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## Bandhan creates a flutter in microfin space

# Claims Second Spot In Forbes MFI List, 15 Notches Above Yunus' Grameen Bank

**Saswati Chakravarty BANGALORE**

HE DID not quite set out to take on the world. Five years ago, when Chandra Shekhar Ghosh set up Bandhan, all he was trying to do was fight poverty with microloans. Today, when Bandhan sits 15 notches above Grameen Bank founded by Nobel laureate Mohammed Yunus on an international list, Ghosh simply says: "It means my model works."

If Bandhan does not occupy your mindspace, blame it on simplicity. That is the cornerstone of Ghosh's philosophy for whom staying "simple, transparent and focused" is more important than dreaming big.

Ghosh and his Bandhan — a fledgling MFI that operates as a society in some of the country's most poverty-stricken pockets —upstaged several domestic and international stalwarts to make it to the second position on Forbes magazine's first-ever listing of the World's Top 50 Microfinance Institutions. Bandhan was among the seven Indian MFIs that made the cut, the largest from any country. Bangladesh had an equal number.

In fact, the Forbes list comes as a shot in the arm for the microfinance movement in India with several players finding mention. As Vinutha Reddy, founder of Grameen Koota, says: "If India has to reach its millennium goals, microfinance needs to play a very crucial role in it. With this list, we have now got increased visibility."

Ms Reddy's Grameen Koota, an MFI based on the Grameen Bank model, has been ranked 19 while Vikram Akula's SKS, another Grameen replicator, is at 44th position. The others are Microcredit Foundation of India (13), Saadhana Microfin Society (15), Sharada's Women's Association for Weaker Section (23) and Asmitha Microfin (29).

Though Grameen Bank has been ranked 17, the list is topped by ASA, another Bangla heavyweight. For Ghosh, who made sandesh (a traditional Bengali sweet) in his younger days to meet his educational expenses, the recognition perhaps is the proof of his core MFI strategy of keeping a tight rein on operating costs. Shunning "a complex mix of offerings", Bandhan still works only in the area of microcredit. It keeps a simple reporting structure and uses automation only to drive down costs. **PEs queue up to park funds in MFIs**

AFOLLOWER of the ASA model, he could well emerge as a darling for private equity funds who are queuing up to park their monies in microfinance. But Ghosh, for now, wishes to keep them at bay. "I do not wish to take on pressures that may cause mission dilution. But I am open to institutional investments," he told ET.

Incidentally, microfinance funding from private equity investors worldwide stands close to \$2.5 billion in 2007 and is increasing everyday.

So what is Ghosh's model all about? In his language: "Don't waste time teaching the poor what poverty is all about. Instead, help them get out of it as fast as you can." Bandhan is among the rare breed of MFIs that work with the poorest of the poor. "It is better to let them see and feel the change that the loans can bring to their lives rather than spend time, effort and money explaining this to them theoretically," says Ghosh. "You can never be sure of a person's repayment habit till you lend him money," he says. This means lower capacity building costs, faster disbursals, greater inclusion. No wonder Bandhan has been growing at an average rate of 350% per annum for the past five years. And that, too, while operating in difficult terrains like Orissa, Tripura, Bihar, Jharkhand and Assam.

It is also this rationale that has driven the five-year-old MFI to reach to 8.25 lakh people across 425 branches

with loan outstanding of Rs 250 crore. His monthly loan disbursals stand at Rs 55 crore to around 86,000 people.

It is probably his operational efficiency that has earned him a high slot on the Forbes list. One of the parameters used by Forbes to determine the pecking order was efficiency, which looked at operating expense and the cost per borrower as a percentage of the gross national per capita income of the country of operation. A second marker where Bandhan seemed to have performed well is 'risk', which took into account the quality of the loan portfolios measured as a percentage of the portfolio at risk greater than 30 days. In the case of Bandhan, the figure stood at a meager 0.1%. This also meant that the organisation had a higher return on assets. The fourth marker used was scale.

Each category was given equal weightage and rankings were finally based on the combined average score of the four categories. According to the magazine, the MFIs were chosen from 641 micocredit providers after scanning data for 2006 from the Microfinance Information Exchange, as well as analysis from ratings firms Micro-Credit Ratings International and MicroRate. To qualify, MFIs must have had audited financial statements for 2006 or submitted these for 2005, with the intention of providing audited results for 2006.

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