

# NEWSLETTER

## RURAL FINANCE AND FINANCIAL SYSTEMS DEVELOPMENT



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**Good news from GIZ India - Financial Systems Development!** The German Government has commissioned GIZ with the preparation of two new cooperation projects on "Responsible Enterprise Finance" and "Risk Reduction through Rural Insurance Services".

Being aware of the critical situation of agriculture and agricultural finance in India, we are in discussion with various stakeholders to focus a great part of the latter project on integrated risk management and insurance solutions for the agricultural sector. In this context we are also supporting a new initiative (see "Past Events") to discuss the state of agricultural and rural finance in India, and to publish a state of the sector report as a reference document for all stakeholders.

The capability of low-income clients to use financial services in accordance with their needs and for their own benefit is a pre-requisite for successful micro and rural finance. Our recent initiatives in the field of financial awareness and capability have a prominent place in this newsletter.

To all our readers a **Happy Dussehra** and **Happy Diwali!**

*Dr. Detlev Holloh, GIZ Programme Director*

## APPROACHING FINANCIAL CAPABILITY

Financial intermediation is an increasingly important factor in everybody's life: everyone transacts money nearly every day, using different means and different channels. Nevertheless, when it comes to interacting with a financial institution, people tend to feel a certain hesitation, an apprehension of what will happen to their money saved with the bank. What consequences would it entail to take out a loan? And does paying an insurance premium for something that may or may not happen in the future make sense now? A fundamental question of trust arises: Will banks and other financial service providers honour their promise? As a client, as a partner in a financial commitment, people need to be able to trust the financial institution they are dealing with.

Seen from this angle, the building of a closer 'client - service provider'-relationship through awareness and mutual transparency becomes the key to effective banking. For only with a sufficiently high level of knowledge and trust will people feel comfortable enough to engage in any financial interaction with bankers, sales agents or other representatives of formal financial service providers. In order to build this relation, a number of critical capabilities are required on both sides – the financial institutions', including their field staff, on one hand, and clients' on the other.

But what are these capabilities, and how are they developed among low-income, rural households across India? Rather than solely focusing on the financial supply side, we at RFIP asked ourselves: 'What do people in rural India actually deem important when entering into and maintaining financial relationships?'

With the distinct objective of rural households getting their word to say, RFIP has addressed this question by means of an innovative, participative research approach: In June 2012, local researchers visited four states across India (Uttarakhand, Odisha, Rajasthan, and Karnataka) and talked to 524 people in 96 focus group discussions. Among the interviewees were members of Self Help Groups, Primary Agricultural Cooperative Societies as well as microfinance clients and members from financially excluded communities. The researchers were looking for knowledge, skills and attitudes which are perceived as being important by rural households in order to make beneficial use of financial services. For the respective community members to better grasp the idea and facilitate the exchange, researchers asked questions like: "In your community, how would you describe a household who manages its money well? And what, in contrast, describes a household who does rather badly in handling money?"

The research process yielded fascinating accounts, reflecting the depth and variety of interactions as well as the topics people associate with money and its day-to-day management. As a researcher in Uttarakhand phrased it: "It soon emerged that financial capability refers to a household's knowledge and skills to understand their own financial circumstances, along with the motivation and ability to take action. "

Following this defining phase of the study on financial capabilities, a survey questionnaire was developed and is currently being used in interviews with 800 people in the same four states. Results of this survey will be presented in a workshop scheduled for November 7<sup>th</sup> 2012 in Delhi.

The workshop will also serve as a forum to discuss potential meaningful applications of the insights gained through the study. Interested stakeholders are hence invited to get in touch with RFIP for further details.

*"It soon emerged that **FINANCIAL CAPABILITY** refers to a household's knowledge and skills to understand their own financial circumstances, along with the motivation and ability to take action. "*



## THE SECRETS OF EFFECTIVE TRAINING – ENSURING SUSTAINABLE PERFORMANCE ENHANCEMENT

### Quantity versus Quality

Despite the myriad of trainings conducted every year among the personnel of both the private and public sector institutions, their effectiveness often remains a matter of discussion. While training hours tend to accumulate quickly, their impact on institutional learning processes more often than not fails to meet the expectations. Hence, a participant may in fact have learned and now know more about Asset Liability and Risk Management after such topic-related training – but the actual difficulty lies in transferring these acquirements into enhanced practice and performance back ‘on the desk’.

In order to increase training effectiveness and impact sustainability – and not make it a mere addition to the operational costs – it is crucial to identify the necessary preconditions to be met. Effective training design has thus to address and anticipate the participant-specific settings at three different stages: (1) prior to the training, (2) during the training, and (3) after the training.

#### 1 Pre-training phase

While it seems obvious to train a nurse on topics like hospital hygiene rather than tower crane safety guidelines, other lines of work may need a more refined training needs assessment (TNA). Before engaging in any course design or training sessions, basic questions should be answered regarding the relevance of a particular training for a particular set of participants. Learning objectives have to be clearly identified beforehand, just as the existing level of knowledge, maturity and learning capability of the trainees.

