise)
- Service charges/interest received from the clientele - 82.24%
- Grant : 11.02%
- Admission fee : 4.54%
- Bank interests : 1.12%
- Miscellaneous : 1.09 %
- Expenditure : (Percent wise)
- Establishment and administration : 44.10%
- Financial costs : 28.44%
- Personnel costs : 27.46%

As on 31 October 2005⁵ the total equity funds of BANDHAN was INR. 1,376.70 Million. The total outstanding/receivables was INR. 23,629.4 Million. This means the net outstanding loan funds was INR. 22,252.7 Million. Annexure 3 provides data of certain key financial parameters.

BANDHAN's current partners include ASA-Bangladesh, financial institutions like ABN-AMRO, Unitus, Rashtriya Mahila Kosh (RMK), Department of Women and Child Development, Government of India and UTI Bank.

⁵Source: Annual report 2004-05 and official website www.bandhanmf.com

3.1 Institution Building Leadership, Staff Incentives and learning by doing :

BANDHAN is a registered society under West Bengal Societies Registration Act, 1961. Its registered office is at Konnagar, Dist. Hooghly in West Bengal , however, all the operations are managed from the head office located in Kolkata.

The General Body of BANDHAN comprises 16 members out of which 7 members belong to the Executive Committee. There is an Advisory Committee consisting of 4 members. These members are eminent professionals from the fields of business, finance, academics, and public service. They guide the management in regard to new opportunities and demands arising from the fields. Annexure 4 provides an idea on organization's structure.)

BANDHAN visualizes itself as a *world-class financial institution serving 6.5 million clients by 2015 through the best of its services in education, health care and insurance.* BANDHAN's employees and board members are unified across one purpose with a mission to “*Significantly reduce economic and social poverty by providing member focused, quality, and cost effective, sustainable financial services.*”

The value system at Bandhan is best captured by the anagram “CREATE”. CREATE is,

C-Cost effective and simple

R-Respect for all

E-Exemplary governance

A-Accountability, professionalism and discipline

T-Transparency and integrity

E-Effective team work and commitment

3.2 Need for intervention

“Poverty in West Bengal is widespread. The government puts it at 27 per cent while the Non Government Organizations put it at 50 per cent. According to Mr. C.S Ghosh, “the poor need both savings and credit services and in fact more of the latter because they do not have any sort of financial asset base.”

BANDHAN's beginning as a capacity building institution was to rebuild the weak MFIs into strong and effective institutions to support the poor and ensure maximum outreach. However during its course of work, it gathered certain learning experiences such as :

- Reliance on grant funds to support micro finance operations was difficult, loans were a better option
- The existing banking and non-banking sources are inadequate to meet the credit needs of the poor.
- The present system of credit is collateral security based. .In parts of Bengal poor people pay any where between 5 to 10 per cent per month as interest for small borrowings where no business plan would ever be viable or generate enough

wealth or sustainable incomes

- Need for a well groomed specialized MFIs
- Organizational Sustainability is key to sustainability of Micro Finance Programmes.

However, BANDHAN found that the existing NGOs working in the Micro Finance sector were not as effective ... In October 2001 a visit to established MFIs in Bangladesh like BRAC and CDE under the capacity building program (funded by CARE) gave a new insight to BANDHAN's objectives. Considering the huge scope of microfinance, BANDHAN took a strategic decision to shift from capacity building organization to a delivery organization. It decided to go for direct intervention into microfinance. It then entered into collaboration with ASA whereby ASA would provide two of its employees to BANDHAN. BANDHAN opened up its first branch in Bagnan with 4 employees (2 from ASA and 2 from BANDHAN). It approached some donors for support but due to various technicalities, neither grant funds nor loan funds were forthcoming. The most common reason was the lack of past track record. It was here that the SIDBI offered support through an initial loan cum grant.

According to Mr. C.S. Ghosh, “we wanted to start something new and innovative. The only support we had was that of Mr. Shafiqul Haque Choudhury, founder of ASA-Bangladesh and their other board members. . It was on this strength that SIDBI took the risk and sanctioned the money”. “However, there was some time before the disbursement could be made and by that time we had already started the field operations. As per our schedule, loans had to be disbursed in the fourth week. And we had no funds. Our credibility was at stake. We borrowed from the moneylender to over the difficulty. This helped establish our credibility among the borrowers” he says.

The profile of the clientele is as under :

- 43 per cent of the members belong to backward classes and 22 per cent to minority community
- All members are women who are Landless but do possess some skills/asset less
- Family income not more than USD 2 per day in rural areas and USD 3 per day in urban areas for a family of five
- Having not more than 50 decimal of land or capital of its equivalent value
- Small business and trading loans dominate the loan portfolio

BANDHAN realized that the women had some skills which could be harnessed to generate small incremental livelihoods within the village itself. It identified potential women and encouraged them to join as 'apprentices' to acquire basic livelihood skills and assets/tools that would help them become self employed. This strategy worked well and there were quite a few entrepreneurs who became independent petty traders doing business under the guidance of an expert mentor.

BANDHAN also realized that the main bottleneck in the process of promoting livelihoods in the rural areas was credit and thus the intervention was designed. However, providing credit services initially was a difficult task precisely for two reasons- winning the confidence of the people and weaning them away from the traditional money lenders. Besides, it had to also overcome people's expectation that its credit had a subsidy component like that of government programmes.

3.3 Strategy and Approach of Intervention

BANDHAN's strategy is based on its three fundamental beliefs (see figure 2). They are :

1. Avenues for Savings and Credit are Primary Needs
2. For improving GDP of a country credit can be a major
3. Poor have to ability to derive the highest productive realization from a

