N·S·D·C
National
Skill Development
Corporation

Study of Mechanisms to Finance Demand for Vocational Training in India

May 31, 2011

ISB

Objective of the study

1. Study the existing financing mechanisms available to finance students for vocational training

2. To identify scalable solutions and to develop a broad implementation roadmap to make finance available to students from diverse income-segments and education backgrounds

Broad approach

Phase 1

- Overview of existing financing mechanisms like commercial banks, microfinance institutions, postal network, chit-funds and money lenders
- Identify challenges and bottlenecks faced by these agencies in implementing existing mechanisms to finance students

Phase 2

- Recommend suitable financing mechanisms that are scalable, affordable, easy to execute and profitable – the products recommended would cater to students across different segments – income and education levels

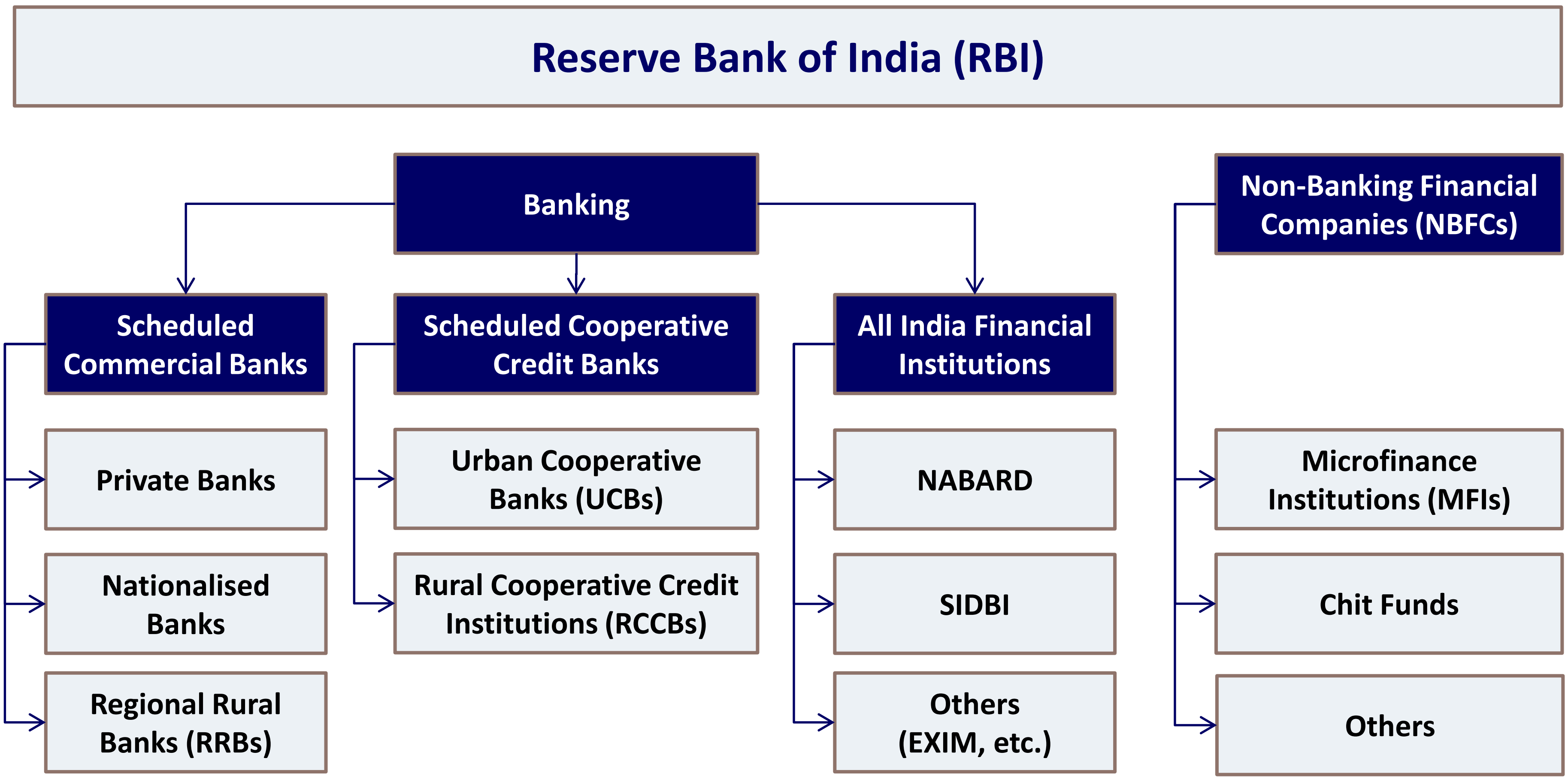
- Develop the concept plan for first loss guarantee product
- Develop implementation roadmap based on inputs from key stakeholders including NSDC

Phase 3

- Identify challenges faced by the end-users of different target segments through 4-5 diverse focused group discussions
- Engage key stakeholders through workshop/ discussions to implement scalable solutions to finance students from different target segments (based on income and education qualification)

