

## Kshetriya Gramin Financial Services (KGFS) launched



The first branch of the first KGFS company, at Karambayam village, Thanjavur

Kshetriya Gramin Financial Services (KGFS), an innovative financial service aimed at under-served rural areas, has been launched by IFMR Trust Holding Company (ITHC). The first branch of ITHC's first KGFS company, called Pudhuaaru KGFS, was inaugurated on June 1, 2008 at Karambayam village in Pattukottai taluka of Thanjavur district, Tamil Nadu.

'Pudhuaaru' is the name of a tributary of the river Cauvery, which flows through Thanjavur district. It means 'new stream/river' in Tamil. Like other KGFS companies to be promoted by ITHC, Pudhuaaru KGFS is a Section 25 not-for-profit company. Each KGFS company will have a local name attached to it.

KGFS branches, such as the one in Karambayam, will offer multiple, client-centric financial services including savings, remittances, insurance, small-ticket loans and investments. Explains ITHC CEO Anil Kumar, "KGFS is modelled as an intermediary between people in remote villages and various types of financial institutions."

KGFS will leverage loans of joint liability groups (JLGs) promoted by it at the village level. "By securitising assets like JLG loans, we will enable reduced cost of lending to rural customers," Anil explains.

"Everyone gains in the process," he adds. "Capital markets get previously untapped markets. Rural customers get loans and other products at lower costs, at locations where such products were never offered before, and the KGFS and the holding company get opportunities to reach out to newer markets."

The head office of each KGFS company will be at the district headquarters. Initially, there could be one head office for two districts. At the next level will be block/taluka-level branches. Finally, at the village level, there will be a thin 'front-end' serving the customer.

KGFS Relationship Officers (ROs) will enroll customers and provide services in villages. Technology plays a vital role in the entire operations. There is a high level of automation for data capture and analysis. Customers will get to do all their transactions through a biometric smart card developed by Financial Information Network & Operations Ltd (FINO), a company working on cutting edge solutions to increase the reach of financial services.

The smart card, which carries the customer's photo, is used to record all transactions at the field level, and then transfer the data to backend servers for processing. Says Pankaj Misra, Vice President - New Initiatives, FINO, "The process is both simple and secure."

Customers have already been enrolled at Karambayam, a village on a highway with a busy local market, around 10 km from the nearest taluka town, Pattukottai. Enrollment with KGFS is currently free and customers can start transacting almost immediately on JLG lending.

Banking products proposed to be launched shortly include 'jewel loans' (loans against gold jewellery). Insurance products proposed to be offered initially include credit-linked insurance, life insurance and disability insurance.

New products will be designed and rolled out with inputs from IFMR's specialised research centres like Centre for Micro Finance, Centre for Development Finance, Centre for Insurance and Risk Management, Centre for Innovative Financial Design and Centre for Advanced Financial Studies. Says Thiagu Ranganathan, Consultant at Centre for Insurance and Risk Management, "We are considering products like weather insurance, livestock insurance and health insurance."

In all cases, says Anil, "The keywords will be quick processing and service to rural customers."

For more information on ITHC visit <http://www.ifmrtrust.co.in/ventures/ithc.php>

### INAUGURAL ISSUE

I am very pleased to share the first issue of our newsletter with you. IFMR Trust, a private trust headquartered in Chennai, India, is focused on universal access to financial services, particularly in under-served rural regions of the country. We are incubating four key efforts: a rural financial services holding company, a private equity fund focused on rural supply chains, a guarantee company and a non-profit.

In our efforts we are guided by the insights and experiences of several organisations with whom we are associated in various ways. Our thought partners include research centres set up at our affiliated institution, the Institute for Financial Management and Research (IFMR), Chennai.

**Access** brings to you recent, noteworthy developments at IFMR Trust and research centres at IFMR. In subsequent issues, the newsletter will also cover the enterprise and NGO partners of IFMR Trust.

We hope this range of information, presented in a concise, reader-friendly manner, will be useful to all those involved or interested in access to financial services, rural supply chains and related areas. We welcome your thoughts and feedback.

– Bindu Ananth  
President, IFMR Trust



Relationship officers come from diverse backgrounds

## Meet our rural relationship officers

Relationship Officers (ROs) are a critical spoke in the wheel of Kshetriya Gramin Financial Services (KGFS) operations being launched by IFMR Trust Holding Company (ITHC).

