



Financial Assistance of Banks to Self Help Groups in India

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Abstract: SHGs which acquire been answer by PSS acquire now adopted \$100 000, either anon or through their MACS, from ICICI beneath the new affiliation arrangement. ICICI Coffe has appropriate PSS to drop with the Coffe a sum agnate to 15 percent of the accommodation amount, as a aboriginal accident agreement to lower the risk. This drop earns the Bank's accustomed aggregate of 5.5 percent interest, but the anniversary cannot be bankrupt until all the SHG loans acquire been repaid. Any defaults can be recovered from the deposit, afore it is returned. While there has, to date, been no allegation to exercise this right, PSS is able-bodied acquainted of the possibility.

Key words: self-help groups, legislation, cyber banking

Introduction: This case abstraction describes the MFI bond archetypal of ICICI Bank, India's added bigger bartering bank. This Coffe has developed a different affiliation archetypal to bear baby loans to the rural poor. The case focuses on two examples of ICICI Bank's microfinance abetment links with microfinance intermediaries confined individuals and self-help groups (SHGs), one with BISWA, a Microfinance Academy (MFI) in Orissa and one with PSS, a abate MFI alive with self-help groups in the atomic locations of Warangal in Andhra Pradesh. The two cases were called to authenticate how a ample bartering coffe can use the strengths of bounded MFIs to hotlink anon with ample numbers of poor clients.

Microfinance in India: India's well-developed cyberbanking breadth consists of 27 government endemic banks, added than 20 aloft clandestine banks, of which ICICI Coffe by far the largest, and over 100 000 accommodating banks; the cyberbanking breadth is anxiously adapted and supervised. Government legislation requires all banks in India to

accommodate at atomic 40 percent of their acclaim (at an absorption aggregate not added than 4 allotment believability aloft their prime lending rate) to the alleged "priority sector" which includes rural areas, baby industries, exporting firms, apartment and agriculture.

This action and the accepted abundance objectives of India's accessible breadth banks, the alleged "new paradigm" microfinance, came absolute backward to India. The government spent abounding years aggravating to allay abjection with massive programmes of directed and subsidised credit. These programmes had bound success, were about hijacked by the beneath poor and acclimated as an advocacy apparatus by politicians and bureaucrats. They did about absorb the 'institutional space', which ability contrarily acquire been abounding by micro-finance. While these programmes helped some people, they as well larboard abiding scars on the country's cyber banking system. The bargain bendable loans, about accumulated with subsidies, were broadcast through the astronomic



adjustment of over 150 000 coffer branches, including rural annex banks. Recoveries were poor, about beneath 30 percent, and absence was added encouraged by bounded and even civic accommodation waivers.

In the aboriginal 1990s the Civic Coffer for Agronomics and Rural Development (NABARD), the government's apparatus for cyber banking deepening in rural India, started to animate the banks to acquire SHGs as customers. NABARD refinances banks' loans to SHGs at 5.5 percent. The banks acquire about lent to SHGs at 12 percent, and the constant advance of 6.5 percent was advised able to awning their transaction costs. SHGs become the ascendant supply admission for micro-finance in India and by the end of 2004, about 1.5 actor SHGs, with conceivably 20 actor members, were said to acquire adopted from banks. While this ability awning bifold counting, at atomic 20 percent of India's one hundred actor poor households allegedly acquire some admission to academic cyberbanking services.

Motivation for ICICI's bond plan: An aggregate of factors formed calm to argue ICICI Bank, India's added bigger bartering bank, to admission the microfinance bazaar in 2002. These included antecedence breadth targets, as able-bodied as the centralized drive "to be a baton in every acreage of banking", and the acceptance that some of the new micro accounts audience will eventually alum into boilerplate banking. ICICI could accommodated its antecedence breadth targets by lending anon to the "weaker sections" or by lending agnate amounts to accessible breadth institutions such as NABARD or SIDBI,

at 6 percent or less, which these institutions again use for antecedence breadth purposes. There are about absolute able incentives, abnormally for clandestine banks such as ICICI, to do a abundant aggregate of absolute antecedence breadth business and not to buy themselves out of their obligations with aberrant investments. Microfinance, for example, can acutely be apparent as an anatomy of chump development. This played an important role in ICICI's accommodation to accommodate anon to self-help groups and individuals.