Methodology

Credit market- broad landscape



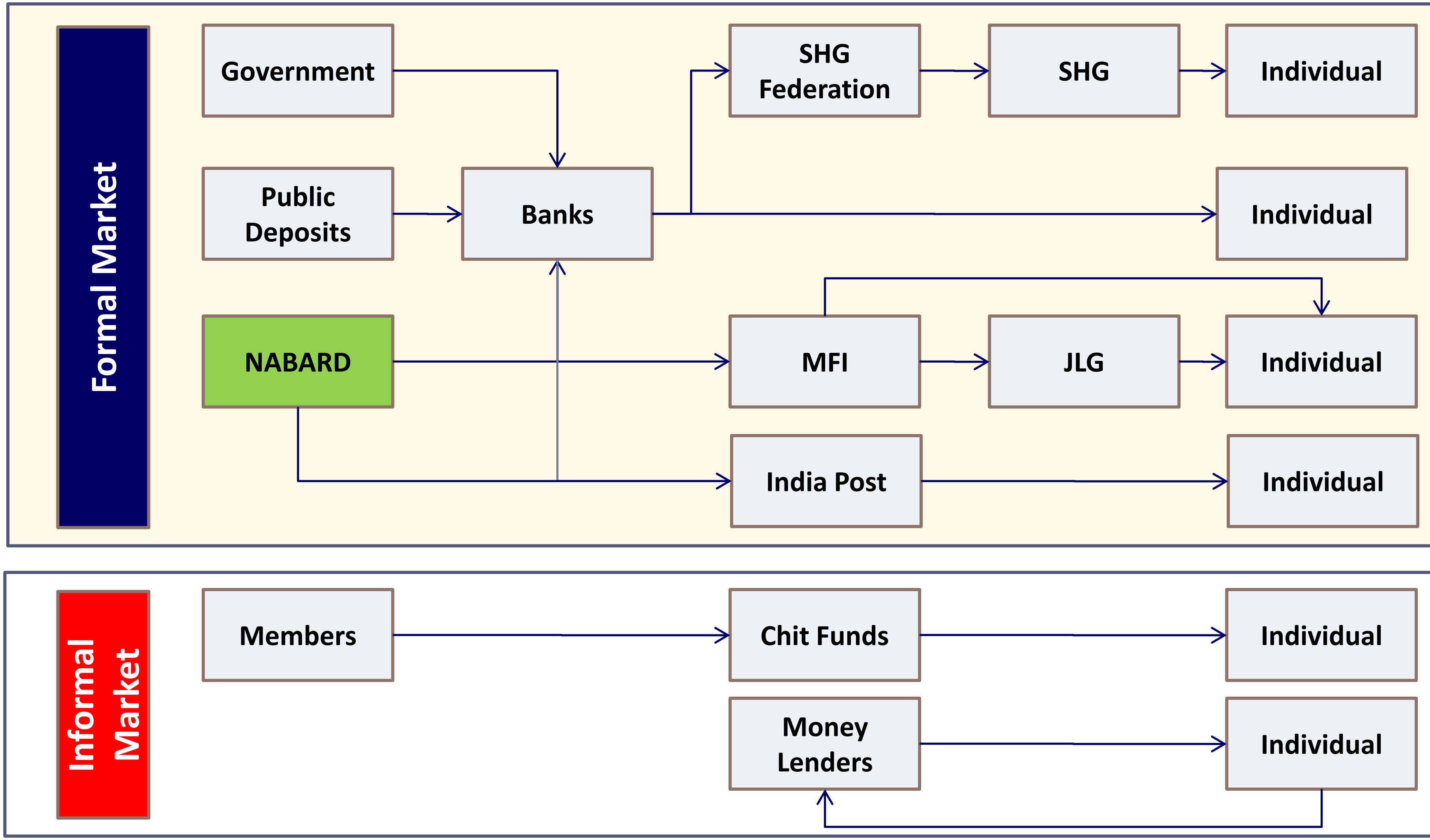
Credit market- sources by income segment

	Percentage of people in income quartile who have taken loan from these sources in the past 2 years			
Loan Sources	Lowest Income Quartile	Second Income Quartile	Third Income Quartile	Highest Income Quartile
Relative/ Friends	39.2%	34.4%	33.2%	32.0%
Moneylenders	39.8%	33.2%	25.8%	14.8%
Banks	9.6%	20.7%	33.3%	45.8%
Self-help Groups	9.7%	8.4%	3.3%	3.4%
Co-operative Societies	5.4%	4.9%	6.5%	7.4%
Chit Funds/ NBFCs	1.6%	1.9%	1.5%	1.2%
Microfinance Institutions	1.1%	1.4%	1.2%	0.9%
Others	1.0%	0.9%	0.8%	1.4%

Source: Committee on Financial Sector Reforms (Invest India Incomes and Savings Survey, 2007)

- Informal sources like relatives/ friends and moneylenders are still the largest source of credit
  - Highly fragmented players and hence difficult to mobilise them for organised micro-credit product
- Banks , SHGs and Cooperatives are a good source- can use NABARD as a catalyst
- Chit-funds and MFIs are effective but have limited geographic reach
  - Chit fund not good enough for lending- its a saving up mechanism

Credit market- lending process



Vocational training- course economics

Sr. No.	Course Name	Course Fee (Rs.)	Cost of Living during the Course (Rs.) *	Total Expenditure during the Course (Rs.)	Course Fee as % of Total Expenditure	Course Tenure (Months)	Monthly Income	EMI for 24 months @ 12% interest	Monthly Surplus	EMI as % of Income
1	Hair Dressing	44,000	12,000	56,000	79%	3.0	9,500	3,135	6,365	33%
2	Software Testing - IT	35,000	12,000	47,000	74%	3.0	16,000	2,631	13,369	16%
3	Financial Advisory and Marketing Services	23,800	7,500	31,300	76%	1.5	9,500	1,689	7,811	18%
4	Retail	10,800	9,000	19,800	55%	2.0	4,000	1,084	2,916	27%
5	Automotive Repair	9,000	15,000	24,000	38%	4.0	6,000	1,365	4,635	23%
6	Mobile repair	6,600	12,000	18,600	35%	3.0	5,000	1,041	3,959	21%
7	Land Surveyor	6,600	15,000	21,600	31%	4.0	6,000	1,231	4,769	21%
8	Rural Bakery	6,000	12,000	18,000	33%	3.0	3,500	1,008	2,492	29%
9	House Keeping Supervisor	2,000	6,000	8,000	25%	1.0	6,000	432	5,568	7%
10	Masonry	1,200	12,000	13,200	9%	3.0	5,000	740	4,260	15%

- Courses provided by existing training providers are affordable if supported with a loan product
  - 24 months moratorium and interest rate ranging from 12% to 24%
- EMI constitutes 15% to 30% of post-course salary which is affordable for most students

