

Livelihoods India conference



IFMR Trust President Bindu Ananth speaking at the summit

IFMR Foundation, a non-profit venture of IFMR Trust, supported the 'Livelihoods India' conference, held on November 13, 2008 at Hotel Ashoka, New Delhi, as part of the Microfinance India Summit. The conference focused on challenges and issues related to livelihoods of the poor. The theme of the event was 'Inclusive value chains', and deliberations focused on how the poor can effectively participate in emerging and potential value chains. Also discussed were opportunities and threats posed by emerging growth sectors to livelihoods of the poor.

The conference was attended by a range of professionals from the private sector, policy making bodies and NGOs; there were also representatives from primary producer groups. Among the participants were: S Sivakumar (Agri-business division, ITC), VS Vyas (Institute of Development Studies, Jaipur), Nachiket Mor (ICICI Foundation for Inclusive Growth), and Malcolm Harper (Professor Emeritus, Cranfield University). The valedictory session was chaired by Union Minister of Panchayati Raj, Mani Shankar Aiyar

Two important publications were released at the conference: *The State of the Sector Report on Livelihoods*, prepared jointly by the Livelihood School, Hyderabad and ACCESS Development Services, and *Inclusive Value Chains in India- Linking the Smallest Producers to Modern Markets* by Malcolm Harper. The first report, produced with support from IFMR Foundation, brings together livelihoods-related experiences, case studies, progress reports on programmes run by the government and the private sector, and discussions on policies related issues. A group of experts including Vijay Mahajan, Orlanda Ruthven, Ajay Tankha, Ramesh Arunachalam, and Girija Srinivasan worked on the publication.

Pathbreaking micro loan purchase

In a pathbreaking deal in the micro finance sector, IFMR Trust Guarantee Company (ITGC) purchased a micro loan portfolio from Chennai-based Equitas Micro Finance Pvt Ltd (Equitas) on December 4, 2008.

ITGC purchased from Equitas a loan portfolio with Rs 11.7 crore of principal outstanding after a comprehensive analysis of the company and the loan portfolio, based on its underwriting guidelines. ITGC made an upfront payment to Equitas in exchange for the loan portfolio's subsequent repayment cash flows. The loan portfolio comprises priority sector urban micro loans with final maturity in August 2010.

For credit enhancement, Equitas provided cash collateral equal to 10% of the purchase price, to be used to cover any shortfall in repayments, up to 10% of receivables outstanding.

Once the portfolio is rated, ITGC will seek to sell a senior portion of the debt to a financial institution. ITGC aims to rate two tranches of notes: a strong investment grade piece to be retained by ITGC and a senior AA/AAA rated piece to be sold to an investor.

The deal is in tune with ITGC's goal of "creating valuable new asset classes, increasing marketability of asset classes to a broader universe of investors and expanding access to capital," said Sucharita Mukherjee, Senior Vice President, IFMR Trust and CEO, ITGC.

"This will be the blueprint for further securitisations and a benchmark for other MFIs," she added.

Equitas Micro Finance is currently operating in Chennai using the Grameen model with 'suitable adaptations'. IFMR Trust Guarantee Company is an NBFC in Chennai. Its mission is to provide efficient and reliable access to capital for institutions that have an impact on poor households. To read more about ITGC view:

<http://ifmrtrust.co.in/ventures/itgc.php>

L-Ramp award for IFMR Trust

IFMR Trust has won the 2008 L-RAMP Award of Excellence under the 'investor' category. The award, of the Lemelson Recognition and Mentoring Program (L-RAMP), recognises and celebrates the spirit of innovation. Innovators, entrepreneurs, investors and the media are eligible for awards under different categories.

IFMR Trust received the award for its investment in WaterHealth India Pvt Ltd (WHI), which uses an innovative method to supply safe drinking water in rural areas of the country. The award carries a citation and cash prize.