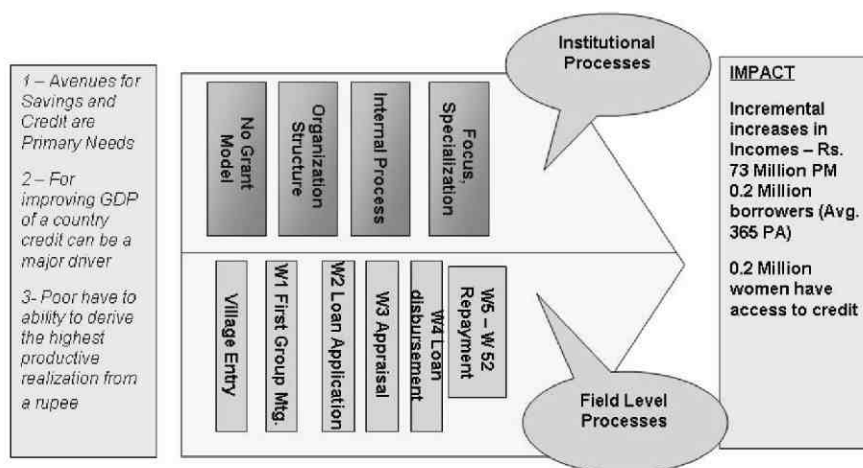


Figure: design of Intervention

4. BANDHAN chose the direct mode of intervention because of the following advantages : The services can be easily delivered without being dependent on any other facilitators.
5. The funds can be channelised to the poor directly without having to pass through the various channels.
6. Direct interaction with the clients result in widening the scope of the areas of improvement (according to the demands of the poor).
7. Direct involvement of the staff in the system increases their competency as well as commitment levels
8. The level of employment increases due to the direct mode.

3.4 Institutional Level Process of implementation of the intervention

To really understand BANDHAN a thorough understanding of the underlying structure is extremely important. Branches are the lifeline of BANDHAN. Since inception, it has invested heavily in devising an effective system that resembles a complex web and yet functions almost effortlessly. From middle (Divisional/Regional Manager) to lower level (Community Organiser) staff remain in close contact with the clients.

Area Selection: Selection of area where a branch would be opened is very important. The opening of a new branch is a carefully thought out process based on economies of scale and cost optimization. The regional manager first visits the area and makes an assessment of the region. The survey covers obtaining the basic socio economic data about the village and its surroundings. The managers also meet the local people and people's representatives to apprise them of BANDHAN's work. A written statement is filed with the Panchayat Office wherein photocopies of all the necessary permissions, etc. are enclosed. To open a branch there must be at least 1600 borrower clients.

The community organizers prepare an area business plan wherein the detailed workings are made week wise.

A day in the life of a community organizer

Samarda starts his work at seven in the morning when he rushes to the nearby meeting place. At the appointed hour the women are already there with the passbooks and register. The meeting commences and in half an hour all the transactions are completed. All the borrowers are asked to come to the branch to collect their loans. He gently encourages them to think innovatively on how best they can utilize the money which can multiply in the process. One of the women from the group says she would like to purchase a Tana with the loan. She says this will allow her to earn about INR 25 a day, which is more than what she earns today. She also explains that the small investment of INR 2000 will be recovered in no time. It is eight o'clock now, time to rush to the next place. Samarda now cycles to another part of village where the women are anxiously waiting for him to arrive. There will be two more such meetings before noon and he reaches branch at 12 noon.

He counts the cash and updates the daily MIS displayed in the office black board. Today he has recovered more than his target. This he explains is on account of the fact that one borrower chose to pay the last four installments in one go. He also is the cashier/accountant today (at BANDHAN each CO takes turns as accountant for two weeks). He goes through the daily sheets of fellow COs and also today's disbursement applications. In the post lunch session the disbursement starts and concludes by 4PM.

In the evening Samarda and his colleagues reflect on the day in their homes which is an extension of the office. They catch up with the latest happenings in the village and retire at 9.

Lending operations : BANDHAN lends out to individual borrowers who are members of a group. One has to be a member of a group to access loans. A group of minimum 10 members is required to be formed before the loans can be disbursed to the individual borrowers. A group can accommodate a maximum of 20 members. Further, the group also serves as a collection centre for the weekly installment repayment. The group also promotes literacy amongst illiterate members.

All the borrowers meet at a predetermined time and place. There are no notices sent nor any agenda. The purpose is simple-- the group members should assemble and first transact the lending business. Loans are made and repayments are collected. The CO updates the passbook, records the dealings in a simple register that serves as a minute book.

The loans are sanctioned on the spot but the disbursement is made at the BANDHAN's office the same day in cash.

The Products offered: At present BANDHAN only offers loan products. It stopped accepting deposits from December 2005 onwards as per RBI guidelines. It offers two

Bandhan's Loan Products

- ? Non-collateral based one. One simply has to be a member of Bandhan's organised women group and ensure a minimum level of attendance in the weekly group meeting before accessing loans.
- The first loan is disbursed after 4 weeks of membership.
- The first loan is between INR 1,000 – 5,000 for the rural clients and between INR. 1,000 – 7,000 for the urban clients.
- A service charge of 15% per annum is charged on the loans. Loan repayment is weekly - the weekly loan installment for a INR 1000 loan is INR 25 only. The loan term is only one year; the total number of instalments is 40.
- Subsequent loan is INR 1000 – 3000 more than the previous loan on the basis of two factors viz. future potentiality of the client's income generating activity and whether it generates the expected income of the client.
- Entitlement to a grace period of 6 weeks- 3 weeks on medical grounds and the last 3 weeks for holiday purposes

Loan. The loan size being the differentiating factor.

For Micro Enterprise Loan the process involves identification of eligible borrowers from the existing client base. This is followed by financial and risk appraisal and visits by the staff. As the loan size is large (upto INR 50,000) the monitoring process is more elaborate.

Its main features are :

- 5% security deposit is needed to avail the loan
- The first loan ranges from INR 15,000 INR 50,000
- A service charge(interest) rate of 15% is charged
- Disbursement and Repayment solely in cash
- Repayment in 1 year of equal installments

System of weekly loan repayment: The practice of weekly installment repayment ushers in a level of comfort amongst the borrowers and it does not affect their normal running of the households. The Micro enterprise loans which are of higher value were collected in 10 equated monthly installments. These are now being collected in weekly installments.

To mitigate the risk on account of death of a member, BANDHAN collects 2% (likely to be reduced to 1.5%) of the loan sanctioned as risk fund. BANDHAN has not tied up with any insurance agency. It believes that tying up often may not be in the best interest of the poor. There is no possibility of reducing the premium paid and it works on global scale.