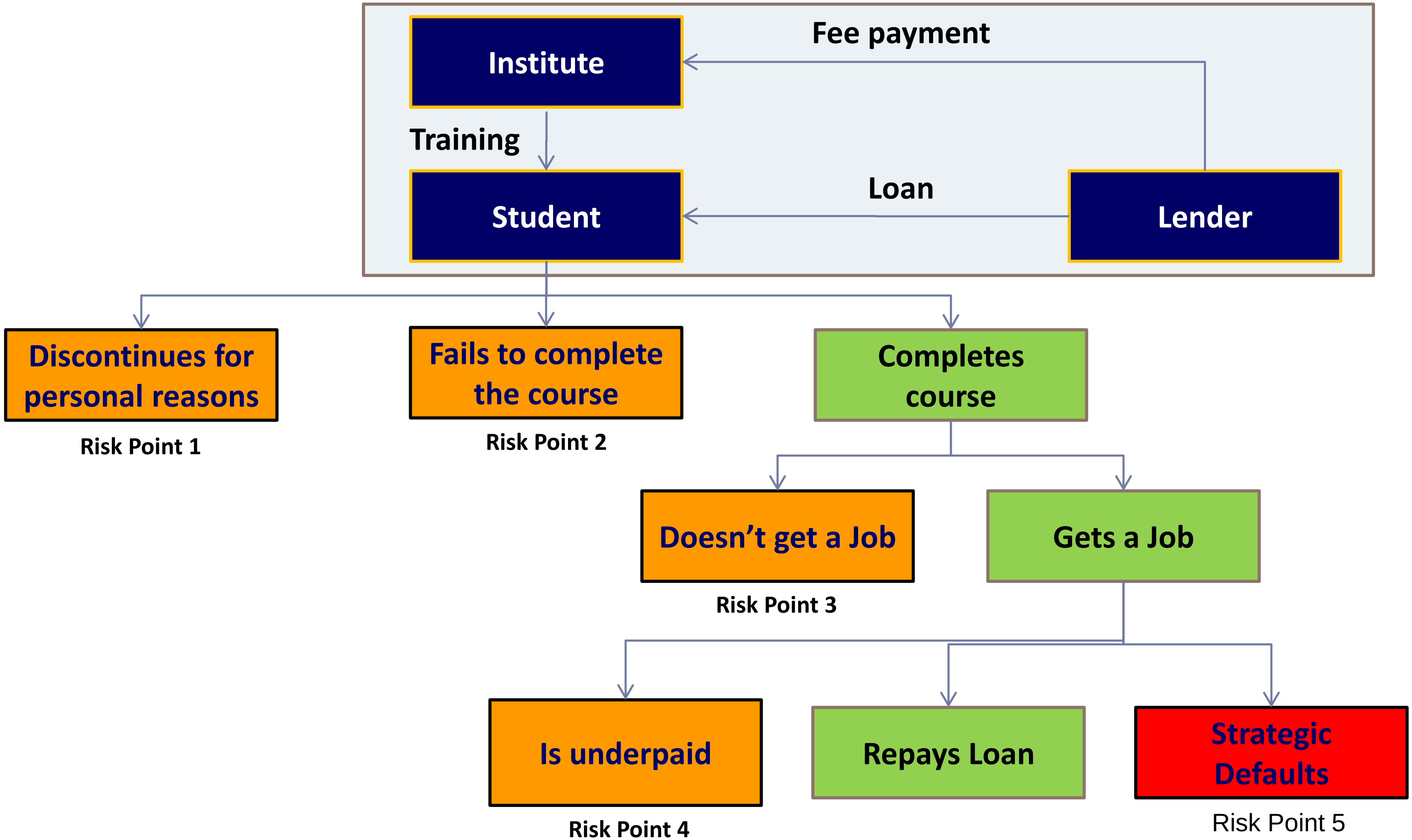
Vocational training- affordability

Interest Rate/ Amount (INR)	6%	8%	10%	12%	14%	16%	18%	20%	24%	30%
12 months EMI	2,358	2,395	2,432	2,468	2,505	2,546	2,584	2,623	2,704	2,828
18 months EMI	1,596	1,628	1,662	1,694	1,728	1,764	1,799	1,834	1,909	2,021
24 months EMI	1,214	1,245	1,277	1,308	1,340	1,374	1,408	1,442	1,513	1,622

Course Amount	15,000
Course Tenure (months)	3
Time taken for get a job (months)	1
Additional Expense of the Trainee (Loan)	12,000
Total Loan Amount	**27,000**
Course Starting Date	1-Jan-11
Course Ending Date	31-Mar-11

- **Interest rates do not have a significant impact on affordability of courses**
  - Every 1% rise in interest rate leads to an increase in EMI by INR 18-20 only
- Students need flexible moratorium periods to manage fluctuations in job search
- Loan tenure of 24 months is optimum

Risks involved in lending



Risk mitigation mechanisms

Risk No.	Points of Risk	Mitigation Solutions
1.	Student discontinues for personal reasons	Student pays 10-20% of costs + Co-signing of loan by family / guarantor
2.	Student fails to complete course	Solution 1 + Pre-screening by institutes
3.	Student fails to secure a job	Rating of Training Institutes
4.	Student gets low-paying Job	Rating of Training Institutes
5.	Strategic default by student	Solution 1 + Loan Loss Guarantee

- Risk 1 and 2 are completely dependent on student motivation and some financial obligation will ensure students take the course seriously

- Risk 2 and 3 are largely dependent on the quality of training institutes and appropriate selection/ screening of students by the institute
  - Past placement record of training institute will help financial institutes evaluate risk

- Risk 5 needs to be mitigated through collateral or loan-loss guarantee fund
  - Joint Liability Group/ Guarantors/ Co-signers/ Linking to savings account are others ways to reduce risk

Solution 1: Commercial Banks

Why Commercial Banks?

- Scalable and Ease of Execution
  - Several large commercial banks with national presence
  - Customizable products (for gender, geographies and vulnerable segments)
  - Sufficient capital available for commercial loan/ education loans
  - Training institutes are present in major centre- aggregated catchment area for banks
    - Support from Business Correspondents/ SHGs/ NGOs to overcome last-mile coverage

- Affordable
  - Even commercial interest rates range from 11% to 17% only
  - Flexibility in repayment terms- moratorium period, loan tenure, no. of installments

- Profitable
  - Aggregated students base reduces customer acquisition and due-diligence costs
  - Restricted lending to NSDC partners reduces monitoring costs
  - Possibility of cross-selling by linking with products like savings account