WHI is a Hyderabad-based, fully owned subsidiary of Water Health International. It sets up and runs decentralised water

purification plants in rural locations, in partnership with local self government bodies and NGOs. The plants are based on patented technology developed by Water Health International.

Water is sold to households at a price that translates into less than Rs. 1 per day for a household of five members. WHI has installed 100 water purification plants in partnership with IFMR Trust.

L-RAMP is a Chennai-based, initiative of the Indian Institute of Technology, Madras and Rural Innovations Network. It was established in 2004 with the support of The Lemelson Foundation, USA, an organisation started by American inventor Jerome Lemelson. L-RAMP's vision is to improve the quality of life of the underserved population through innovations and innovation-led enterprises. It focuses on innovations from Tamil Nadu and neighbouring areas.

IFMR Trust at Shri Ram College

IFMR Trust participated in a symposium on economy and entrepreneurship, held at Shri Ram College of Commerce, New Delhi, December 15-17, 2008. Shri Ram College is one of the top colleges for business in India, and the symposium gave IFMR Trust an opportunity to interact with students who one day may be potential employees.

On the first day of the symposium, Puneet Gupta, Senior Vice President, IFMR Trust, and other representatives of Indian industry addressed the students. Puneet spoke about the recent economic turbulence, and how IFMR Trust's Network Enterprise Fund will function within the current economic climate.

On the second day, a business plan competition was held among students. IFMR Trust made a brief presentation on its Kshetriya Gramin Financial Services (KGFS) initiative. A stall was also put up on campus to distribute literature and facilitate interaction with students.



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Published for IFMR Trust by Russel Stevenage. Designed by PACE systems & graphic communication, Chennai 18

Editorial Consultants: InfoChange

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QUARTERLY NEWSLETTER OF IFMR TRUST AND ITS PARTNERS

JANUARY - MARCH 2009

Reaching out to the urban 'unbanked'

D Sundara Murthy runs one of hundreds of automobile parts conditioning units in Chennai. But he has one piece of equipment not to be found anywhere else. It is a hydraulic jack that displays the brand name 'CapStone'. There is no such hydraulic jack manufacturing company; in fact, Murthy assembled the machine himself from bought-out components. The 'CapStone' lettering painted on the hydraulic jack is just his way of acknowledging his gratitude to the company that gave him a loan to invest in the machine.

Murthy's gratitude is understandable. He has been in the business for around 20 years, and his Thirumurga Turning Works, in RA Puram, a busy commercial area, employs five people. But, until CapStone approached him, Murthy had never taken a business loan from a commercial organisation. His enterprise had grown entirely out of his own savings. No bank had ever approached Murthy, and he had not sought them out either. "I simply did not believe I could take a loan."

CapStone Trust

CapStone Trust, an IFMR Trust investee company, aims to meet the finance requirements of thousands of people like Murthy: self-employed or salaried individuals living in urban areas who have rarely, if ever, taken a formal loan. An idea of just how many such people there are can be gauged from the fact that, according to CapStone staff, in the RA Puram area itself there are around 7,000 'unbanked' small enterprises.

CapStone was launched in India in September 2007 by Development Innovations Group (DIG), a private international firm specialising in development finance. DIG works in developing and transition economies with financial institutions, government agencies, donor organisations, NGOs, and the private sector. Its founders and associates are recognised experts in the fields of micro finance, housing finance, banking for the poor, urban and community development, and post-emergency reconstruction.

Says Eric Adams, Director, CapStone Trust: "We look at a double bottom line. We promote financial inclusion in a

formal, professional, permanent and commercially viable way. We focus exclusively on the urban market and use an individual lending methodology."

Operations began in Chennai, in February 2008, with funding of Rs 10 million from IFMR Trust. By the end of September 2008, CapStone had disbursed loans aggregating Rs 18 million to around 600 individuals. Around 90% of the customers are self-employed; 96% had never taken a formal loan before.

