

Micro Financing Model of Bandhan Financial Services: Functions and Operations

Dhritabrata Jyoti Bharadwaz
Assistant Professor

Department of Commerce, Dibrugarh University, Dibrugarh, Assam, India

Abstract - Micro Finance in India has made a significant growth in the aspect of making the population of the country included in the organized financial structure. This has paved way for establishing various institutions and Models thorough which the financing can be done to those who are being deprived of the benefits of financial credit. This paper is an attempt to understand one of such micro financing model that is Bandhan Financial Services and also understands the functions and operations of the financing scheme. The researcher has collected the data from secondary sources and made a discussion regarding the operations of the model.

Index Terms: Micro Finance, Bandhan, Financial Service

I. INTRODUCTION

Finance is considered as the bloodline of any business activity. All business requires financial service in order to carry out their activities. With the help of finance, businesses can run and thus provide various goods and services to the society at large. There are well established lines of finance or in other words credit lines which business houses can avail. These lines of credit are generally made available by the institutions which are covered under the formal structure of the economy.

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.

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.

II. OBJECTIVES

- i. To understand the concept of micro finance through Bandhan Financial Services Ltd.
- ii. To understand the functions and operations of the model of financing.

III. METHODOLOGY

The study is basically descriptive in nature and has been prepared in order to understand the functions and operations of Bandhan Financial Services Ltd. The Bandhan Micro Financing has been selected because it is most prevalent in the region of the researcher where the researcher resides and is most successful as a Micro Financing Model in most of the areas of the region. In this study the data has been collected from the secondary sources that is from the various online journals, website of the institution, annual report of Bandhan Financial Services Ltd and various other literatures.

IV. REVIEW OF LITERATURE

1. Chopra, Vipla (2010) made an attempt to understand the micro credit and the growth of institutional and non-institutional sources of credit in rural India. The study reflects the position of rural credit and over time in India and the encounters made therein by the delivery mechanism. To make the accessibility easier several programme were introduced in order to alleviate poverty. Finance in the form of micro credit made open the doors to many who were earlier unable to access the services. The researcher has also suggested the bankers to change their mind set and has stressed upon further developing models to facilitate the local conditions of the rural poor.

2. As per the study made by Channabasavanagauda (2010) there has been a shift in the trend of rural finance in India where it is visible that there has been increase in the commercial banks in disbursement of finance in rural India and steady decline cooperative banks. However due the NPA status some lending to these sectors has been withdrawn or banks are reluctant to finance such areas. Apart from dealing in traditional financial services, as has been suggested by the researcher, it is imperative

to incorporate the newly introduced products specifically suited to the rural areas and let the rural financial institutions to concentrate on their specific area of operation so as to cover a larger number of people within the folds of banking and finance.

3. Jadhav (2010) uses secondary data to examine the financial management and inequality in the flow of rural finance in Maharashtra and factors influencing therein. The data has been obtained from annual reports of District Central Cooperative Banks. The study reveals that there exists variation in disbursement of finance in various regions of Maharashtra. The variation arises due various reasons which if mitigated will help in meeting the requirements of finance in India.

4. Srivastava (2010) suggests that Rural Regional Banks should be structured in such a way that they become the market leader in all the villages throughout the country in terms of disbursing finance to the rural people. The researcher made an analysis of the advances made by some of the financial institutions operating in the rural areas and drew out the problems faced by these institutions in financing the rural areas.

5. Gogoi (2015) made a study on the scenario of rural credit prevailing in North East India. The study reveals that in north east the concept of finance in the rural area or ground level has been possible mainly because of micro finance in relevance to SHG and bank linkage programme. There has been a steady rise in the level of NGO's participating in the field of facilitating finance in such areas.

6. Purkayastha (2015) made study on the finance or credit deepening in farm and non-farm sectors. The study was made by way of sampling and data was collected from 500 households. The study observed that a very minimum number of households were having cards of KCC but the number of member from every household in SHG's was quite high indicating the habit of facilitating savings and credit. Although the representation of households in SHG's mainly comprised of families which better off from the rural places. Financial intermediaries like NGO's have been taking active participation in the financial disbursement.

V. OPERATIONS AND FUNCTIONS

- A. Bandhan was setup in 2001 to address the dual objective of poverty alleviation and women empowerment. The micro financial activities are carried by Bandhan financial services private limited (BFSPL) incorporated under the companies act, 1956 and also registered as nonbanking financial companies with the reserve bank of India. Bandhan has been working in 22 states and union territories with 2022 branches and over 63, 66,269 borrowers with a work force of 15,956. The International finance corporation has a stake of 10.93%, has capital base of Rs 1100 crores in the capital structure of Bandhan.
- B. 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. However, in case a member is unable to make her payment, the other group members are not required to make up for the short fall. The group meetings take place at a fixed time and place every week, during the first half of the day. While loan repayments take place during the group meetings, loan disbursements take place at the branches during the second half of the day.
- C. Credit Officers of Bandhan collect loan installments from the clients in the scheduled group meetings. In the group meetings, clients hand over their installments to the treasurer of the group. The cashier, after counting the money hands it over to the Credit Officer along with the loan passbooks. The credit officer puts his signature in the loan passbook as acknowledgement of the amount received from the client. In the group meeting, clients put their signature as mark of their attendance. The credit officer also notes any significant policy changes and acknowledgement of receipt of loan application in the resolution book of the group. The regular duration of the group meeting is about one hour, but usually transactions are completed in less than 30 minutes and thereafter some social issues are discussed in the group meeting.
- D. The institution provides for different types of loans to various categories of the population depending upon their needs and requirements. The following is a brief profile of the loan products that are made available by the institution.