Education loan – Bankers perspective

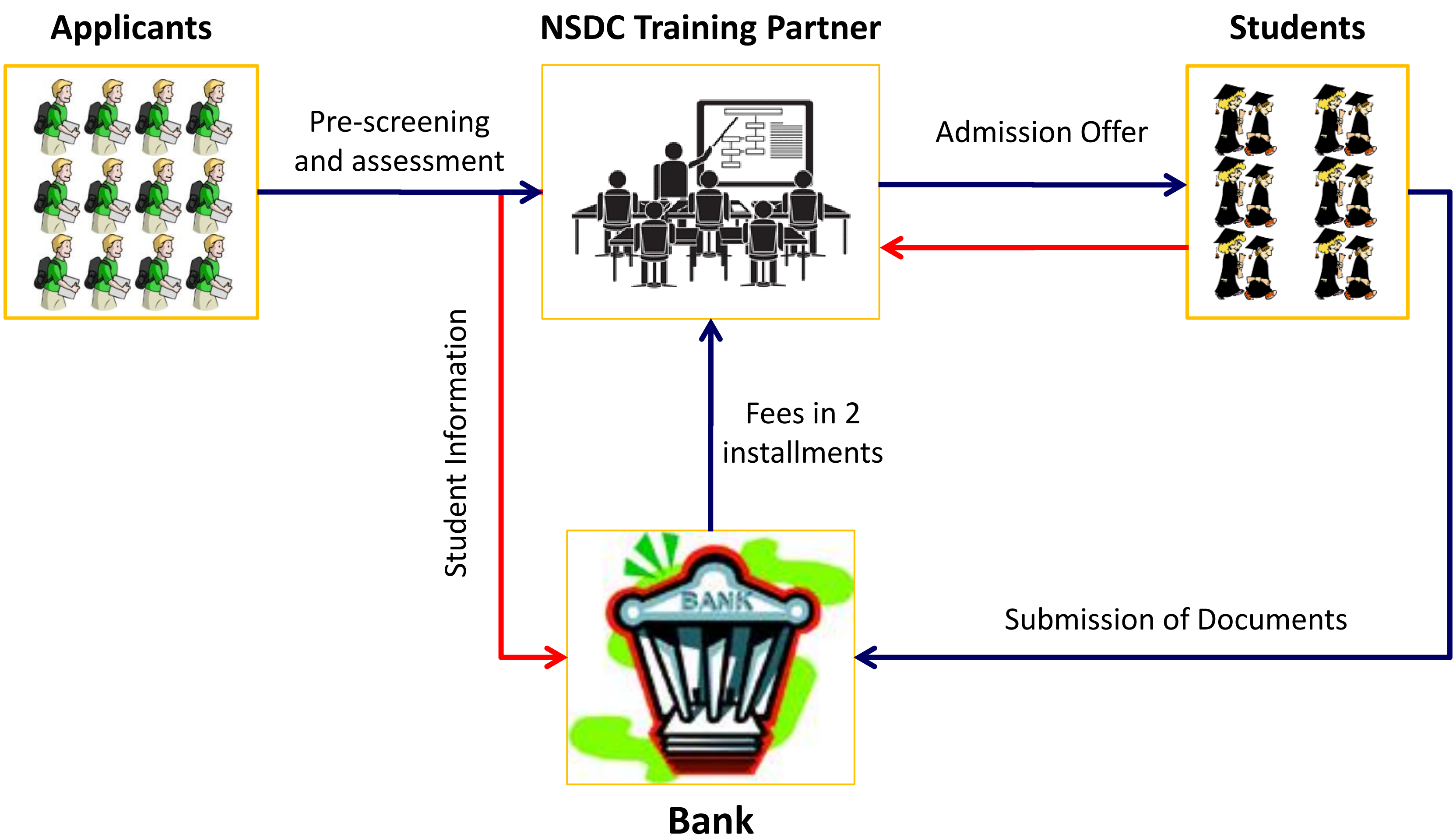
- Bad experience with educational loan
  - Default rates ranging between 40% to 60% for education loans
  - Unscrupulous or poor quality educational institutions
    - Low quality of teaching/training and lack of monitoring
    - Little or no job guarantee

- Very high perceived risk
  - No precedence in terms of default rates, pricing and customer experience therefore high perceived risk

- Social product vs. commercial product
  - Focus on lowering interest rates
  - Political/ social pressures against stringent recovery mechanisms

- Little or no awareness about the market potential or emerging ecosystem in vocational training

Banking: Loan Process



First Loss Default Guarantee

Introduction and Structure

First Loss Deficiency (Default) Guarantee (FLDG)

- "A form of credit enhancement in which an investor can resort to a third party for a stated percentage of any obligation or a percentage of any losses"
  - Primarily used as a risk reduction mechanism
  - Bridges gap to mainstream financial institutions who are not willing to provide loans/debt instruments to customers with high default risk
  - Amount of exposure typically ranges from the first 5% to 20% of the portfolio/loan amount
  - Highly used by MFIs for debt securitization
  - Additional guarantor to financial institutions

- It is a fund that is created in terms of Cash Collateral and/or Bank Guarantee and/or Corporate Guarantee which acts as a security which is designed with a waterfall mechanism to protect the loss

- FLDG percentage becomes critical as the FLDG cannot be less than the expected loss. FLDG provider will not be liable more then the FLDG (%) unless specified in the said document

Loan Mechanism – Role of FLDG

INR 1,000 Fund → Grant to 100 People → 100 People are Trained

INR 1,000 Fund → Loan to 100 People → 100 People are Trained

Assumption, 1 person is granted INR 10

Loan return with some default rate

INR 1,000 Fund as FLDG → Total Loan Corpus – INR 10,000 → Loan to 1,000 People → 1,000 People are Trained

10% FLDG

Loan return with some default rate

Why FLDG?

- More Corpus for disbursement
- Wider reach
- Compliments the concept of lending
- Can create multiple structures as required

Why not FLDG?

- Default may over shoot the FLDG
- Complication may arise while dipping into the FLDG

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FLDG - Variations

1

Cash Collateral
- Can leverage on the required FLDG % by creating more funds for disbursement
- Can earn interest rate on the cash collateral

2

Bank Guarantee
- Can leverage twice as compared to cash collateral – Wider reach
- Default rate has to be marginally small as the bank guarantee is leveraged twice
- No Banks would expect bank guarantees as there is very few precedence and marginal increase in default could have a strong impact on the initial fund

3

Corporate Guarantee
- This will be only a guarantee from the company to the Lenders
- Corporate guarantees are usually combined with cash collateral
- Company will have to account this as Contingent Liability in their balance sheet

FLDG - Contract

Content

- Clear definition of credit enhancement/ FLDG
- Clearly define the event of default
- Indemnity, if any
- Clearly define the *'Waterfall Mechanism'* in terms of how the FLDG will be dipped in case of default and subsequent recovery
- Clearly define the obligation will not exceed the FLDG (i.e. only the principal amount cannot be used for the security)
- Clarify the course of action if the FLDG stands insufficient
- Clarity on legal issues in terms of how and where the legal dispute will be solved in case such situation arises

" Legal vetting of the contract copy is mandatory"

FLDG - Contract

Major findings in the contract

- Clear definition of the event of default: what are the events that would be considered as defaults before the bank can dip into the FLDG?

- Monitoring mechanism: There has to be a format agreed between the bank and NSDC, where the bank will provide details of the loan on a regular basis to help them track the student account

- The FLDG will be invoked under a waterfall mechanism. Here the instalments recovered even after being categorised as defaults should be added back to the FLDG fund

- Total claim of the bank should not exceed 10% of the loan amount at any point. Bank will have claim only on the principal portion of the fixed deposit (FD) and not on the interest generated out of the FD amount

- Partial dipping into the FLDG (cash collateral) will have negative return on the interest earning. Hence, there needs to be clarity on whether there will be partial or complete dipping into the FLDG. In case of partial dipping, the whole mechanism of closing the FD and opening a new FD at current/pre-defined interest rate needs to be clearly defined, explained and agreed upon

- Bank should not have the authority to securitize/ sell such an asset. In case of a breach of contract, then the contract will be considered null and void; the bank must release the FD completely to NSDC

- In case of legal disputes, the legal procedure, law of court and arbitration process needs to be defined

“ Legal vetting of the contract copy is mandatory”