Grassroots approach

CapStone's philosophy is based on traditional micro finance methods that have been successful in rural India. Adams explains: "We don't rely on mass media for promotion. We use a grassroots approach, going out into the field and getting to know potential clients and our market closely."



D Sundara Murthy working on the 'Capstone' machine

This 'grassroots approach' is highly structured. CapStone's first branch on Grems Road, close to its main office, caters to people living or working within a tight radius of 5 km. Future branches are also expected to have such a focused base. Within this small geographical base there is a "market waiting to explode". There are scores of provision stores, vegetable vendors, two-wheeler mechanics, barber shops, tiny manufacturing units and other small businesses run by people who would like to have access to a trusted and fairly priced source of financing.

"As any business person knows, access to finance is a pillar for stability and sustained growth," says Bryan Winston,

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Director, CapStone Trust. "CapStone's business model is based on the estimation that each of its branches can optimally cater to around 6,000 such people." But, he stresses, the company will resist the temptation to expand too quickly. "In a market like India, CapStone's growth is inevitable. The key is to ensure that market-driven products, systems and people are in place to support growth and maintain portfolio quality."

CapStone employs a detailed assessment process to ensure that it provides only "good loans", and that defaults on repayments, if any, are minimal. The core principle, Adams says, is that "there are no bad borrowers, only bad loans".

Loan process

D Damodaran, a CapStone loan officer who has around 20 years of experience in marketing, explains the various stages of ensuring a good loan. At the loan officer's first meeting with a prospective client, only the company's business objectives are explained, he says. "We make no mention of how big a loan we can offer, and on what terms." Once the prospective client shows an interest, a meeting with the loan officer takes place at the former's premises, where the officer attempts to make a basic assessment of the prospective client's average monthly earnings and expenditure.

Based on that assessment, and the purpose for which the loan is sought, a tentative amount is fixed. So far, CapStone has advanced loans ranging from Rs 8,000 to Rs 40,000, with monthly repayments structured up to a maximum of 25% of the applicant's monthly household income. The average loan size is Rs 28,000.

Reaching out to the urban 'unbanked'

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A loan application form is then filled up with the help of the loan officer. The form elicits a wealth of information that is cross-checked, formally and informally. Damodaran explains: "We look at frequency of purchase of stock. We talk to suppliers. We meet other people in the same business to judge how well they are doing. We go to the applicant's home and see the family situation. We talk to their neighbours, meet the landlord if the house is on rent..."

A crucial requirement every applicant has to meet relates to traditional MFI reliance on trust. The applicant has to provide a guarantor with the ability and willingness to repay, in case of default. The guarantor cannot be a family member living in the same house, or a business associate. It has to be someone who knows the applicant very well. In the case of D Sundara Murthy, the guarantor was a garage owner who has known him for years.

Once all the formalities are over and the application screened in a three-step process — by a loan supervisor, randomly by the branch manager, and finally by a credit committee at the head office -- the loan is given quickly.

The relationship then is not limited to keeping track of repayments, which have to be done in four to 12 months. According to Damodaran, when he is on his daily rounds identifying new clients he makes it a point to chat up existing ones, as many clients themselves provide leads. And they have good reason to be supportive. After installing the hydraulic jack, Sundara Murthy says his business increased by 20%. He recommended four potential customers to Damodaran.

Interest rate

The biggest attraction for prospective clients is CapStone's competitive rate of interest. Whereas moneylenders charge interest at the rate of 5% or more per month, CapStone has a flat interest rate of 1.8% per month.

This is much lower than the rate charged by some non-financial banking companies (NFBCs) that provide similar, non-collateralised 'small ticket loans' in the urban market.

Adams says: "Our lower interest rate is the Number 1 reason our clients say they chose CapStone."

The next steps are turning into an NFBC, tapping the capital market for additional funds, offering home improvement loans and opening more branches in Chennai.