Design of the bond system: But how does ample bartering coffer ability bags of poor humans with tiny loans? ICICI Coffer acquire developed a different bond methodology, through which they are now all-encompassing abutting to 300 000 audience in mainly rural areas, with absolute loans. Furthermore, abounding of this audience is in the atomic regions of India, such as in Bihar and Uttar Pradesh, home to 37 percent of India's atomic people. The coffer selects MFIs as ally who again acts as managing agents for ICICI Bank. A lot of of these MFIs, such as PSS and BISWA which are declared afterwards in this case study, plan through self-help groups (SHGs) which administer members' accumulation and yield loans to on-lend to their alone members. A abate aggregate of the Bank's partners, however, are 'Grameen replicators', which chase the Bangladesh Grameen Bank's adjustment of lending to alone clients, application groups alone to facilitate and agreement the loans for their members.

The adjustment or bond works as follows: ICICI Coffer anxiously selects



accomplice MFIs with abundant beat and top superior microfinance portfolios. Afterwards a abrupt analysis of the MFI's accommodation accounting and ecology systems, ICICI Coffe agents appointment a accidental sample of customers, to analysis the authority of the arch appointment annal and the superior of the SHGs' annal if they are involved.

The Coffe is absolutely bright that their ambition is not to aggregate the backbone of the MFI's own antithesis sheet, but its accommodation to facilitate the relationships amid the Coffe and SHGs or added absolute borrowers to whom the Coffe will lend. The Coffe ante the MFI's administration capacity, the superior of its MIS and abstracts advertisement systems, the adequacy of its acreage agents and the superior of the training it provides to its SHGs and its own staff.

Once an MFI's portfolio has been auspiciously "screened" by ICICI Coffe and the MFI has been recognised as an accustomed partner, it can alpha to deliver loans to SHGs or individuals on anniversary of ICICI Bank, cartoon the all-important funds from the abutting ICICI Coffe branch. The agreements awning photographs of the signatories and affidavit of residence, such as a voter's or a allowance card, although this may sometimes replaced by active acceptance from the accomplished accumulation or a bounded apple leader. This action is advised to ensure that the borrowers accept that they are barter of the Coffe and not of the MFI.

After the loans acquire been disbursed by the MFI, the accounts are monitored on a sample abject for the

Coffe by their own locally recruited adjustment agents and auditors. They chase a preset action to verify the anniversary allotment submitted by the MFIs. One full-time adviser is appointed for every accomplice whose portfolio exceeds one actor dollars. These monitors are paid alone about \$100 a month, but reliable and able-bodied accomplished humans can be assassin in India for this amount. They are accomplished to chase the appropriate procedures and to beam accessible crisis signals. The MFI will be remunerated for basic and advancement the accounts, and for convalescent the loans. The MFI usually receives a allotment of the accommodation interest. The final borrowers will pay, in accession to ICICI Bank's absorption charges, an added anniversary allegation to the accomplice MFI. This bureau that the SHGs or alone audience end up paying agnate ante to those they would in actuality pay if they were borrowing from the MFI rather than ICICI (see the BISWA archetype later). However, their accommodation agreements accompaniment ICICI Bank's absorption ante and do not awning the MFIs' fees. The aboriginal MFIs with which ICICI Coffe formed partnerships of this kind, such as BISWA, were already anon complex in cyberbanking intermediation. They are application the Coffe affiliation to accompaniment this action and ability added audience afterwards accepting themselves to admission added funds for on-lending. Such MFIs may accept to abide to amalgamate their own absolute business with ICICI Coffe partnerships, or, as they become financially stronger, and added aggregate loans become accessible to them, or they become acceptable to mobilise applicant deposits,



they may alter the ICICI Coffe funds with their own.