ROs will be the human face of the initiative; the live interface between customers and the company. From collecting deposits to disbursing loans, promoting life insurance to livestock insurance, ROs will be responsible for all activities at the front-end. As KGFS, by design, operate within a limited geography, the role of ROs in enlisting and nurturing customers will be significant. ROs appointed in Thanjavur, Tamil Nadu, where KGFS operations have been launched, are from diverse backgrounds.

Angela Benny has an airline background. She trained to become an airhostess and worked with private airlines for some time. Married around nine months ago, she lives with her family in Pattukottai. "Having worked with organisations like SpiceJet as ground staff, I am quite familiar with the demands of working in a corporate environment, especially working within the framework of a performance appraisal system," she says.

Like all newly appointed ROs, Benny underwent a 20-day training programme at Thanjavur. "I am very satisfied with the inputs we received, especially the hands-on sessions on using software applications," she says. "What we did not understand in English or Hindi, we asked in Tamil. So there was no reason for anyone to say that the lessons were not understood!"

Equipped with product knowledge, she is confident of being able to serve customers, though she is aware of the challenges. "We have to convince rural people that we are not here merely to collect their savings. We will be amongst them forever and be an intricate - and irreplaceable - part of their lives. This is a real challenge and I look forward to it."

Another RO, Praphakaran P, is a BSc in computer science and has worked briefly as a teacher in a computer training institute, and later as marketing advisor for a private insurance company. Hence, he says, "I am quite familiar with the marketing skills needed for this job".

"When I learnt that KGFS was asking for people with skills in computer applications as well as someone with good communications skills, I felt it was a job cut out for me," he adds.

Praphakaran comes from a poor rural background. "My father is a labourer and I have a firsthand sense of what it feels to be poor and wanting in basic resources for survival," he says. He also has firsthand experience of difficulties in accessing financial services - the nearest bank from his village is 15 km away. "A KGFS branch in my village is a dream come true!"

A Anbarasan is also an educated youth from a rural background. A graduate, he says he is already a "local village hero" because of his association with KGFS! "I feel half my work has already been accomplished," he says. At the same time, he would like to move beyond this kind of hero-worship.

"I want people to see me more as an agent of change in the village. It is not only loans and savings that I will be dealing with; I am also interested in exposing the village to new ways of living, sanitation and personal hygiene, education and health..."

Let alone a bank, Anbarasan's village does not even have a shop that meets the villagers' everyday grocery needs.

R Suresh was familiar with Self-Help Groups (SHGs) even before he joined KGFS, as quite a few were started in his village. However, most of the groups in his village, and nearby villages, are practically defunct. "I like the concept of Joint Liability Groups (JLGs), which KGFS will promote, as they are far removed from SHGs," he says.

Suresh is excited about his job as he loves meeting people. "Most of my customers will be from my background, so I have no apprehensions about my responsibilities." Suresh says he will pay special attention to punctuality, "since it shows that you take a person's time seriously, as also your own".

KGFS will be a welcome alternative to moneylenders, who charge exorbitant interest rates, and rural banks that are not easily accessible, Suresh feels. "People have to walk long distances to go to a bank. Then they have to wait in long queues. Sometimes the bank official concerned is either not present or does not have time for the customer. With KGFS all this will be a thing of the past," Suresh concludes.

Adds P Venkatesh Pandayan, Hub Manager, KGFS, Pattukottai: "Who has ever heard of financial services at your doorstep to take care of all your needs? It doesn't even happen in cities, unless you have a lot of money!"

## Innovative, diverse training for KGFS staff

As the Kshetriya Gramin Financial Services (KGFS) initiative is unique, IFMR Trust has made every effort to recruit suitable people and design and implement appropriate training programmes for staff at various levels.

To select and train KGFS Relationship Officers (ROs), IFMR Trust has partnered with an investee company, STRIVE, which is building networks for skills development of youth from rural areas. STRIVE worked with three training institutes in its network to invite applications and interview potential candidates for the post of RO. ROs were expected to have completed higher secondary education, have sound knowledge of basic mathematics and be fluent in Tamil. Around 125 candidates were shortlisted and 34 were selected.