Striving to make a difference in the job market

Skills, Training and Research in Vocational Education Services (I) Pvt Ltd (STRiVE), an IFMR Trust investee company, is a business with an innovative mission. It seeks to train and place youth from rural areas and small towns at entry-level positions in business corporations, in India's highly competitive job market.

STRiVE founder and CEO Suresh Mutyala is well equipped to deal with the challenge. A post-graduate from IIM, Kolkata, specialising in sales and distribution (financial services and banking), he joined Onida for two-and-a-half years where he was in charge of the Telangana region (Andhra Pradesh), before shifting to a consortium of Kotak Mahindra Financial Services and Ford Credit, in charge of car finance across a vast territory: Punjab, Rajasthan, Uttar Pradesh, Orissa, etc. Mutyala then did a short stint with ICICI Bank, in 2003, before returning to Kotak, operationalising the first branch of Kotak Mahindra Bank in Hyderabad and moving up quickly to become area manager.

It was then that the idea of STRiVE struck. "Almost 30% of my time was spent interviewing prospective employees and I was not happy with the quality and quantity of candidates," Mutyala explains. It was, he notes, a paradoxical situation. On the one hand, thousands of people were in desperate need of a good job. On the other, corporations were equally desperate for good candidates. But a match between good jobs and good candidates was just not happening. "This impasse got me thinking about training people."

In April-May 2006, Mutyala and a few friends including Anil S G (now Senior Vice President, IFMR Trust) brainstormed on sourcing and training candidates from the untapped ocean that was rural India. With support from IFMR Trust, STRiVE was registered in May 2007; it began operations five months later. Since then, it has been growing exponentially in different areas.

Till August 2008, STRiVE had trained and placed around 600 candidates for positions in various industry verticals like insurance, retail, financial services, domestic call centres and mobile service-providers. Its corporate client list includes SGF Telecom, Tata Tele Services, IFMR Trust, and ICICI Prudential.

The jobs are mostly in sales/customer relations. STRiVE helps candidates meet such basic requirements as proficiency in spoken English, etiquette and grooming, and computer skills.

Based in Hyderabad, STRiVE has a good presence in Andhra Pradesh.



STRiVE founder & CEO Suresh Mutyala

It has also successfully forayed into Maharashtra and Tamil Nadu, organising its own 'employment fairs' called STRiVE Xchange.

At the core of the organisation's growth are appropriately designed training courses, at an attractive cost — typically, one-to-one-and-a-half times the expected salary of a candidate when s/he is placed after training. STRiVE conducts the training through local partners.

Getting students

Getting students interested in the courses was not easy. The biggest obstacle was the various vocational training programmes being offered by the state government and NGOs, which are generally free. It was difficult convincing prospective candidates to pay for a similar training course.

K Pawan Kumar, Business Development Manager, explains how his team goes about the task. "We begin by mapping colleges, offering courses at 10+2 or higher levels. My team then discusses the STRiVE concept with the head of the institution or relevant department heads. After convincing them we make a detailed presentation before the college principal, department heads and students." The presentation, which could stretch to over an hour, covers the current employment scenario, STRiVE's role, and its clients. This is followed by an interactive session with students and teachers. Those interested in learning more are given brochures, invited to register, and told to visit STRiVE at their convenience.

The business development team approached village headmen and opinion-makers, offering cash incentives to people who "usually hang around *paan*, barber and tea shops and read newspapers all day," to identify prospective students.

Partner network

STRiVE also looked around for potential local training partners. The deal offered was that STRiVE would share the concept, handle content and help train the first batch of students until the partner's own trainer was ready. This meant it was responsible for quality control and placements, on a revenue sharing basis, while the partner was responsible for providing infrastructure, getting students, and handling the day-to-day administration. Typically, partners in Andhra Pradesh are small computer education institutes with a reasonably trained faculty, infrastructure, and educated promoters.

Working with partners, STRiVE spread its message by getting involved in village self-help group meetings, using traditional dance-and-drama teams, and participating in informal meetings with the village youth.

