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*What Works Case Study*

# WHAT WORKS: ICICI BANK INNOVATIONS IN RURAL FINANCE

Bringing modern banking services  
to India's rural poor



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August 2003

**SUPPORT FOR THIS DIGITAL DIVIDEND “WHAT WORKS”  
CASE STUDY PROVIDED BY:**

THE MICROENTERPRISE DEVELOPMENT DIVISION OF THE UNITED STATES  
AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID), THROUGH THE SEEP  
NETWORK'S PRACTITIONER LEARNING PROGRAM



**THE DIGITAL DIVIDEND “WHAT WORKS” CASE STUDY SERIES IS MADE  
POSSIBLE THROUGH SUPPORT FROM:**

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**IN PARTNERSHIP WITH:**

COLUMBIA BUSINESS SCHOOL  
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## **EXECUTIVE SUMMARY**

ICICI Bank, India's second largest banking institution, has discovered a large under-served market of potential customers—the 700 million mostly poor inhabitants of rural India. Furthermore, ICICI considers business strategies for accessing this market as critical to the future of the company. The bank also sees its efforts to develop viable commercial models and distribution systems as having an important social mission—that of enabling the poorest of the poor to become active and informed participants in socio-economic processes. In a relatively short period, the company has established a significant presence in rural India as a direct provider of financial services, helping to organize village self-help groups to whose members ICICI provides micro-loans. To extend its reach, the company has also established indirect distribution channels, becoming a lender to, and sometimes an investor in, some of the largest microfinance organizations in India and partnering with several ventures to offer financial services over their rapidly-growing networks of Internet kiosks.

## **BUSINESS MODEL**

ICICI's direct channel is concentrated in the state of Tamil Nadu and stems from ICICI's purchase of the Bank of Madura in 2001. The Bank of Madura had been utilizing the self-help group (SHG) model, forming small groups of approximately 20 women from one village and providing training and a structured process that led to savings, banking, and lending activities. ICICI expanded the process after the merger. The women, typically with incomes below the poverty line, begin regular monthly savings that, after a time, constitutes a fund for emergency, short-term loans within the group. At the same time, the women are educated about banking concepts, and encouraged to assume more responsibility for their financial futures and take an interest in village affairs—bringing their collective strength to bear on their family and community life. After a year, the group can apply for loans, about \$250 to each woman, for which the SHG is collectively responsible. Loans are then typically used to help start or expand a small business activity.

The program under ICICI depends on the training and empowerment of women, in a three-tier system. The bank recruits experienced members of SHGs to become social service consultants, who form new self-help groups in neighboring villages. The bank also hires coordinators that oversee the activities of six consultants and 120 SHGs. A bank project manager is assigned the responsibility of work with the coordinators, training the self-help groups, and reviewing loan proposals. ICICI charges 18% interest on its micro-loans, higher than normal commercial rates but much lower than rates charged by traditional village money-lenders, and even lower than many non-profit microfinance institutions. Since 2001, the program has grown to more than 8,000 self-help groups and is continuing to expand rapidly.

In addition to working with SHGs, ICICI also works through indirect channels to catalyze microfinance institutions by providing them a line of credit to cover cash flow needs for the first three years of activity. ICICI has also made equity investments in some microfinance institutions. Additionally, ICICI has started to partner with enterprises that are building networks of Internet kiosks in rural areas. The company plans to offer savings and loan services through these networks by training the kiosk operator as a credit agent or by placing an inexpensive ATM at the kiosks. In some instances, ICICI is providing loans to farmers via enterprises such as ITC's e-Choupal network or EID Parry's sugar factories that enable the farmer to buy crop inputs and that are paid off when the farmer sells his crop. The company is also exploring new financial products, such as crop insurance (to protect farmers against drought), derivatives based on crop futures that could give farmers more financial flexibility.

## **DEVELOPMENT BENEFIT**

The self-help groups in ICICI's direct service model build self confidence, group solidarity, and governance skills while also instilling the habit of regular saving. Some SHGs have become active in village politics, in some cases even overturning a ban on widows being able to remarry, debating with local politicians on the digging of a well, or getting a woman elected as village president. Some self-help groups have developed their own welfare funds that act as a kind of life insurance for group members. A study of some 220 SHGs by the National Bank for Agriculture and Rural Development found that micro-lending had positive impact on income levels, self confidence, communications skills, and enhanced participation in household decision-making, and were correlated with a decline such social problems as drinking and domestic violence.

## **KEY LESSONS**

By developing profitable approaches to serving poor rural communities, ICICI is expanding its potential market and developing what it sees as its engine of growth for the future. But to do it successfully, it is also catalyzing self-help groups that create powerful social advantages and partnering with both microfinance institutions and business enterprises that are providing financial and other services to rural communities. By combining an explicit social commitment, a focus on innovation, and an insistence on profitable business practices, ICICI is well positioned for a leadership role in India's financial market.