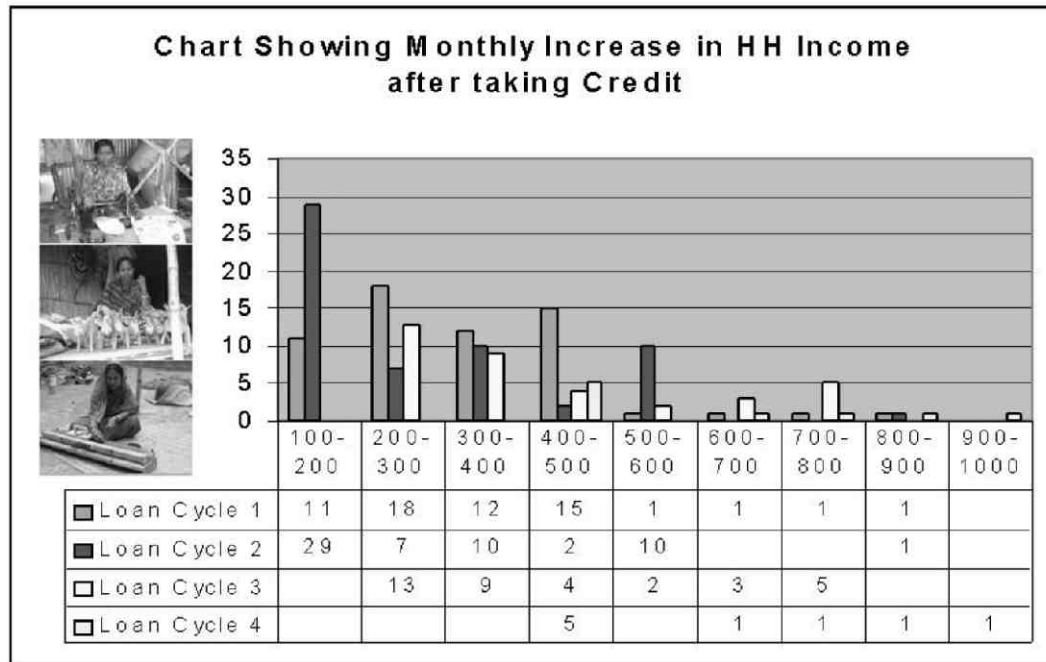
4. Impact Analysis of the Intervention

Given the phenomenal growth of micro credit operations, what is the its impact on the lives of the poor was the central question before the case writers.

An in-house study⁶ done in October 2005 (figure 3 suggests that the process followed in loan disbursement has had a favourable impact on the house hold income. In a sample of 60 clients surveyed, twenty nine of them reported an immediate increase in income of INR 100-300 per month. Once the loan is repaid and sufficient confidence gained they take a slightly higher loan in cycle 2 and try to improve their income.

⁶Chatterjee Sanchari, "Impact of Bandhan's Micro credit Programme on Income of the client" Kalyani University

Figure 3 : Impact on Peoples Livelihoods



Source: Chatterjee Sanchari, "Impact of Bandhan's Micro credit Programme on Income of the client" Kalyani University

This has been primarily due to removal of critical bottlenecks (mentioned earlier) in the livelihood generation activities.

A separate field study by the case writers seems to corroborate the findings of the above study. Annexure 5 provides a detailed loan cycle wise break up of 25 borrowers from Konnagar where BANDHAN first started its Micro Credit operations. These borrowers were contacted personally by the case writers. On the basis of the borrowers' feedback and perception it was found to have improved their economic condition after taking credit. The positive income effect has been due to ability of the borrowers to buy cheaper raw materials (such as tailoring), maintain enough stock of finished goods (fancy items, where choice is key) or procure materials from alternate sources (such as utensils which are made in Orissa and preferred by buyers).

Table 1 provides a break up of three such borrowers out of the sample studied who have migrated to fourth cycle.

Table 1 : Borrowers who completed four cycles		
Loan	Average Borrowing (INR)	Incremental Income (PM)
L 1	3,000	225
L 2	5,333	438
L 3	6,667	345
L 4	9,667	455

The advent of Micro credit and the consequent ability of the skilled persons have changed the business paradigm. People engaged in small and cottage industries have always been at the mercy of the traders who provided the orders, materials and money. This practice created a situation where the interest cost was often imputed with the basic cost. Thus the buyer had no way of knowing how much she was paying for it.

Dolly Biswas of Konnagur makes sketch pens. She bought the raw materials from a trader in Kolkata who used to charge 5 per cent over and above the material cost as incidental charges. He was also the only person to whom she could sell. Here too the trader used to charge similar commission. Dolly applied for a loan to BANDHAN. She now buys raw material from a different source and also she is under no obligation to sell her sketch pens to a single trader. Dolly and many others like her are in the third cycle. (see table 2 for details)

Table 2: Borrowers who completed three cycles		
Loan	Avg Borrowing	Incr. Income
L1	3,615	347
L2	5,923	359
L3	8,231	388

Creation of Livelihood Assets perhaps has been one of the single most important achievements for the micro credit programme of BANDHAN. Pampa di is one such borrower. She first borrowed INR 3000 and invested an equal amount in setting up a jacquard machine for weaving. She repaid the entire loan @ INR. 75 per week (equivalent to a saree's wage) in 45 weeks. With the machine she and her husband are able to weave six sarees in a week's time, which fetches an earning of INR. 360. After repayment of her installment she is still left with some amount that contributes to her HH income. She has repaid the first loan and re borrowed INR 6000 for a second machine.

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It has enabled members to have the ownership of the livelihood asset instead of hiring it. This basically gives the "Psychological Incentive" to the borrower to increase their efforts and enhance income. For example , Archana di whose husband was a rickshaw puller, did not have a rickshaw of his own and thus had to take it on rent for INR 25 a day. His monthly income was around INR 1,600, out of which he had to give out INR 650 as rent for the rickshaw and hence had financial hardship. At this point, Archana di came to know of BANDHAN. She joined one of the groups in her area and availed of a loan of INR 5000 in January 2005. With a weekly installment of INR 125 they have been able to acquire the ownership of a rickshaw by November 2005. It also had lead to reduction of burden on their household expenses. They decided to save this amount in SAHARA.

One of the visible impacts that needs to be recognized that the poor, people have started savings in multiple forms. The value of such investments on fixed capital may be viewed as net savings if the loan is repaid without having to take recourse to another asset such as past savings. A profile of BANDHAN's borrowers indicates that 68 per cent of the borrowers had invested their loans into acquiring livelihood assets. Most of these loans are less than INR 5000 which is preferred by the borrowers. These loans are payable in small weekly installments which are preferred by the borrowers.