Results started coming in from various quarters. Twenty-five students enrolled from Devarkonda village in Nalgonda district, which consists largely of tribal hamlets. In Karim Nagar, around 1,000 college students attended the STRiVE session; more than 100 of them enrolled. In Bhongir, in Nalgonda district, the promoter of Appy Computers, a small-time computer institute with five computers, decided to work with STRiVE and roped in 20 students.

After training students, STRiVE faces another formidable obstacle: convincing companies that candidates from rural areas are suited for the job. "Many HR managers still associate 'rural' with 'backward', 'inadequate' and 'not fitting in'," says Mutyala. Trained candidates from rural areas come with their own



A recent batch of STRiVE students who have successfully completed a training course

STRiVE ex-student speaks

Sheikh Mumtaz Begum (telecaller, Infovision BPO)

"I come from the small village of Aravetikota in Praksham district of Andhra Pradesh. My father is a *hawaldar* in the Indian Army and is currently posted in Srinagar (Jammu and Kashmir); my mother is a homemaker.

I learnt about STRiVE from my friend Usha Rani, who was quite excited about the programme. My parents supported my decision, though I was not sure what kind of training to expect. But the training modules on communication skills, facing job interviews and office grooming were very useful. In fact, for me, the benefits go beyond financial benefits. Now I and my friends who were part of the course are a confident lot. We have gone across the state and are even contemplating jobs outside. Even our families are happy because our earnings come in handy in times of need. We can express ourselves. We can lead, plan and guide other friends with confidence.

I had joined Shopper's Stop as a sales executive, but because I preferred to work in a BPO, this job at Infovision really suits me. But I want to move ahead. I have already gone from a salary of Rs 2,500 in retail to my current salary of Rs 5,000. I also want to do social work, besides being financially independent. I was sitting at home doing nothing before I started here, because it's very hard sometimes for girls to find suitable jobs. I was really bored — I'm so happy that I'm doing something productive now and that there's more money coming in for my family, because that means we can live a bit better. My monthly wages of around Rs 4,500 helps provide for my family, and sometimes I can even stretch it to the occasional luxury. I would feel happiest, however, if I got a chance to help the poor."



Telecaller Sheikh Mumtaz Begum

mental baggage. Some do not like to be seen working in the retail sector in their own villages and towns where such jobs are not considered prestigious. Also, many rural youth do not aspire very high, leading to them quitting their jobs for flimsy reasons.

Moving ahead

Even as it tackles these challenges, STRiVE is moving ahead rapidly. It proposes to set up a vocational academy with Collabrant Incubators for training in service sector jobs, through a network of 300 partners, in five years.

This will give it a presence in every second district in India and the capability to reach out to students from very interior pockets. It is working with

Ajeeevika Bureau, an NGO based in Udaipur (Rajasthan), which works with migrant labourers; STRiVE has trained around 500 labourers.

Looking ahead, Mutyala identifies challenges on three fronts: content, certification, volumes. As he explains, STRiVE is based on a high-volume business model, requiring that it tie up with hundreds of training partners over the next three years, penetrate more locations per district and tie up more corporate demand. STRiVE also plans to establish STRiVE Xchanges in non-metro cities. Explains Mutyala, "Students would be able to register and undergo screening tests for various organisations and training courses. We will help students make a choice of career or course best suited to their profile. STRiVE Xchanges will also help students in grooming, soft skills, making CVs and interviewing skills."

A big opportunity at hand is a post-graduate programme in insurance management, supported by ICICI Prudential, which seeks to recruit thousands of unit managers and financial services consultants, in 2009. Under this arrangement, STRiVE will not be training people but sourcing candidates who meet ICICI Prudential's criteria.

STRiVE is also working on a non-trainer-led course for basic skills, for students who cannot afford high fees. The course would prepare them for placement in small and medium enterprises (SMEs). Says Mutyala, "Our vision is to become the leading non-IT training institute in the country."