Alternatively, some abate and financially weaker MFIs may accept to duke over the complete assignment of cyberbanking intermediation to the Coffe and to focus on their 'core business' of association mobilisation, accommodation alpha and collection. Accustomed the acrimonious requirements accepted by banks for aggregate loans, and the absolute abundant difficulties in accepting cyberbanking status, it is added acceptable that abounding if not a lot of ally will accept this closing route. MFIs which are in affiliation with ICICI about anniversary from training, from getting accustomed as able MFIs, from getting able to serve added audience and from not getting angry to one antecedent of accounts any longer. The ICICI accord is absolutely adjustable and can be adapted if required.

Risk reduction: ICICI Coffe reduces its accident and ensures the allegation of the accomplice MFIs by demography aboriginal accident guarantees from the MFIs, which alter in aggregate according to the perceived superior of the accommodation portfolio, how continued they acquire formed with the MFI and on the MFI's own preferences. One advantage is for the MFI to accessible a anchored drop anniversary for amid 8 to 15 percent of the absolute loaned, which cannot be aloof by the MFI until the loans acquire been repaid, but can be fatigued down by ICICI Coffe to awning any losses. Alternatively, the MFI may be accustomed an defalcation absolute with ICICI Coffe up to the appropriate amount, and the Coffe can again crave the MFI to use this to awning any losses.

The Coffe is acquainted that if an MFI burst they would acquire some difficulties in convalescent all their dues, in animosity of these precautions. However, they accept that their procedures would accord them aboriginal admonishing of any austere problems, and the aboriginal accident guarantees accommodate some antecedent protection. As a endure resort, they could conceivably advertise the antithesis of any actual portfolio to accession MFI, or could sub-contract the accumulating to a debt accumulating agency.

Governance and aggregate considerations: ICICI Coffe started its micro-finance activities beneath its Amusing Initiatives Accumulation (SIG), an assemblage positioned about amid accumulated albatross and for-profit business. The aggregate of the micro-finance action has now been transferred to boilerplate business. The five-member micro-finance aggregation is amid in the rural, micro-banking and agri-business group, aural the broad cyberbanking division. In aboriginal 2005 ICICI Bank's micro-finance portfolio amounted to no added than a third of one percent of the Bank's absolute assets, but it is growing abundant faster than a lot of added areas, and is rather added assisting than the boilerplate for the Bank's business sectors. There is no allegation to absolve the micro-finance portfolio by advertence to its amusing or accessible relations allowances or to appearance it as an investment in approaching applicant development. The advance on micro-finance advances is as high, and the transaction costs are as low, as in added sections of the Bank's work, because the costs acquire been finer out-sourced to specialist institutions. This is fundamentally



constant with the Bank's admission to any added business sector, such as apartment or car finance, and administration are now assured that micro-finance has been deeply mainstreamed aural the Bank.

Linkages in Action

i. ICICI Coffor and Casework for Progress Organization (PSS)

PSS is one of the abate MFIs whose barter acquire accustomed loans from ICICI Bank. PSS works in the atomic locations of Warangal District of Andhra Pradesh, breadth three abode of the citizenry acquire their livelihoods from agriculture and accompanying activities. Although it acclimated to be about able-bodied off, the breadth has afresh suffered heavily from drought. Cotton is the lot of accepted crop, and this has led to problems not just because of the aridity but as well because of the top aggregate of seeds, fertiliser and pesticides. PSS has answer over 1250 SHGs, which acquire been aggregate into 22 Mutually Aided Accommodating Societies (MACS), with about 20 000 associates altogether. At the end of 2004, the associates owed about \$750 000 to their SHGs and the SHGs themselves owed about \$200 000 to assorted banks. The antithesis of the SHGs' funds was acquired from their own savings, accumulated antithesis and loans from PSS. SHGs which acquire been answer by PSS acquire now adopted \$100 000, either anon or through their MACS, from ICICI beneath the new affiliation arrangement. ICICI Coffor has appropriate PSS to drop with the Coffor a sum agnate to 15 percent of the accommodation amount, as an aboriginal accident agreement to lower the risk.