FLDG – Cash Collateral Model

Scenario 1 - FLDG (Cash Collateral)	Total Trained (Millions): 154			
Particulars	**YEAR 1**	**YEAR 2**	**YEAR 9**	**YEAR 10**
Total fund for FLDG (INR Crs.)	1,500	1,545	1,546	1,546
FLDG (cash collateral)	10%	10%	10%	10%
Default	10%	10%	10%	10%
Total fund for disbursement (INR Crs.)	15,000	15,450	15,464	15,464
Fund utilized (%)*	100%	100%	100%	100%
Fund utilized (INR Crs.)	15,000	15,450	15,464	15,464
Average course fee (INR)	9,524	9,524	9,524	9,524
Admin cost per student (INR)	476	476	476	476
Total cost per student (INR)	10,000	10,000	10,000	10,000
No. of students trained (Millions)	15	15	15	15
Default amount (INR Crs.)	1,500	1,545	1,546	1,546
Interest on cash collateral* (INR Crs.)	45	46	46	46
Fund Left	**45**	**46**	**46**	**46**

- Expected Default: 10%; FLDG hence has to be >=10% to cover for the losses
- It is expected that 100% of the total fund be utilized
- Interest earned on the fixed deposit cash collateral is @ 6%
- Assuming that default can happen at any time, ‘law of averages’ has been applied

FLDG – Cost Analysis

- Interest Earned on FD
- Opportunity Cost of using the Fund
- Expected Default Rate
- FLDG Structure – Only Cash Collateral

FLDG	100
FLDG	10%
Total Fund for Disbursement	1,000
Interest	12%
Tenure	1 Year
Training Period	3 months
Moraturium	3 months
Interest on FD	6%

Summary with FLDG

FD interest income from FLDG	12	NSDC	Net loss of NSDC	88
Net interest income from loan	59	Bank	Net income of bank	59
Total income during the period (2 Years	71			
Total expense (loss of default)	100	NSDC		
Net loss	30			

Summary Without FLDG

Interest income from loan	59	Bank	Loss for bank	100
Loss from default	100	Bank	Income for bank	59
Net loss	42	Bank	Net loss for bank	42

Profit for bank for using FLDG	100.00
Total loss coverage from NSDC	88
Total loss in term of % of loan	8.80%
Total interest rate to be charged if no FLDG	20.80%

Per Student Impact

Default	10%
FLDG	10%
Additional interest rate	8.80%
Total loan amount	10,000
Additional cost per student	880

FLDG – Sensitivity Analysis

Fund per annum (INR Crs.)	No. of students trained (Mn) in 10 years
100	10
500	51
800	82
1000	102
1500	154
2000	205

Assumption
10% FLDG
10% Default rate
Total cost of training 10,000 (including admin cost)

To Reach 150 Million Client in 10 Years

- More Fund
- Less FLDG complimented by Lesser Default Rate
- More Structures with Corporate Guarantee/Bank
- Guarantee complimented by Less Default Rate
- External Contribution to FLDG Fund
- Sharing of Default Loss

Fund p.a. 100 Crs.

Default %	No. of students trained (Mn) in 10 years
1%	45
2%	35
5%	19
10%	10
12% *	9
15%*	7

Fund p.a. 500 Crs.

Default %	No. of students trained (Mn) in 10 years
1%	225
2%	173
5%	94
10%	51
12%	43
15%	34

Fund p.a. 1500 Crs.

Default %	No. of students trained (Mn) in 10 years
1%	674
2%	518
5%	283
10%	154
12%	128
15%	103

Assumption
10% FLDG
Total cost of training 10,000 (including admin cost)

* For these the FLDG has to be increased either to 12% and 15% respectively and let banks take the loss
* Under the assumption that FLDG will be made equl or greater than the expected loss

*Number of Student Trained is in Million

FLDG – Reducing Default " Key to Wider Reach"

No future cash inflow after training

- Tie up with capable training institutes to train the people adequately
- Have strong tie up with companies for necessary placement
- Flexible moratorium period for trainees to find a job

Default intention

- Continuous monitoring of the trainee during the moratorium period and repayment period
- Shorten the repayment period as much as possible not disrupting the positive cash flow of trainees
- Choose the trainees who are sincere about the training and are willing to work hard to earn their living – To avoid adverse selection

Trainee pays for at least 5% of the training cost – Reduced moral hazard

Default of bottom two trainees will be borne by the training institute

Certain moratorium period to dip into the FLDG fund

Water Fall Mechanism – Timing of the Loan to Trainees

Timing of the loan is critical to ensure that the FLDG fund does not exhaust in the first few defaults

CASE 1

FLDG	1500
Loan Disbursed	15000
Tenure (months)	10
Interest (Flat)	12%
Total Interest	1,800

Total Default	2,040

* Here FLDG will not be able to cover for the Total Defaults

	Loan 1	Loan 2	Loan 3
Loan Disbursed	5,000	5,000	5,000

	Total	Total Payment	Total	Total Payment	Total	Total Payment	Default
Installment 1	680	680	680	680	680	680	0
Installment 2	**680**	**-**	**680**	**-**	**680**	**-**	**2,040**
Installment 3	680		680		680		
Installment 4	680		680		680		
Installment 5	680		680		680		
Installment 6	680		680		680		
Installment 7	680		680		680		
Installment 8	680		680		680		
Installment 9	680		680		680		
Installment 10	680		680		680		