5. Micro Credit and Livelihood Promotion - Impact on the Saree weavers of Shantipur

Shantipur is a small town in Nadia district of West Bengal. At the strike of dawn one can hear the rattle of the tant (handloom) all over the town. The place is well known for its handlooms sarees commonly known as Tant Sarees. Agriculture is mostly in cash crops and plantations and thus there is enough time available for the people to engage in supplementary livelihood activities. Handloom saree is one such trade where almost every family in the town is engaged in.

BANDHAN started its operations in Shantipur in July 2004. Table 3 provides a snapshot of the growth of credit operations at Shantipur.

	# of borrowers		Cumulative Lending (INR 000s)	
	Aug 04	Mar 06	Aug 04	Mar 06
Agriculture	4	103	10	385
Animal Husbandry	3	219	5	914
Small Cottage Inds	70	2,998	199	10,413
Small Transport	3	368	6	1,390
Small Business	5	271	14	1,064
Small Trading	14	484	42	1,932
Services	21	137	56	445
	120	4,580	332	16,543

There was no formal source of credit for the people engaged in the Tanti work. In spite of having a great demand for Shantipur Sarees and availability of requisite skills the weaver community was completely dependent on the traders for their survival. Discussions with the weavers indicated that most of them never thought that bankers would give them collateral free loans for such small amounts. Most banks in the area preferred to give large loans as part of some government initiative. The problem with the large loans as Khatik Da of Fulia puts it was “first of all we do not require such large amounts to finance our work; this is a skilled job. Our cash flows too are such that we will not be able to repay the large monthly or quarterly installments at a time. Splitting of installments into weekly help us plan our cash flows better”.

What BANDHAN has been able to achieve is to revitalize the tant saree market. Previously the weavers who were from poor families depended on the local wholesale traders for supply of materials and this applied to all the stages of the value chain. The extent of business then depended on the financial strength of the trader. When BANDHAN first entered into Shantipur and neighboring areas, the traders were against it. Mr. Pritish Saha (of BANDHAN) recalls that once he was called by the local traders association for an explanation as to what BANDHAN was upto. “They opposed direct lending by BANDHAN to weavers as they felt their monopoly was being threatened”. The traders association is a body of over 260 members who trade in various items related to handloom sarees. However, BANDHAN consolidated its position with the support of the local administration.

While no reliable estimates for the number of Tants operating was available old traders put it at 3,000. However, with BANDHAN's entry the number is estimated to have increased to over five thousand. Each tant means 240 more sarees to sell and thus more demand for raw material. It also means increased availability of sarees and increased turnover for the trader.

5.1 Impacting Markets through Micro Credit :

Another interesting dimension of the role of micro credit in promoting livelihoods indirectly is through the demand creation process. According to Prithish Saha "BANDHAN's support to the small traders from the market too has had a positive impact on the market for tant sarees. Previously the wholesale saree traders used to give limited stocks to the local traders for sale in the upcountry markets of Durgapur/Asansol etc. This was because their own capital was tied up in the process. However, now that the wholesalers know that these individual traders would be financed by BANDHAN for their working capital and therefore could be given more stock".

Today nearly 10 per cent of the BANDHAN's borrowers in Shantipur are small time traders. A majority of them are engaged in trading of sarees. In terms of value this is 11.67 per cent of the total amount lent. (see table 4)

Category	No. of Borrowers	Amount O/s Cumulative (in Rs. 000s)
Small Cottage Industry	2,998	10,413
Trading	484	1,932
Others	1,098	4,198
	4,580	16,543

Source: BANDHAN Shantinagar Branch Reports

Subir and his wife Chabi are engaged in the Tant saree business. Chabi is engaged in starching of the yarn and converting them into spools which she sells to the local traders. She earns Rs. 45 a day from this activity which in her spare time. Her children too help her in this work. She took a loan of INR. 3,000 from BANDHAN which was used to finance the working capital of her husband Subir.. With this money Subir was able to convince the wholesaler to give him goods worth INR. 9,000. This was three times the goods, which he would have normally got. He sold his stocks at Burdavan, Asansol and Durgapur markets, where he has established a network of retailers. He managed to sell 50 sarees in the first week itself. The entire sales proceeds were deposited with the wholesaler and a running advance was given to him to cover for the expenses. He expects better turnover this year as there is more stock of sarees. Each of the wholesalers has a number of small traders like him who have regular dealings. The entire operations are conducted on the basis of mutual trust and long-term relationship.

5.2 Impacting Social Lives : Although unstated, the micro credit services have started ushering in silent revolution in part of Bengal. The women clients are empowered by adding substantially to their household income. They have now an important stake in the decision making process of the family. They are now more concerned for their children's education. These women who could not even afford a decent morsel of food in the past are today investing in a L.I.C, depositing money in the post office etc. The weekly meetings conducted through BANDHAN also serve as a learning platform for the members of BANDHAN. In these meetings they discuss various social and economic issues that affect their day-to-day lives. The main goal of these meetings is to create a bond of solidarity between the women and to know what is happening in each other's life. Problems that could not be solved individually at the domestic front are now solved through consultation within the group.

5.3 Where Micro Credit works best?

If credit services could foster economic progress of a region as is suggested by the Konnagar and Shantipur examples then what are the conditions where it works best ? In order to fully understand this, the case writers tried to study the entire value chain of the saree making activities. Annexure 6 provides the detailed map together with a brief write up on the steps that are involved in weaving of a saree.

A profile of the borrowers of Shantipur over the last two years indicates that 65 per cent (2,992) of them have borrowed for various activities related to saree weaving activities. While a further detailed break up is not available, this translates into infusion of INR 39.16 Million in the village economy in a year (when calculated for 1500 new looms created @ INR 26,105 value added per loom). This required an investment of INR 4.5 Million. The following features are visible in the process :

- Credit has to be created for Demand Condition
- Credit has worked as a mechanism to correct market imbalances
- Cheaper Credit has allowed people to innovate and take risks
- Credit has worked as an empowerment tool

5.4 Conclusion

BANDHAN represents a new generation of professional micro credit agency. It is a specialized Micro credit agency and does not engage in other allied services/activities. This has helped it achieve near 100 per cent on time repayment track record and also build quality portfolio.

For growth, simplicity and speed is the key. If BANDHAN today has managed to increase its portfolio of clients and also ensured that poor have access to credit, thanks to its simplified model that has standardized all operations and decision making.