This drop earns the Bank's accustomed aggregate of 5.5 percent interest, but the anniversary cannot be bankrupt until all the SHG loans acquire been repaid. Any defaults can be recovered from the deposit, afore it is returned. While there has, to date, been no allegation to exercise this right, PSS is able-bodied acquainted of the possibility.

As an aftereffect of ICICI Bank's satisfactory acquaintance with PSS, the Accompaniment Coffor of India and Corporation Bank, accession ample accessible breadth bank, are acceptable absorbed in lending to PSS' affiliated MACS and possibly to PSS itself.

The Jeevanajyothi MACS is one of the 19 MACS whose affiliate SHGs acquire accustomed loans from ICICI Bank, as a aftereffect of the bond with PSS. Jeevanajyothi has 76 affiliate SHGs, which in about-face acquire 722 members. All the SHG associates are women and a lot of are from the alleged 'scheduled' castes and tribes who acquire consistently been both socially and economically marginalized in India. The cyberbanking bearings of the Jeevanajyothi MACS at the end of 2004 were as follows:

Assets / Sources of Money	Use of Money	Liabilities / Loans outstanding
with affiliate SHGs	\$17 500	Members' savings \$7 590
Fixed deposits	\$760	Loans from PSS \$10 500
Cash at bank	\$1 460	Accumulated surplus \$1 630
Total	\$19 720	Total \$19 720

The SHG associates realise that ICICI Coffor loans are added big-ticket than loans from the abutting annex of the Kakatiya Rural Bank. They about adopt to borrow from their MACS, or from



ICICI Bank, because: When the SHGs adopted from the Kakatiya Bank, all the associates of the accumulation had to go to the branch, which aggregate them \$6 in bus fares, in accession to sixty cents anniversary in absent wages. Two of their admiral had to accomplish two added visits to the branch, which aggregate the accumulation \$2 for anniversary trip.

Loans from the Kakatiya coffer were bereft to accredit the women to buy buffalos, which aggregate about \$100 each, or to accomplish any added cogent investment. The loans from ICICI Bank, in the aforementioned way as absolute loans from their MACS, were added big-ticket than from the Kakatiya Bank, but allotment at atomic of the added aggregate went to abutment the MACS, which was their own institution.

The women accept that it would be even bigger to borrow absolute from their MACS, rather than from ICICI Bank, back MACS loans aggregate 18 percent, as against to the able aggregate of 24 percent they pay for ICICI Coffe loans, and they ambition to advance their own institution. They appreciate, however, that it is difficult for the MACS to admission added funds, and they are annoyed with the added big-ticket loans for the time being.

They acquire acclimated their loans for an array of purposes, including the acquirement of goats and sheep, for sums as baby as twenty to thirty dollars.

ii. ICICI Coffe and the Bharat Integrated Amusing Abundance Bureau (BISWA)

BISWA, an NGO in Orissa, the atomic accompaniment in India, has answer over 4 000 SHGs with about 64 000 mainly women members, in about 2000 villages.

ICICI Coffe has lent a absolute of \$250 000 to SHGs answer by BISWA and through them to 4 351 final borrowers. Prior to 2004 BISWA was adjourned by a aggregate of organisations, enabling them to accommodate anon to 1168 SHGs; the \$250 000 ICICI Coffe accommodation went to a added 297 groups. BISWA aswell mobilizes accumulation from the SHGs and in aboriginal 2005 the antithesis of these accumulation amounted to \$10 500, earning 5 percent interest. It is not anxiously acknowledged for an NGO such as BISWA to yield savings, but as with abounding agnate NGO/MFIs in India, the authorities about-face a dark eye to the practice.

The ICICI Coffe accommodation was disbursed into an appropriate anniversary opened at the ICICI Coffe annex in the boondocks of Sambalpur. The \$250 000 accommodation from ICICI Coffe did not arise on BISWA's books, back the accommodation was broadcast to the SHGs directly. The loans are repayable over eighteen months and the 297 SHGs that accustomed ICICI Coffe loans accomplished 100 percent on-time repayment. This is bigger than the boilerplate SHG on-time claim aggregate of 98.6 percent, partly because BISWA ensured that the called SHGs were able-bodied established, with antecedent top claim rates.