Water Fall Mechanism – Timing of the Loan to Trainees

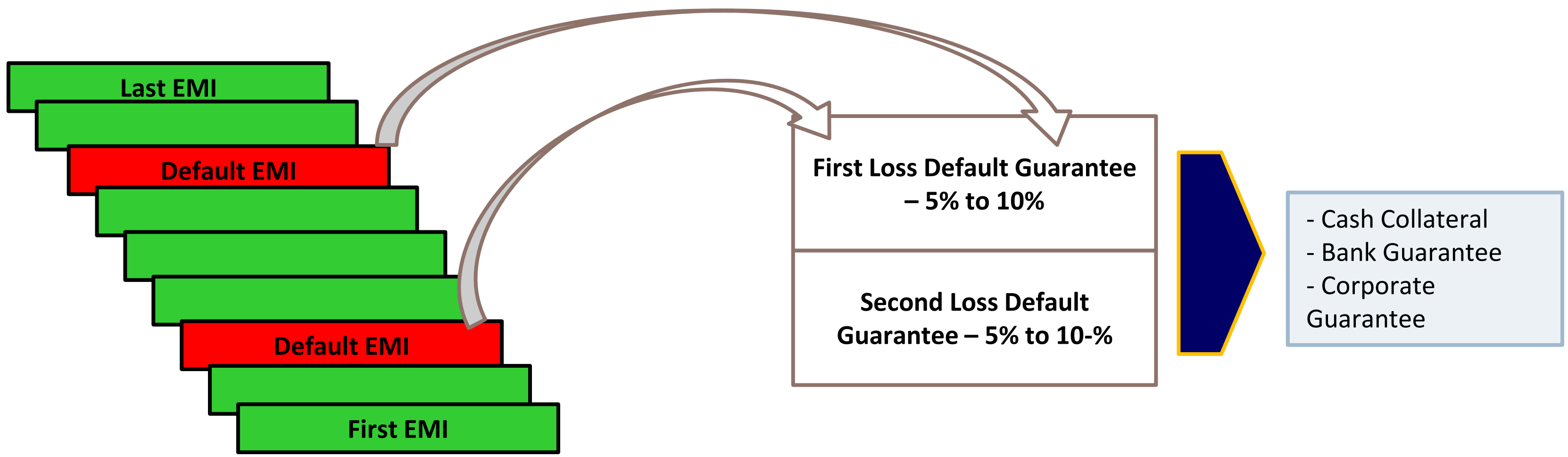
Total Default	2,720

*At Any poin tin time FLDG is more than Default to cover the Loss

CASE II

Loan Disbursed							
	Total	**Total Payment**	**Total**	**Total Payment**	**Total**	**Total Payment**	**Default**
Installment 1	680	680					0
Installment 2	**680**	-					680
Installment 3	680	680					0
Installment 4	680	1,360					0
Installment 5	680	680	680	680			0
Installment 6	680	680	**680**	-			680
Installment 7	680	680	680	1,360	680	680	0
Installment 8	680	680	680	680	**680**	-	680
Installment 9	680	680	680	680	680	680	0
Installment 10	680	680	680	680	680	680	0
			680	680	**680**	-	680
			680	680	680	680	0
			680	680	680	680	0
			680	680	680	1,360	0
					680	680	0
					680	1,360	0

Water Fall Mechanism



	Total	Total Payment
Installment 1	680	680
Installment 2	**680**	**-**
Installment 3	680	680
Installment 4	680	1,360
Installment 5	680	680
Installment 6	**680**	**-**
Installment 7	680	680
Installment 8	680	680
Installment 9	680	680
Installment 10	680	680

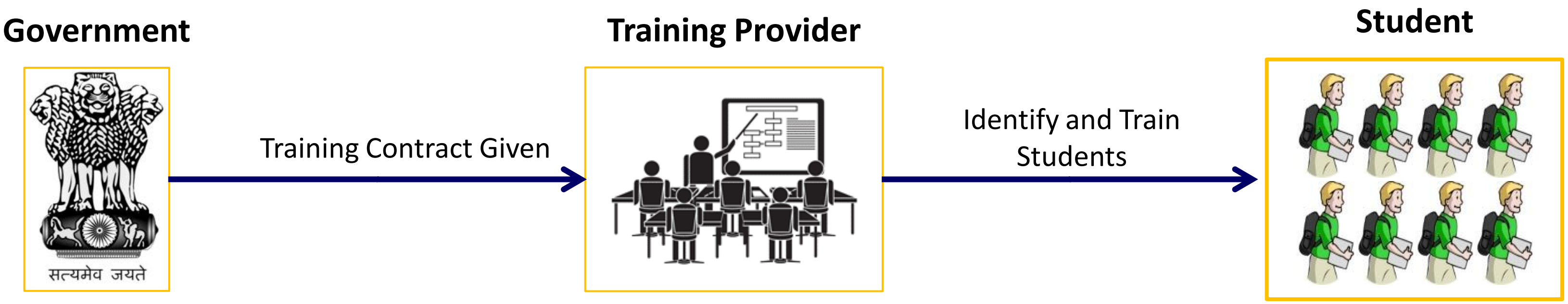
* The installment received for earlier default will added back to the FLDG

Solution 2: Government Agencies - Converting Grants into Loans

Government driven skill programs

- Social Inclusiveness
  - Focus to reach the most vulnerable and unviable segments of the population
- Strong reach and penetration
  - Ability to leverage on strong physical infrastructure and administrative machinery
- Large amounts of funds available to scale-up operations
- Opportunity to highly leverage existing strengths to significantly improve reach and coverage
  - Limited attention on the trainee's aspiration quotient, career progression and therefore, on income earned
- Challenges include resistance to change, bureaucracy and corruption