All borrowers of BANDHAN are women. But it also recognizes the household and as such the male members too are part of the deliberations/loan process discussions. This is because there is a realization at BANDHAN that livelihood decisions are often taken at the household level and not at individual level. Preference is given to those households who are needy, have certain skills.

BANDHAN ensured that its clients received timely credit as promised. The strategy has been to keep business development separate from micro finance operations. It studied other models and realized that often this could lead to situations which could affect the debt portfolio and recoveries.

BANDHAN invested heavily into building the institution. This remains the backbone of the lending operations. Its entire business model is based on achieving operational sustainability in 12 months. This creates effective entry barriers for others such as commercial and private banks. Being a low cost player helps remain competitive. A branch costs just INR 31,000 to set up and it operationally breaks even with 1600 clients in 11 months. Since the focus remains on credit, other initiatives are usually not part of the agenda directly. However, the continued association of CO with the group ensures that the group starts deliberating upon empowerment related issues. But there is no formal system as such as we might find in SHG model.

Insurance remains an in-house activity. BANDHAN studied the mortality rates inhouse and realized that the 2 per cent risk fund over a period of time would be adequate to meet any exigencies. Apart from this there is also a realization that using services of an external insurance company means permanently foregoing the premium. The organization does not gain anything from it. On the contrary this fund can be effectively used to strengthen the organization's own financials thereby reducing the cost of lending.

Moving from Strategy to Purpose : BANDHAN believes that the poor have inherent ability to identify livelihood opportunities and drive the organization. Their willingness to repay inspite of hardships, and honesty are the strength on which BANDHAN grows and let its clients grow.

Moving from Systems to processes : There are no computers in the field or at any of the branches. There is opportunity cost of money. It realizes that it can set up a branch with the cost of a computer and that is revenue generating whereas any computer at branch is a liability given its real cost of operation. BANDHAN's entire operational strategy revolves around developing a low cost credit delivery model that is competitive and meets the needs of the borrowers.

Moving from Structure to people: People are key in the organization and it is reflected in every aspect of managing human resources. BANDHAN follows an exhaustive and yet fast process of recruitment. Training and capacity Building activities are conducted inhouse as this allows the senior managers to update themselves as well as identify potential bottlenecks. Decisions are faster and have greater acceptability among the staff.

Savings continue to be an area where there is a demand but the existing structure does not permit MFIs to accept savings. As incomes rise so does the propensity to save among

the poor, at least some part of it. As yet there are no micro savings products available and as a result of which the poor often fall prey to unscrupulous operators. The banks that can accept savings often do not do so because of operational costs or general apathy. In future, it needs to be seen how the savings needs of the poor are met through an alternative mechanism.

How one addresses the needs of the poor and yet provides competitive returns to the organization to meet the cost of borrowing is key to the success of any MFI. BANDHAN has succeeded in making efficient use of its funds, improved the rotation through effective processes to increase portfolio yield by ensuring that poor get credit at affordable rates. Since these are purely credit based operations, it was able to leverage the quality of its portfolio to other banks and financial institutions and access funds for its micro finance operations. As a strategy it chose to go the loan route and loan funds are easier to get than grant funds.

Sustainability of operations is also important to ensure that an MFI is able to provide services to its clients on a continued basis. In BANDHAN's case the intelligent mix of own funds and loan funds has helped create a model where the internal accruals will help to a great extent in achieving financial self sufficiency in the years to come. This strategy has ensured that the entry barriers to any new organization will be stiff. It will have to match the flexibility and speed of BANDHAN to be able to make a dent.

BANDHAN-KOLKATA

Points for Discussion during the visit to BANDHAN on 5-7 February 2006.

For any additional comments/feedback please do write/contact,

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- I. **Overall** - BANDHAN started off as a CB agency but in 2001 it opted for the Micro Finance route. Why did it make the strategic shift? What were the drivers to this change?
- II. **Objectives of Intervention**
 - a. As a professional new generation institution how does BANDHAN consciously work for the objective that it has set out for itself while focussing on the systems driven approach?
- III. **Nature of Intervention**
 - a. Who all are the other actors providing similar services in the areas where BANDHAN works traditional moneylender in its various forms, government, banks? What have they been doing so far?
 - b. What is the intervention design of BANDHAN - direct mode or facilitating mode? Is the organisation responsible for financial intermediation itself or it is forming and then building the capacity of community institutions? Why did it choose this way of operations?
 - c. What are the basket of services offered to the members? Credit? Savings? Insurance? Money remittance? Leasing? One or any combination? What is the reason behind (not) providing a particular service?
 - d. Any innovations in products, process in delivering the product?
- IV. **Design of Intervention**
 - a. What is the spread and growth of the intervention? Outreach? Portfolio? What is the social and economical background of the members?
 - b. What is the structure at the community level? Individual? Group? What kind of group?
 - c. What is the organisation structure? How is the operating system and governance structure linked? Who plays what role? What are its repercussions on management accountability as well as profit sharing?
 - d. What is the reporting mechanism to the stakeholders - clients, staff, donors, financial institution, the state and the regulatory authority?
 - e. What are the product features? How are they designed or arrived at? What are the purposes for which the services are provided?
 - f. What are the systems for Identification, Appraisal, Disbursement and financial tracking, Accounts and Audit, recruitment of staff, payment structure and incentives?
 - g. What is the effective interest rate in credit and savings? Is it fixed or variable? What are the criteria? How is the interest rate arrived at?
 - h. What is the portfolio quality and what are the reasons for the same risky or risk averse experimentation stage?

V. Livelihoods Interventions of the MF programme

- a. Does the intervention focus on any particular sector? Agriculture and allied activities? Non-farm? Household enterprises?
- b. What aspects of the value chain does it try to finance? E.g. in handloom, say only the weavers? If it provides financial services to only one aspect of the value chain, how does it ensure forward - backward linkage that is required in success of the programme?
- c. Does the intervention work with people of any particular occupational background? E.g. farmers, Rickshaw pullers, fisherman? How are the products designed to meet their specific requirement cyclicity, seasonality, risks?
- d. Does the intervention support existing occupation or does it also try to promote the ones that do not exist, but are possible in the given context?
- e. What are the other services provided in addition to the financial services by the intervention/ organisation? E.g. marketing support, linkage with strategic buyers, research and development, appropriate technology development? How do they help in promotion of the activities that the clients are engaged in?
- f. What is it that the clients utilise their money for when they slowly graduate to higher credit cycles? Does it increase in consumption expenditure or is it utilised in increasing the scale of production?
- g. How does the intervention promote individual occupations or group enterprises through microfinance? Does the organisation also invest in the institutional development of any enterprises, where multiple players are involved? What role does the promoter organisation play?
- h. Does the intervention try to address the infrastructural and institutional bottlenecks in the region and the sectors that it works with? How?
- i. What are the cost repercussions of providing the non-financial services? How is the cost borne? Is it raised from donors? Or the clients of the financial services bear it as part of the cost of credit or as a separate service?
- j. Does the intervention have any products/ services which is not directly related to income generation e.g. for health, education?
- k. Does the intervention make any deliberate attempt to link its programme with the schemes/ programmes of other players like government and the private agencies? How are the roles and responsibilities shared?
- l. How does the intervention react in the event of a natural disaster? Say, drought or flood? Does it have any risk mitigation mechanism or any system to redesign the loan repayment?