The SHGs pay a absolute of 18 percent interest, additional a two dollar anniversary allegation to BISWA, and



the associates pay 24 percent to their SHGs. The 6 percent advance is retained by the SHGs to body their own funds or broadcast to the associates as a dividend, depending on the alternative of anniversary group. If borrowing from ICICI, the aggregate of 14.25 percent that the SHGs pay includes the absorption to ICICI Coffe and the aggregate of BISWA's intermediation, and this is an ample abridgement in their costs. This reflects the accepted bazaar bearings of falling rates, breadth some banks are lending absolute to SHGs at as low as 9 percent. The SHGs are chargeless to set their own on-lending rates, but a lot of accommodate to their associates at 2 percent a month, or 24 percent a year.

The transaction with ICICI Coffe was adequately simple and in abounding agency beneath difficult than the beforehand aggregate loans from added banks. The CARE adumbrative who had formed with BISWA for some time fabricated the antecedent accession and alone two added affairs were required, over an aeon of six weeks. As an aftereffect of the ICICI Coffe loans, BISWA has been able to retire some of its added big-ticket loans from banks and added sources. By January 2005, the ICICI Coffe accommodation represented over bisected of the funds that were accessible to their SHGs. This has decidedly bargain the aggregate of funds to the SHGs, back their BISWA loans aggregate 18 percent admitting the ICICI Coffe accommodation costs 3.75 percent less. Competition is accretion about and BISWA are getting approached by added ample adopted and Indian banks with awful aggressive offers for aggregate financing.

The SHG associates themselves are as well acceptable added financially adult and bounded coffe branches are acceptable added acceptant to absolute business with SHGs. BISWA can accept amid aggregate borrowing and the ICICI Coffe affiliation approach, and BISWA's applicant SHGs can as well chose to abode their business elsewhere. This assortment of sources of accounts can alone serve to anniversary the SHG members. The intermediation action amid ICICI and BISWA is absolute automated and the transaction costs to BISWA are reasonable. Two hours afterwards the 12 percent drop is accustomed by ICICI, the funds are transferred to BISWA's appropriate anniversary in Sambalpur. BISWA again acquit the loans, in banknote or by cheque, aural a day or so. BISWA has every allurement to alteration the funds to the SHGs quickly; back absorption is answerable by ICICI to BISWA from the moment the funds are transferred.

In accession to added readily accessible funds, the capital anniversary to BISWA of the bond adjustment with ICICI has been its added believability a part of Indian and adopted banks such as ABN-AMRO and Accompaniment Coffe of India. Abounding of these banks is agog to accommodate aggregate loans to absolute institutions such as BISWA, at aggressive absorption rates. ICICI Coffe is accommodating to accommodate to any SHG that BISWA recommends. However, BISWA does not wish their SHGs to become absolutely abased on ICICI Bank. The Coffe ability accept to exercise it's appropriate to securitize the loans and advertise them to a beneath acquiescent partner. In actuality BISWA prefers demography absolute aggregate loans from banks, back they can again



exercise absolute ascendancy over the funds and the on-lending aggregate which they allegation the SHGs. The 5 percent administration fee ICICI acquiesce BISWA to add to the absorption paid by the SHGs almost covers their costs, decidedly if the befalling aggregate of the aboriginal accident agreement armamentarium deposited with the Coffe is accounted for. Ideally, BISWA would adopt to ascendancy the on-lending aggregate themselves.

Conclusion: The business is now a basic of the Bank's boilerplate operations and added Indian and adopted banks are affectionate that the rural poor can be admired customers. Added ambit of cyber banking casework is acceptable accessible to hundreds of millions of humans who acquire ahead lacked admission to any academic cyber banking casework at all. This acquaintance shows that burghal based banks, with few rural branches, can accomplish use of the association contacts and acquaintance of rural NGOs, so that both parties can awning their costs and do what they do best, for the anniversary of their clients.

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