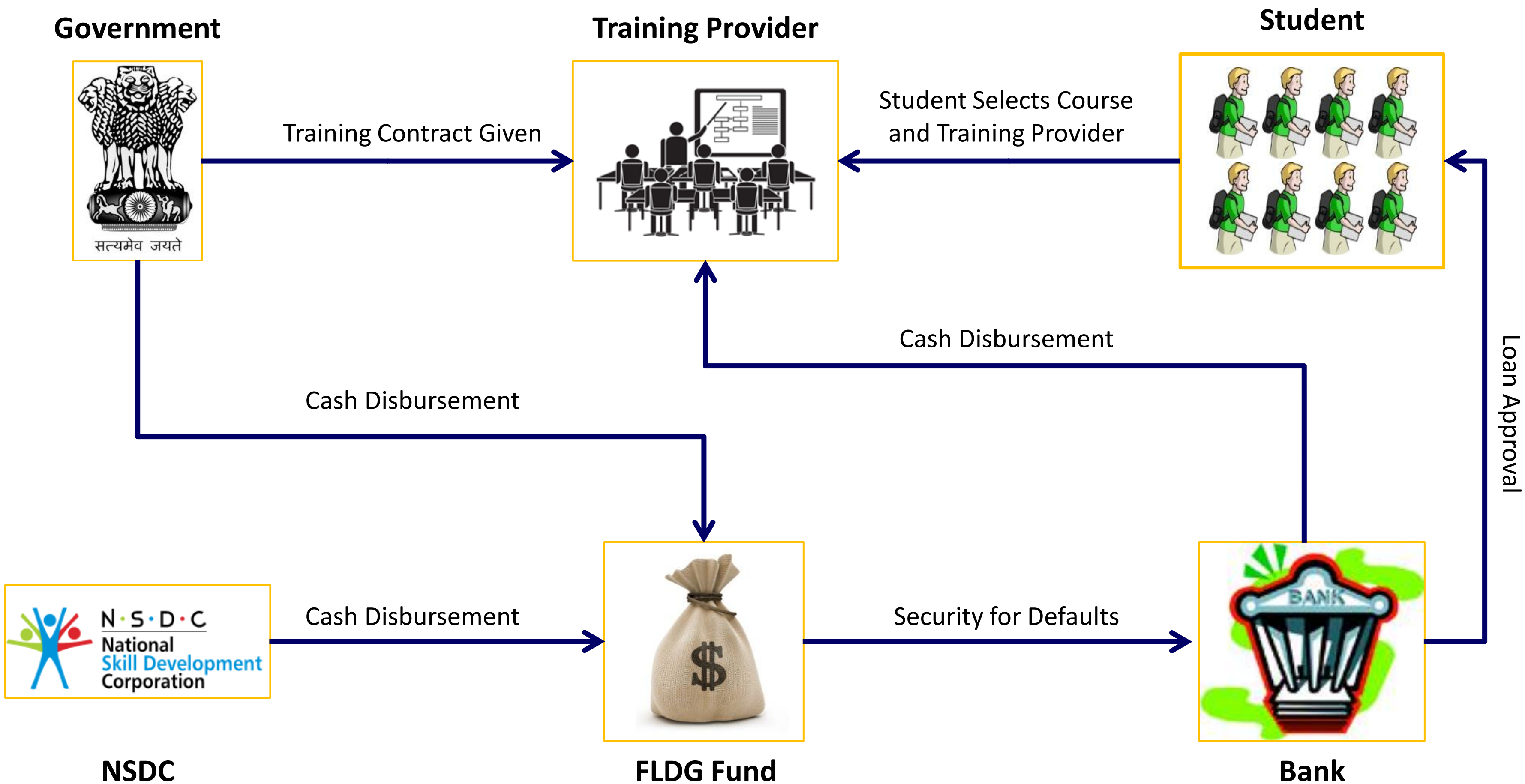
Current Grant Model



Case for Loan

- Government driven skills missions cannot survive on grants primarily because
  - It distorts the market and hampers the sustainable of the industry
  - Massive up scaling including quality up gradation cannot happen as even the large government budget cannot address the need of the enormous population
- Government needs to reduce costs and to increase the fund-base to scale-up projects
  - Difficult to reduce costs significantly as governments incurs large amounts in capex and in administrative expenses to reach out to remote areas
  - Revenues can be tapped by charging for viable courses and making student loans accessible
- However, unemployed youth is perceived to be high risk segment and it is currently unviable for banks to lend to this segment
  - The government can either engage in direct lending through commercial banks or by re-financing through mechanisms like setting up a FLDG
- NSDC can play a role in testing the FLDG concept and subsequently, channelizing government funds to promote lending to students through their partners

Grant Model to Loan Model



Recommendations

- Need for implicit subsidy through default guarantee to kick-start the lending market
  - To get students and training providers accustomed to market-driven lending
  - To streamline the lending process and to identify risks (default rates)

- NSDC to set-up a Default Guarantee fund to support pilot projects across multiple geographies
  - FLDG fund (cash collateral) covering 10%-20% default of the loan portfolio for the lender

- Test hybrid default guarantee structures in subsequent phases to make the process sustainable
  - Refundable security deposit by student to cover 5%-10% default of the loan amount
  - Non-refundable processing fee from training providers to cover 2.5%-5% default of the loan amount
  - NSDC contribution to cover 2.5%-5% default of the loan amount

- Need to establish pre-training assessment/ counselling and robust mechanisms to monitor student performance, student mobility and loan repayment status

Roadmap

Get Banks on Board	• Design default guarantee structures (Basic/ Hybrid and Other Variations) • Identify banks • Individual meetings/ workshop
Design Pilot Projects	• Design product features • Identify training providers • Finalize contracts between various stakeholders
Develop Monitoring Mechanisms	• MIS and reporting structures • Certification and assessment of students • Tracking student placements and migration
Knowledge Sharing	• Best practices workshop • Working papers
Road Ahead for Scaling Lending Operations	• Launch a national level fund to scale up lending operations • Promote sustainable government skill missions by converting grants into loans • NSDC can channelize funds from government/ development agencies to promote lending to students through their partners

Annexure

List of contacts met

- Interim presentation is largely based on primary research and limited secondary research. Contacts met so far are as follows:

Sr. No.	Name	Organisation	Designation	Location	Category
1	Sushil Ramola	B-Able	Chief Executive Officer	Delhi	Training Provider
2	Varun Dhamija	India Can	Chief Technology Officer	Delhi	Training Provider
3	Gokul Kandhi	IndiaSkills	Manager – Products & Marketing	Bangalore	Training Provider
4	C S Reddy	APMAS	Chief Executive Officer	Hyderabad	Training Provider
5	Surga Thilakan	iSTAR Skill Development Pvt. Ltd.	Co- Founder and Chief Executive Officer	Bangalore	Training Provider
6	Santanu Paul	TalentSprint	Chief Executive Officer and Managing Director	Hyderabad	Training Provider
7	Jitendra Kalra	Dr. Reddy’s Foundation	Chief Executive Officer	Hyderabad	Training Provider
8	T Muralidharan	TMI Group	Executive Chairman	Hyderabad	Training Provider
9	Kalyan Chakravarthy	PARFI	Sevak	Mumbai	Training Provider

List of contacts met

Sr. No.	Name	Organisation	Designation	Location	Category
10	R Narayan	NABARD	Chief General Manager	Chennai	Banking
11	M. K. Mudgal	NABARD	General Manager	Bhubaneshwar	Banking
12	J Chandrasekaran	State Bank of India	Chief General Manager	Chennai	Banking
13	S Balachander	Indian Overseas Bank	Deputy General Manager – Financial Inclusion	Chennai	Banking
14	Renuka Mohan Rao	Indian Overseas Bank	Deputy General Manager – Education Loans	Chennai	Banking
15	Umesh Singh	Central Bank of India	Deputy General Manager – Financial Inclusion	Mumbai	Banking
16	B Rajsekhar	Society for Elimination of Rural Poverty (SERP)	Chief Executive Officer	Hyderabad	Dept of Rural Development, Govt of A.P.
17	Srinivas Baba	Employment Generation and Marketing Mission (EGMM)	Chief Executive Officer	Hyderabad	Dept of Rural Development, Govt of A.P.