III. Impact

- a. What has been the impact in the social and economic situation of the individuals? Family? Community? Institutions? Region?
- b. Has there been any noticeable increase in the asset base of the households? Creation of community infrastructure as a result of the infrastructure?
- c. What has been the biggest achievement of the intervention? In case most of the MF clients are women, what has been the changes in the gender relationship within the families or/ and in the community?

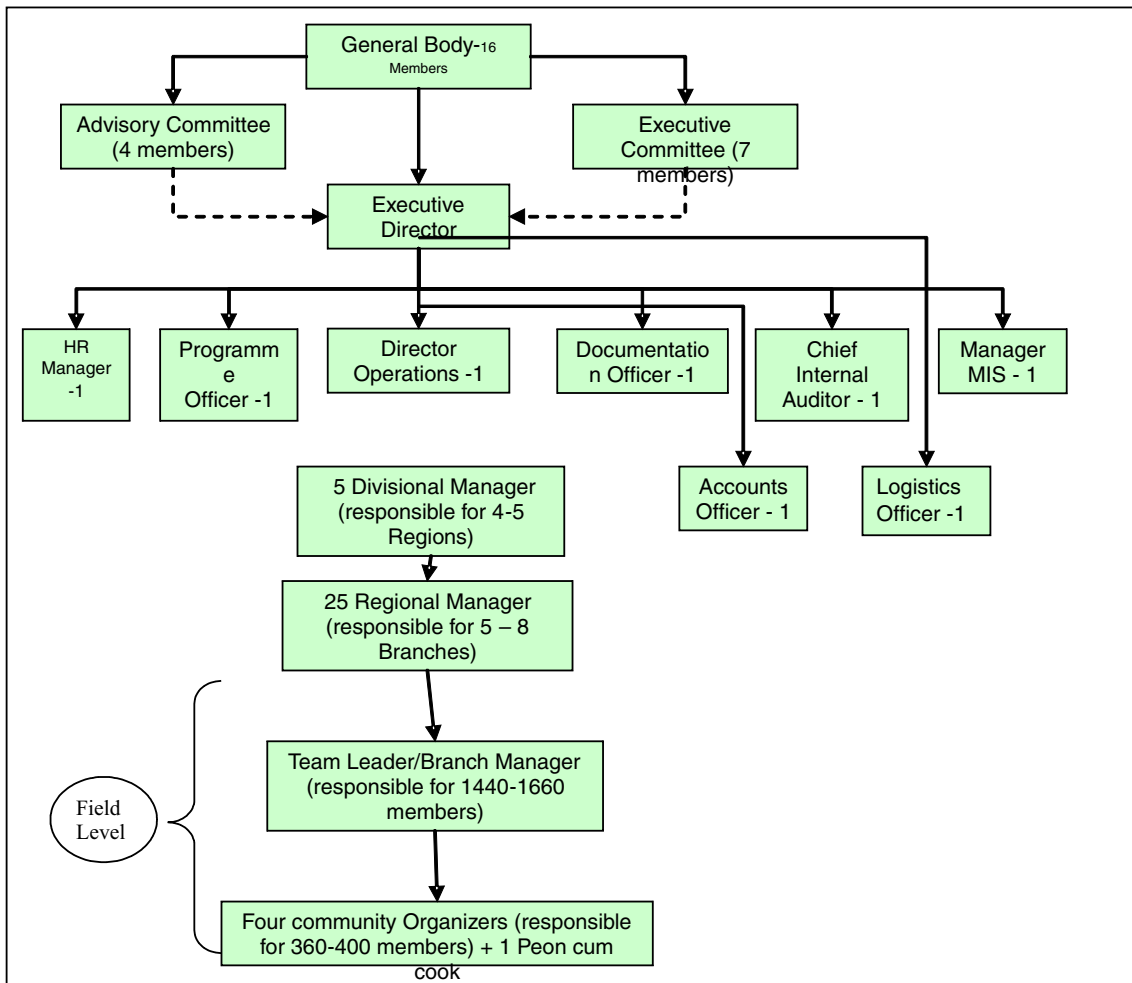
**Annexure 2
BANDHAN At a Glance**

Particulars	2001-02	2002-03	2003-04	2004-05	2005-06
No. of Branches	1	2	10	54	155
Districts Covered	1	2	5	8	14
No. of Blocks Covered	1	3	15	93	253
No. of Panchayat s / Municipalities Covered	2	12	91	374	1,020
No. of Village s Covered	10	61	290	1,635	5,241
No. of Staff	4	12	46	234	678
No. of Community Organizer s (CO)	3	6	32	158	471
No. of Groups Formed	50	135	581	2,956	9,061
No. of Members	512	2,029	9,282	51,586	176,063
No. of Cumulative Loan s Disbursed	131	1,185	7,186	49,397	208,231
No. of Borrowers	131	1,054	6,001	40,286	149,886
Amount of Loan Disbursed in INR Millions	0.351	2.748	19.642	147.175	755.631
Amount of Loan Outstanding in INR Millions	0.294	2.18	12.038	85.638	371.118
No. of Overdue Borrower s	-	-	-	-	170
Amount of Overdue	-	-	-	-	0.53
Average Loan Size on Disbursement Amount (INR)	2,679	2,319	2,733	2,979	3,832
Average Loan Size on Outstanding Amount (INR)	2,244	2,068	2,006	2,126	2,483
No. of Members per CO	171	338	290	326	374
No. of Borrower s per CO	44	176	188	255	318
Portfolio Outstanding per CO in Million (INR)	0.098	0.363	0.376	0.542	0.79
Portfolio Outstanding per Branch in INR Millions	0.294	1.09	1.204	1.586	2.401
On Time Repayment Rate - %	100	100	100	100	99.98