Table 5.D.1: Loan Products of Bandhan Financial Services Ltd

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	Samridhhi (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%
5	Susikhsha (Micro Education Loan)	₹1,000 - ₹10,000	12 Months	12%
6	Fisheries	₹10,000 - ₹1,00,000	12/24 Months	22.40%

Source: <http://www.bandhanmf.com/loan.aspx> (Website of Bandhan Financial Services Ltd)

Some of the above has been discussed below-

Suchana (Micro Loan): These loans are provided to women-members of Bandhan's groups. Loans are repayable in 44 to 45 equal weekly installments of principal along with interest which is charged at 10% flat in West Bengal & North East States and 12.5% flat in other states. The equivalent reducing balance rate of interest (18.97% in West Bengal & North East states which

accounted for 88% of Bandhan's portfolio as of 31 March 2010 and 22% in other states) is communicated to the clients. Client Mentoring Charges of 1% is charged on the disbursements. A refundable security deposit of 10% of the loan amount is collected from the clients upfront.

Srishti (Micro Enterprise Loan): The terms and conditions on these loans are same as those on Suchna except the refundable Security deposit, which is 5% for these loans and that these loans can be given to men too.

Samriddhi (Micro Small and Medium Enterprise Loan): Similar to Srishti except that no security deposit is collected upfront.

Suraksha (Micro Health Loan): Similar to Suchna except that no security deposit is collected upfront, and the loan is repaid in 50 weekly installments.

E. The loans which are provided has their own characteristics which has been discussed below:

- Loans are sanctioned for supporting and enabling the members for undertaking activities which may generate income and support the livelihood of the families or make additional income to their families. Also, after its investment in productive purposes it can be continued in any form of business thus, creating self employment opportunities.
- The fee for processing is charged at the time of disbursement.
- The people who access credit from the institution become automatically covered under a specific insurance policy. Also, the spouse of the borrower becomes insured.
- The method of financing is such that no penalty is charged even in case of default of returning of installment or interest.
- It also includes that incase the borrower makes the payment before the due date then as well no penalty is being charged.
- Most of the loans which that are being disbursed are arranged without any collateral.
- Loan is repayable by weekly, fortnightly or monthly installments at the choice of the borrower.

VI. SUGGESTIONS

- i. That other financial service providers should draw out such channels of providing facilities of micro finance like that of Bandhan and help reduce the gap between the people accessing financial services and other who do not make access to such services.
- ii. The financial service providers should be able to function in such a way so that the customers or the people from rural area find it accessible and approachable for any assistance from the financial service providers.

VII. CONCLUSION

Bandhan Financial Services Ltd has been functioning in the North East Region of India from its very inception in order to uplift the condition of the people who were being deprived of the fruits of organized financial market. The model of Bandhan is different from other intermediaries engaged in micro financing of the underprivileged. Bandhan operate with their own newly developed methods of financing the people and has been quite successful in the north east region of India. Bandhan's presence in the rural areas provided it with a lot of opportunities. It has been serving the unbanked north eastern part of the country where the visibility of commercial banks was negligible.

REFERENCES:

1. Chopra, Vipla, "Rural Credit in India: Recent Developments", Rural Credit in the Era of Globalization, Madhav Books, Gurgaon (Haryana), 2010
2. Channabasavanagouda, P., "Rural Finance in Contemporary India", Rural Credit in the Era of Globalization, Madhav Books, Gurgaon (Haryana), 2010
3. Jadhav, K.L., Managing Rural Finances in India, Edited by Dr. Gursharan Singh Kainth, Concept Publishing Company Pvt Ltd, New Delhi, 2010
4. Srivastava, P.S., Managing Rural Finances in India, Edited by Dr. Gursharan Singh Kainth, Concept Publishing Company Pvt Ltd, New Delhi, 2010
5. Gogoi, Jayanta. K., "Rural Credit and Cooperative Development", Edited by S.B Verma, G.P Sah and S.C. Pathak, Deep and Deep Publications Pvt. Ltd
6. Purkayastha, Gautam., "Rural Credit and Cooperative Development", Edited by S.B Verma, G.P Sah and S.C. Pathak, Deep and Deep Publications Pvt. Ltd
7. Kaur, Pashmeen, "Microfinance – An Emerging Financial Instrument of Financial Inclusion for Social Upliftment and To Eradicate Poverty: A Case Study Based approach", IOSR Journal of Business and Management (IOSR-JBM), National Conference On Advances In Engineering, Technology & Management.

Websites:

1. <https://www.sidbi.in/files/Archieved%20Documents%20Publications/COCA%20reports/Bandhan%20Financial%20Services%20Pvt%20Ltd.pdf>
2. https://oikos-international.org/wp-content/uploads/2015/06/2016_SF_inspection-copy_Bandhan_case.pdf
3. <http://data.conferenceworld.in/ICSTM2/P1786-1795.pdf>
4. <http://www.ijarcsms.com/docs/paper/volume3/issue10/V3I10-0017.pdf>