List of contacts met

Sr. No.	Name	Organisation	Designation	Location	Category
18	P. J. Krishnamurthy	Girivajar Chits	General Manager	Bangalore	Chit Funds
19	Kamal Bambhani	Chandra Lakshmi Chits	General Manager	New Delhi	Chit Funds
20	Preethi Rao	Small Enterprise Finance Center, IFMR Research	Research Associate	Chennai	Chit Funds
21	Usha Chandrasekhar	India Post	Postmaster General, AP Circle	Hyderabad	NBFC
22	Parth Shah	Centre for Civil Society	President	Delhi	Others
23	Bindu Ananth	IFMR Trust	President	Chennai	Others
24	Tilak Mishra	IFMR Trust	VTNE – IFMR Ventures	Chennai	Others
25	M. K. Mudgal	Nabard	General Manager	Bhubaneshwar	NBFC/ Regulator
26	Sabin Joshi	Spandana Spoorthy	Assistant Vice President-Finance	Hyderabad	Microfinance
27	D. Sattaiah	Basix	Head – Strategic Products	Hyderabad	Microfinance

Government grants model - Process

- State government agency approaches student or vice-versa
- State government agency ensure the students undergo career counseling
- Students receive an admission offer
- Students are given the choice of course
  - Case 1: For course fee below INR 7500 , students are offered a grant to undertake the course
    - Student undergoes the course and gets placed post the completion of course
  - Case 2: For course fee above INR 7500, students are offered vocational training loans at commercial rates
- State government agency aggregate/ invite banker to collect all relevant documents
- Students deposit certificates/ collateral with the state government agency/ bank
- Student documents verified/ approved at the local branch
- Student opens a joint account with a guarantor
- Student provides pre-dated cheques/ ECS to the bank
- Bank approves loan
- Banks transfers money for 1st installment to the state government agency
- Students gets training
- Banks transfers money for 2nd installment to the state government agency
- Student completes training
- State government agency provides placement details of the student to the bank
- Student deposits his (repayment loan amount) in the bank monthly
- In case of default in repayment, the course completion certificate of the student may be seized

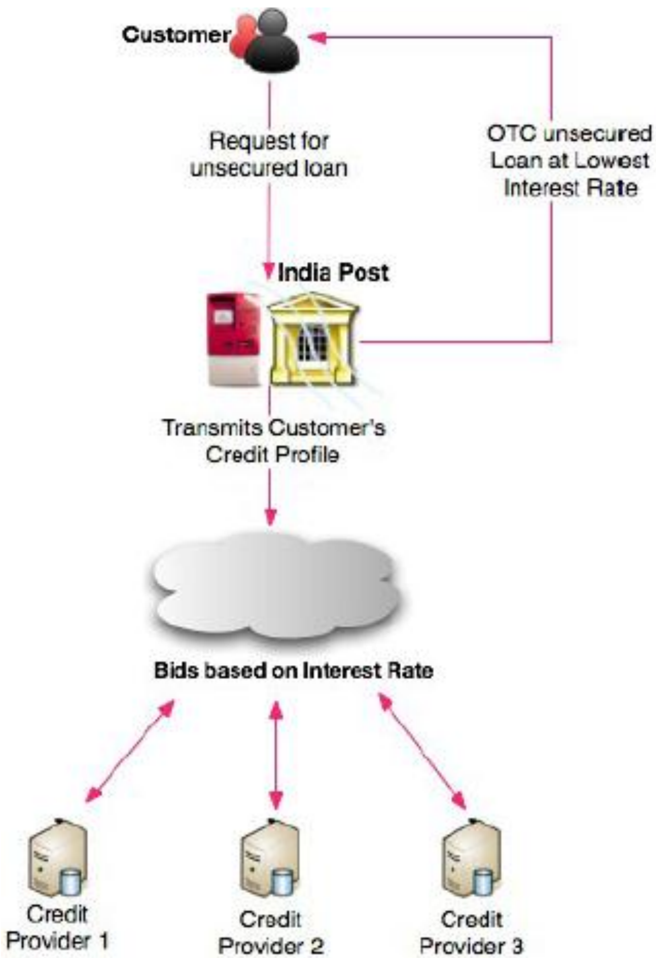
India Post

Brief overview

India Post

- Total number of post offices: 154,979
  - Twice as large as the outreach of all commercial banks in India put together
- Post offices in rural India: 139,182
  - Even the last person at the remotest village is within the reach of India Post
- Average area served per post office: 21.2 sq km
  - 145.6 sq km for China and 259.2 sq km for USA
- Average population served per post office: 7,174
  - 8,029 in case of USA and 19,962 in case of China
- 16 crore people use India Post to save Rs. 3,23,781 crore as on March 31, 2007
  - Out of this, deposits in savings bank account alone is Rs.16,789 crores

Unsecured micro-loan delivered by India Post



- India Post looking to provide a platform to deliver credit
  - It will not give loans to individuals using public money- no risk
  - Private lenders deliver credit through a competitive framework
- Each loan is sourced from a network of competing lenders
  - Individual would obtain a loan at the lowest interest rate
- Loan seeker will provide his postal savings bank account information and identification (UID) to India Post
- Successful bidder for the loan would carry the credit risk on its books
  - Risk profile of individual will be with India Post
- India Post would derive a fee by the lenders for performing these services

Micro-credit soon to women SHGs in 8 states, NE

- Indian Post has signed an agreement with NABARD to disburse micro-credit to women Self Help Groups (SHGs) in eight states and the northeast
  - 8 states include Bihar, Gujarat, Karnataka, Kerala, M. Pradesh, Maharashtra, Orissa and UP
  - Till March 2009, post office has provided credit to 889 SHGs amounting to Rs 2.13 crore
- The initial pilot's success in Tamil Nadu led to expansion of the same to Meghalaya
  - Initial RFA to Tamil Nadu was Rs. 34 lakhs and to Meghalaya was Rs 5 lakhs
  - Expansion of this project to 10 states with Rs. 10 crore RFA has been approved
- Nearly 2,000 post offices are implementing this scheme in nine districts of Tamil Nadu state since 2006 with a revolving fund of 1 lakh rupees
- The project involves NABARD providing bulk loan (Revolving Fund Assistance, RFA) at 6% to post office which would link SHGs and provide credit out of the RFA at 9%
  - India post office keeps for itself a 3% spread for its services; however, it takes no credit risk
- The impediment to rapid scaling up of this project is that the Indian Postal Act does not permit the post office to borrow or take credit risk

SBI-India Post join hands to provide banking access in Punjab

- India Post and the State Bank of India have launched a unique joint project in Punjab to provide banking facilities in the unbanked areas
  - The joint venture mainly focuses on rural customers who are in need of loans but unable to reach banks

- The post offices will carry out all the front office jobs for the State Bank relating to loans and deposits, including disbursement of loans
  - The loans will, however, be sanctioned by the SBI

- The target is to extend the arrangement to 600 more post offices
  - The facility has already been set up in 43 post offices
  - Post Masters of rural postal branches have been specially trained for this purpose

India Post- observations

- It is a massive platform to disburse credit for vocational training loans
- It can process cash and noncash payments at much lower costs than any other public or private institution
- India post does not want to take credit risk; however, it can facilitate both loan disbursement and recovery
- It can enable credit scoring, based on each customer’s savings account information, and knowledge of a customer’s other assets with India Post

Thank you