Annexure 3: BANDHAN Key Financial Ratios

Ratio	Defined as	2005-	2004-	2003-	2002-
		06	05	04	03
		%			
Operational Cost Ratio	Operating Expenses / Average Loan Outstanding	21.71	39	15	14
Financial Cost Ratio	Financial Cost / Average Loan Outstanding	8.84	10.15	12.90	10.50
Yield on Portfolio	Operating Income / Operating Income	26.24	26.37	27	26.50
Operational Self Sufficiency	Operating Income / Adjusted Operating Expenses	121.66	70	103	90
Financial Self Sufficiency	Operating Income / Operating Expenses	116.66	67.35	92	64
Capital Adequacy Ratio	Net Capital funds / Risk Weighted Assets	11.38	- 1.51	1.98	3.30
Debt Service Coverage Ratio	Operating Income / (Principal Amount Repaid+ Interest Amount Repaid)	91.46	61.05	74	-
Administrative Cost Ratio	Administrative Expenses / Average Loan Outstanding	12.87	25.55	-	-
Cost Per Loan	Operating Expenses / Loans Disbursed	0.07	0.11	0.12	0.11
Cost Per Loan Made	Operating Expenses / No. of Borrowers	297	324	328	272
Cost Per Money Earned	Interest and Fee Income / Loan Disbursed	0.09	-	-	-
Funds Rotating	Total Loan Disbursed / Average of Net Borrowings plus Security Deposit	3.15	-	-	-

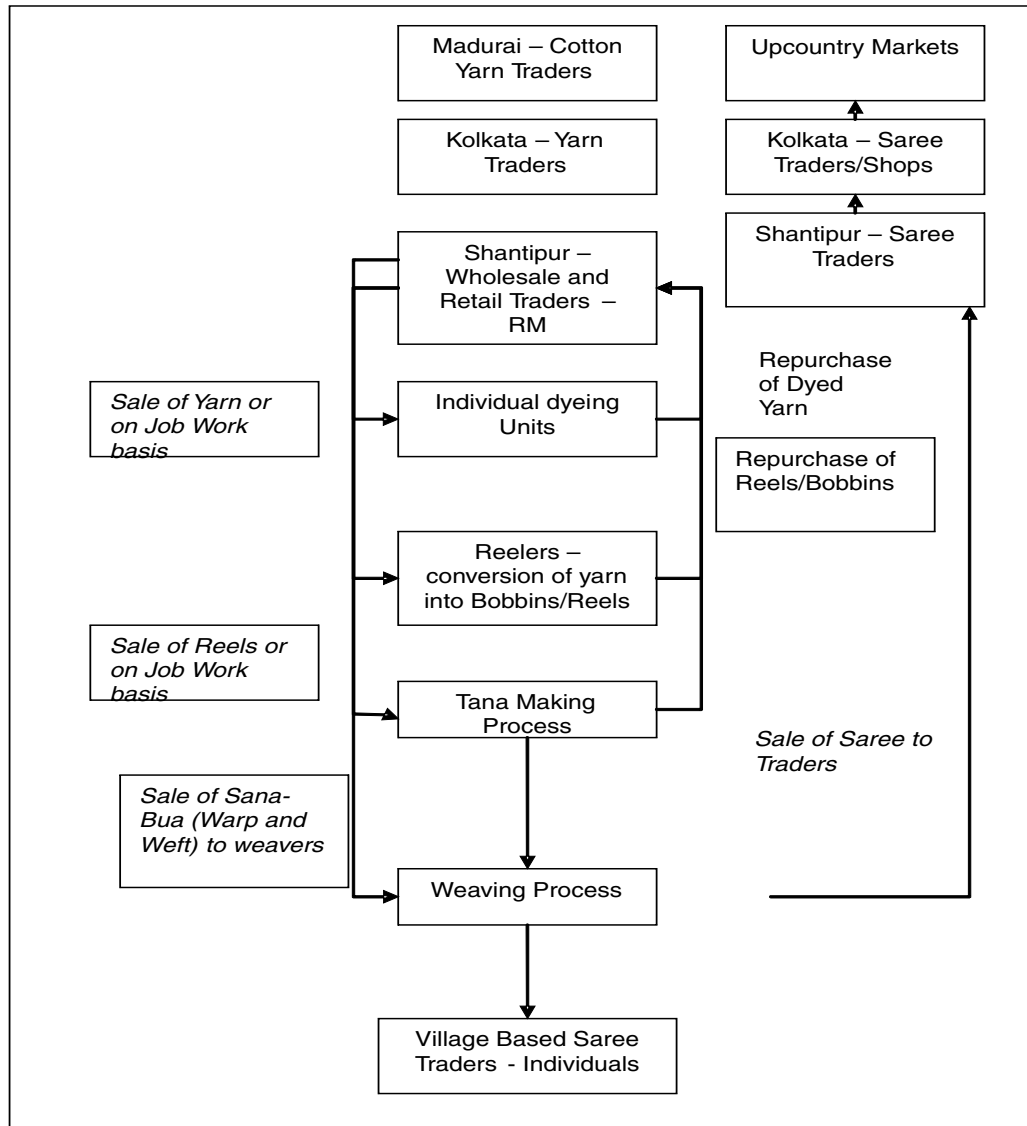
Annexure 4
BANDHAN : Organization Structure



Annexure 5 - Master Sheet Showing Incremental Monthly Household Income from BANDHAN's Micro-Credit Lending's Branch Konnagar