The first batch of ROs was trained in May 2008. More training programmes are planned to be held every month. Each RO training programme runs for 20 days and consists of time-bound modules on topics like basic computer skills, basic written and spoken English skills, and office management skills. After the KGFS launch, there will be another round of trainings on appraisals and software, and a short refresher course on products.

To select KGFS CEOs, IFMR Trust relied on a full-time residential programme for officers from the three wings of the Indian armed forces, offered by the Indian Institute of Management, Ahmedabad (IIM-A) and Symbiosis, Pune, in collaboration with the Directorate-General of Resettlement, Ministry of Defence (DGR-MoD). The programme aims at providing management education to officers of the Indian armed forces, whether in short commission or regular commission, so that they can meet corporate needs after retirement.

Participants are handpicked by the DGR-MoD from amongst eligible officers. The programme packs in all the modules of a standard MBA course. The first lot of KGFS CEOs are from this background. After appointment, they underwent a 30-day training course at IIM-A, followed by an induction programme of the same duration at IFMR Trust. They also received inputs on products, sales, marketing and HR from MicroSave India.

A highlight of the induction programme is that CEOs have to live with a rural family in order to better understand local nuances and customs, as well as to get a concrete idea about typical spending habits.

KGFS CEOs work in tandem with Chief Operating Officers (COOs) who come from relevant banking and finance backgrounds. COOs undergo an induction programme on microfinance. This is followed by a round of training on external communications, to understand the subtleties and significance of interfacing with external parties like panchayats and local social and cultural organisations.

IFMR Trust is using inputs from various resource organisations, such as IFMR's Centre for Microfinance, to design programmes for other KGFS-related needs. Training inputs are being continuously planned, based on the feedback from staff and new demands. Trainings will move from one geography to another; the attempt will be to do as much training as possible on the field.

# Financial designs for emerging markets

Centre for Innovative Financial Design at the Institute for Financial Management and Research (IFMR) is working towards creating a new financial design framework to spur innovation, a framework that is attuned to the unique features of emerging markets - missing markets, contractual difficulties, customers with low and volatile incomes, and a need for project financing at the individual level.

Some of the project ideas:

- **Pregnancy financing:** The project creates and field-tests a product to finance institutional delivery of children. The product is specifically designed for women to save over the course of their pregnancy and receive a loan near delivery.
- **Supply chain financing:** Traditional financial products focus on the balance-sheet of a single borrower. This overlooks the possibility of using coordinated financing along a supply chain to strengthen the borrower's overall financial position. The project will develop and test products for such supply chain financing.
- **Increasing returns:** This project tests the possibility that very large loans may be both more viable and more profitable for the borrower. It tests the possibility that dramatic increases in loan size may bring about fundamental improvements in the incomes of the poor without compromising financial viability.
- **Why rural credit markets fail:** The project will acquire a better understanding of rural borrowers and their potential rates of return on investments. This understanding can lead to more effective financing to this sector.

## Understanding chit fund users

The Small Enterprise Finance Centre at the Institute for Financial Management and Research (IFMR), along with principal researchers from the Indian School of Business (ISB) and Massachusetts Institute of Technology (MIT) Sloan School of Management, is conducting a study to understand the need for financial education among chit fund members and customisation of chit schemes, and eventually design and test financial products.

Chit funds provide a variety of financial services like insurance, asset building, savings and credit to the poor who are either excluded from the formal banking structure or find such services very expensive and rigid.

The proposed research will help in understanding the needs of the chit fund members and their expectations from the chit fund companies. It will also help chit funds to develop a scaleable model. Traditionally, chit funds do not target their product at any particular segment of society, like businessmen or poor households. The data collected will help create schemes aimed at different segments of users, thus expanding access. Similarly, the design and evaluation of the financial literacy programme would help assess the needs for informed financial decisions from poor households and provide a means to address this need.

## Emissions trading platform

The Environmentally Sustainable Project Finance (ESPF) team at Centre for Development Finance (CDF) has created an emissions trading platform called Engage Carbon that focuses on financing base-of-the-pyramid renewable energy, energy efficiency and reforestation projects.

The platform will function in two ways. The first is through a traditional over-the-counter retail website which allows individuals/entities to purchase realised emissions reduction credits. The second component will be to allow individuals/entities to invest in emissions reduction projects. These investments will be known as Pastoral Carbon™ credits.

Pastoral Carbon™ credits were created to forge linkages between individuals/entities who wish to pay to balance/neutralise their personal or business CO2 emissions and the actual individuals who are making the reduction - in essence, putting a face to each emissions reduction sold. This linkage creates a relationship between the two parties as the project develops, allowing purchasers to understand the process of reducing emissions, understand the lives of those they are helping, and, most importantly, ensuring that their off-set purchase is real and permanent.

Pastoral Carbon™ is currently considered a risk-management standard which Engage Carbon will use when developing emissions reduction projects. The hope is that the Pastoral Carbon Standard will be adopted as a complementary component of the existing standards and spun-off into an independent entity.

For more information visit [www.ifmr.ac.in/cdf/lowcarbon.htm](http://www.ifmr.ac.in/cdf/lowcarbon.htm)

## Economic Governance Index

Centre for Development Finance (CDF) at the Institute for Financial Management and Research (IFMR) is creating an Economic Governance Index (EGI) at the district level for Indian states. The EGI highlights and captures sub-regional disparities and provides a framework for sub-regional planning and prioritisation of interventions. Unlike other similar indices, the EGI is not based only on objective data, but also considers the user experience/perception survey of households and industries to project a holistic picture of economic governance at the district level. The project is funded by the British High Commission and is being piloted in Tamil Nadu and eventually will cover other states.

The EGI is essentially a measure of the enabling environment provided by local bodies for private enterprise and households. It is a comparative measure of the government-influenced conditions under which private enterprise and civil bodies (which affect the business environment) operate.

The EGI enables comparison of the socio-economic environment across regions, highlighting their strengths and weaknesses, and provides a road map to policymakers and administrators as well as other stakeholders. It thus helps in creating proactive processes aimed at improving the local business and social environment as it provides data and benchmarks to enhance transparency and accountability.

Among those it will benefit are government, investors, donor agencies and civil society organisations in policy planning, benchmarking, and prioritisation of interventions as well as in making investment decisions.

For more information write to [L Somasundaram \(somasundaram.l@ifmr.ac.in\)](mailto:L.Somasundaram@ifmr.ac.in) or see the concept note posted on [www.ifmr.ac.in/cdf/publications](http://www.ifmr.ac.in/cdf/publications)

## REDUCED COST OF CAPITAL FOR AN EMERGING MFI

IFMR Trust has provided credit protection in the form of a guarantee to a portfolio of agricultural loans originated by Bharat Integrated Social Welfare Agency (BISWA), a microfinance institution (MFI) in Orissa. The protection is limited to 45% of the portfolio size of INR 230 million (USD 5.75 million) and ranks subsequent to a First Loss Default Guarantee of 5% of the portfolio size provided by the originator. The tenure of the portfolio is one year. Grameen Capital India Ltd (GCIL) was the arranger and structurer in the transaction, which was placed in the banking sector.

The bank concerned has bought out the portfolio at an interest rate of 6% -- that is, 150 basis points lower than the one-year G-Sec rate in India. This, after taking into account the guarantee and structuring fee, resulted in a net pricing to BISWA that is very attractive in the context of emerging MFIs. Thus, IFMR Trust's provision of a second loss credit enhancement enabled BISWA, an emerging MFI, to obtain funding through a structured finance transaction at a rate more favourable than the rates that it would otherwise have got from the market. This is anticipated to open up a new set of financing options for MFIs in the country which lend to small agricultural farmers.

Said Bindu Ananth, President, IFMR Trust: "This is the first in a series of structured transactions that IFMR Trust has participated in that will dramatically reduce the cost of funds for MFIs and eventually microfinance clients." Added Royston Braganza, CEO, Grameen Capital India: "There is tremendous value in the portfolio created by MFIs. Grameen Capital will continue to enable MFIs to benefit from this value, through innovative structured solutions and strategic portfolio placement."

## CLEAN ENERGY COLLABORATION

The Centre for Development Finance (CDF), IFMR Trust, and the World Resources Institute (WRI), an environmental think-tank based in Washington DC, have signed a memorandum of understanding to help drive investment and guide enterprise development in the Indian clean energy sector.

CDF and WRI will collaborate on two complementary projects—one which identifies scaleable clean energy business models and technologies that serve the energy needs of the base of the pyramid (BoP), and another which pilots smart financing mechanisms for clean energy small and medium enterprises (SMEs).