Sr.No	Name of The Borrower	Activity	First Loan		Second Loan		Third Loan		Fourth Loan	
			Trade	Amount	Incremental Income(PM)	Amount	Incremental Income(PM)	Amount	Incremental Income(PM)	Amount
1	Jhuma Das	Cow Trading	3,000	175	5,000	300	4,000	225	7,000	290
2	Rita Devi	Tailoring	3,000	265	5,000	350				
3	Anjana Das	Watch Repairing	3,000	475	5,000	575				
4	Nita Adhikari	Tailoring	3,000	490	6,000	600	9,000	750		
5	Lokhi Polen	Paper Craft	3,000	180	5,000	275	6,000	290		
6	Archana Polen	Rickshaw	5,000	575	6,000	180				
7	Rekha Devi	Fruit Shop	3,000	325	6,000	475				
8	Romita Chatterjee	Tailoring	3,000	350	5,000	475	7,000	550		
9	Dolly Biswas	Sketch Pen	5,000	325	6,000	190				
10	Shikha	Auto Repair	3,000	280	5,000	390	8,000	450		
11	Krishna Sarkar	Rickshaw Van	3,000	425	5,000	350	7,000	290		
12	Sunita	Snack Shop	4,000	250	6,000	200	9,000	320		
13	Arti Saha	Industrial Gloves	4,000	280	6,000	275	8,000	425		
14	Ujwala Saha	Tailoring	2,000	200	4,000	315	6,000	410	9,000	475
15	Maya Dey	Cloth Vending	3,000	325	2,000	180				
16	Maya Ray	Vegetable Selling	3,000	400	6,000	500	10,000	600		
17	Ganga Ray	Tailoring	5,000	375	8,000	600	10,000	275		
18	Nirmala Das	Fancy Items	4,000	300	7,000	700	10,000	400	13,000	600
19	Kalyani Das	Utensils Business	5,000	310	6,000	250	8,000	200		
20	Reena Singh	Ice-cream	2,000	300	5,000	190				
21	Bela Das	STD Booth	5,000	650	8,000	325	9,000	300		
22	Nivedita Mukherjee	Kirana Shop	4,000	325	7,000	250	9,000	200		
23	Mitali Ghosh	Hotel	3,000	475	5,000	280				
24	Keya Sarkar	Toys Making	5,000	525	7,000	300				
25	Bina Devi	Flower Business	2,000	200	4,000	175	7,000	400		

Annexure 6: Tant Saree Weaving Process Illustrated



Stage 1 :

Cotton yarn is the basic raw material, which is needed for weaving of saree. Traditionally the cotton yarn has been procured from South India, notably from Madurai, Tamilnadu. Although no one in the saree weaving activity at Shantipur could provide a satisfactory reason, the traders opined that the yarn is preferred due its soft feel and excellent dye retention properties which are a hallmark of a Bengali tant saree.

Stage 2: The yarn traders of Shantipur

The cotton yarn is procured by the Kolkata based traders, who then supply to the markers of Shantipur, Kalipur and other places. Saree weaving is like a process. However, most of the people who are engaged in the different activities are poor and have no capital to invest of their own. The entire operation is labour intensive and therefore people have acquired specializations over the years. The village based traders act as a routing mechanism to ensure that these activities are smoothly conducted. They play an important role in absorbing additional stocks and act as a market maker for intermediate products such as dyed yarn and sana bua (warp and weft).

Stage 3: Starching and Dyeing:

The yarn is sold in terms of Lachhas (called Moda). It costs Rs. 27. It takes 1.2 moda to weave a saree. The first step is to give starch to the loose yarn. The dyers use Sago as a base material for giving starch to the loose yarn. The yarn is soaked in water for about 10-12 hours before applying Sago. The wet yarn is then allowed to drip dry by draining off excess water and woven on a small drum called Natai by using a small charkha. It is then removed and dipped into the Vat (vessel containing starch material). The Natai is then withdrawn and allowed to dry in shade or in a room using ceiling fan (especially during monsoon). The starched yarn is then woven on small bobbins using a charkha. This activity is labour intensive and usually a family can make seven bobbins in a day. This will fetch them Rs. 35 as labour.

The dyeing process is quite elaborate and involves use of materials, which are to be procured by the concerned person himself. The usual assets are a big pan for heating, abundant water, bleaching powder and acids/chemicals and coal. The total cost of dyeing each lot of 25 bundles (moda) is Rs. 217 to 457 depending upon the type of colours used. For darker and brighter shades the process needs to be repeated and hence the cost increases. Mahajans/Traders usually pay Rs. 6 per moda of dyed yarn. A person engaged in the dyeing activity can expect to earn about Rs. 60 per day for 25 bundles (625 modas).

Stage 4: Reeling

The dyed yarn is then converted into small reels/cops. This is a simple activity and an improvised charkha is often used for this. The cost of this charkha is about Rs.100. Women are engaged in this activity. Whenever they have spare time they prefer to weave the dyed yarn around small bobbins. They get Rs. 2 per reel as labour charges. The reels are the base material for preparation of Tana (warp).

Stage 5: Tana Making

Tana making process involves creating design pattern using a wide variety of coloured threads. The colour scheme is specified by the saree traders. A drum unit comprises of a wooden frame where 204 reels can be mounted. Depending on the type of sari to be woven the number of reels is adjusted. One frame is enough to make 40 to 60 sarees. This is again a factor of design and other related complications. Individual fibres are then passed through a device known as Sana-Bua which is basically a frame to guide the fibres from the reels into a uniform pattern. This also acts as a tension device to ensure that the fibres are uniformly tied. The operator keeps a close eye to ensure that there are no breakages. The threads are then tied to the large drum. The drum which is 221 inches in circumference is operated manually by rotating with a handle. One operator is enough to work on this machine. There are local fabricators who can manufacture the machine in Shantipur itself. The machines, which cost Rs. 6000 can be procured easily. The higher end machine such as those being used at Falia, which are double jacket machine and are capable of creating intricate designs are more expensive. These cost Rs. 15000 each. On one drum yarn equivalent to 40-50 sarees can be mounted.

Stage 6 : Weaving

The waving activity involves use of an improvised wooden loom. The loom can be fabricated locally and costs Rs. 4000. There are local carpenters who can make the same. It requires eight days labour to make one loom. One worker can work at a time on a loom. There is also a jacquard machine that creates the designs and patterns. Each worker can make one saree a day and gets Rs. 70 as wages.

Annexure 7 : Glossary

1. ABN-AMRO : A Global Banking & Finance Group
2. ASA : (In Bengali means 'Hope')
3. BANDHAN : The name of the Micro Finance Agency
4. BRAC : A leading Bangladesh based Non-government Development Agency
5. CDF : Credit & Development Forum, Bangladesh
6. LIC : Life Insurance Corporation of India
7. MFI : Micro Finance Institution
8. SAHARA : An Indian Non-Banking Finance Company
9. SGSY : Swarna Jayanti Gram Swarajgar Yojana (A Government of India initiated self employment scheme for the poor)
10. SIDBI : Small Industries Development Bank of India