WRI and CDF see tremendous potential for innovative market-based solutions to serve the unmet energy needs of the BoP in India. They aim to develop a deep knowledge of the BoP energy sector and will identify

specific enterprises serving BoP energy markets. In-depth case studies based on field research will be done to document the most promising business models.

WRI and CDF will also prepare research briefs aimed at the investment community to identify "smart" financing mechanisms that have the potential to increase investment to SMEs in the clean energy space by addressing common barriers to investment such as high transaction costs, high perceived risk and lack of collateral. They will then identify and enrol potential partner financial institutions and enterprises to pilot one or more smart financing mechanisms.

For more information visit [www.ifmr.ac.in/cdf/lowcarbon.htm](http://www.ifmr.ac.in/cdf/lowcarbon.htm)

## LAUNCH OF ONLINE ENVIRONMENTAL SUSTAINABILITY INDEX MAP

Centre for Development Finance (CDF) will launch an online Environmental Sustainability Index (ESI) map for Indian states in September 2008. This will be the first thematic map to be developed through CDF's Mapping India initiative supported by Google.org. The ESI website launch will coincide with the release of ESI 2008, an updated version of the inaugural ESI report published by CDF in 2007. CDF will organise a public event to commemorate the launch.

The ESI is a unique comparative analysis and ranking of environmental performance at the state level. It is a quantitative measure of environmental conditions in each Indian state derived from publicly available data covering a wide range of performance indicators. The ESI is designed to fulfil three key objectives: (i) to raise public awareness by sensitising people to environmental degradation (ii) to create baseline data of state-level environmental performance, to analyse trends and patterns (iii) to inform decision-making by policymakers, industries and individuals.

To download a copy of ESI 2007, visit [www.ifmr.ac.in/cdf/publications](http://www.ifmr.ac.in/cdf/publications)

## AWARDS FOR PAPERS ON INNOVATIVE RESPONSES TO URBAN CHALLENGES

The Centre for Development Finance (CDF) at the Institute for Financial Management and Research (IFMR), in collaboration with Special Programme for Urban and Regional Studies (SPURS) at the Massachusetts Institute of Technology (MIT), presented awards to the winners of the 'Hidden Successes' competition on June 25, 2008. 'Hidden Successes' was an international research competition for the best paper on innovative solutions to India's urban development challenges. The competition drew over 100 papers from all over the world.

Among those present at the awards function were Dr Rajivan Krishnaswamy, President of IFMR; Prof Jessica Wallack, Director, CDF;

Prof Bishwapriya Sanyal, Ford International Professor of Urban Development and Planning and Chair of the Faculty at MIT; Dr Arundhati Banerjee, Head of MIT-India Programme and Dr Nachiket Mor, President of ICICI Foundation, and Member of the Board of Governors of IFMR.

The first prize was awarded to 'In My Backyard: An Alternative Model for Solid Waste Management' that documented a localised strategy to resolve the problem of solid waste management in Kerala. The second prize went to 'Low-Income Housing in Karnataka', which highlights a successful project to house 1,240 low income families in affordable, quality homes in Hubli. The third prize was shared by two papers. The first, 'User-Innovation and E-governance Design' provides an analytical case study on the ways in which city governments and citizens have used e-governance software to track public grievances and manage services better, and the second, 'The Turnaround Success Story of Urban Public Transport Undertaking: BMTCC' explores the transformation of a public sector corporation in Bengaluru through changes in management and operations.



First-prize winner Angelique Chettiparamb (right) speaking at the awards function

The following are the prizewinners:

First prize: Dr Angelique Chettiparamb, Cardiff University, Mary Chakkalakkal, Jan Shikshan Sansthan and Dr Rajan Chedambath, Centre for Heritage, Environment and Development, Corporation of Cochin

Second prize: Kapil Mohan, former Deputy Commissioner, Dharwad district, and Rohan Mukherjee, Centre for Policy Research

Third prize: Jessica Wallack, IFMR and Srikanth Nadamuni, eGovernments Foundation; and Upendra Tripathy, PS Sandhu and DC Prakash of Bengaluru Municipal Transport Corporation (BMTCC).

For more information visit <http://web.mit.edu/hidden-successes/>



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