#### 2 Training phase

While it is crucial to adapt the training methods to the respective environmental settings, a strong focus should be laid on facilitating the cognitive understanding and processing of newly acquired knowledge. Interactive lecture, case studies and simulations as well as hands-on and on-the-job training can hence supplement purely intellectual class room training and offer a possibility to form stronger memory hooks. It is rather evident that participants tend to transform knowledge into practice more rapidly and sustainably if they are aware of its applicability in their own working environment.

#### 3 Post-training phase

While the first two phases are most likely considered when designing training modules, the importance of the post-training phase, however crucial for ensuring a training’s impact sustainability, is often neglected. Peculiarities of the participants’ work environment such as the availability of performance aids (for example Standard Operating Procedures, Checklists for duties, Operating Manuals, etc.) or Knowledge Management practices (including a common website or technology platforms) are often omitted or not taken into consideration. After most training sessions, when being ‘back at the desk’, participants are often left alone to find means and ways of integrating the acquired knowledge in their respective work environment. Many fail. It is thus key to provide a post-training support that allows fastening and integrating training contents and making them available for the participant’s performance improvement.

**PERFORMANCE  
ENHANCEMENT**

To sum up, for any training to be effective it must be based on a TNA, training objectives must be clear, incentive mechanisms must be in place, performance aids need to be developed, and a follow up on the training and the trainees must be ensured through handholding mechanisms and interaction facilitation such as a common web or offline platform.

## BUILDING FINANCIAL AWARENESS THROUGH FINANCIAL SERVICE PROVIDERS

### Financial Awareness as a fundamental requirement for Financial Inclusion

Low income households are involved in complex financial transactions almost on a daily basis. Uncertain and variable incomes as well as limited access to formal financial services and information make it difficult for most of them to allocate their meager resources efficiently. Coupled with constant innovation in the financial marketplace, this acts as a barrier to optimal decision making, even for financially savvy customers.

While a lot of the innovation in the financial services industry today is focused on the problem of *access*, the present delivery channels fail to address the issue of financial capability, or the ability of a consumer of financial services to make an informed decision. Thus, while the ongoing financial inclusion efforts have led to substantial progress in terms of number of villages covered by banking services - mainly through the Business Correspondent (BC) model – demand-side awareness and need for a parallel development of rural households' financial capabilities have not yet been sufficiently addressed. This contributes to low usage levels and a consequent lack of viability of financial inclusion measures, including BC based banking services.



### Rethinking our perspective

Shifting from an 'access-oriented' to an actual 'households' needs-based' perspective has led to the development of the Kshetriya Gramin Financial Services (KGFS) model. Conceived and implemented by IFMR Rural Channels, the KGFS model is unique in its 'wealth management approach' where an exhaustive analysis of the individual household's economic situation precedes any financial services offer. In order to give adequate financial counseling, so called 'Wealth Managers' examine economic indicators such as assets and liabilities as well as income and expenditures, and help outline the respective household's long term financial goals.

While this approach is effective in improving financial well-being of customer households, an effective and sustainable mechanism for improving basic financial awareness at the community level is currently still missing. The RFIP has therefore engaged in a partnership with IFMR Rural Channels which supports KGFS's efforts to develop an additional layer of so-called Master Trainers. A pilot project has been designed and will be carried out in three regions throughout India, namely, Odisha, Uttarakhand, and Tamil Nadu, where KGFS currently acts as a BC for Axis Bank.

The programme adds to the overall efforts of developing a sustainable and viable approach for financial capacity-building of low income households. It is expected that consequent to an increased level of financial awareness, rural households will be able to take better economic decisions and thus can benefit from better financial outcomes. Furthermore, financial literacy is most likely to lead to an increased acceptance and use of banking services, supporting the viability of financial inclusion initiatives.

### Key Activities include

- Nomination of 14 Master Trainers to cover a total of 140 KGFS branches
- Testing of 'Community Connect' and early financial awareness programmes in villages and schools (visual demos, screenings, discussions etc.) conducted by Master Trainers on a monthly basis
- Identification of roughly 1,500 'Wealth Masters', i.e. interested and highly communicative community villagers, to be trained by Master Trainers in order to become role models and informal 'ambassadors' of the wealth management approach in their community
- Impact study on effects of increased financial awareness on financial wellbeing & product choice
- Exposure Visits and Workshops for stakeholders

## PROJECT UPDATES

### Piloting a Financial Information and Literacy Centre in Mumbai's Chembur Slum

#### FINANCIAL LITERACY FOR URBAN POOR AND MIGRANT WORKERS

SwadhaarFinAccess is a non-profit company that has been delivering a Financial Education Program for working and non-working women in urban, low-income communities. While these programmes have been effective in improving knowledge of the participants, it was found that greater handholding would be required to reinforce positive financial behaviour and practice. This could hence be achieved by installing physical points of reference in the form of Financial Information and Literacy Centres (FILC) which will be a continuous source of information and assistance to the community on financial matters.

The establishment of FILCs is also synergistic with RBI's directive to banks to establish *Financial Literacy and Counselling Centres* in communities, and would be impartial in their approach and not promote any particular institution's products or services.

The RFIP is working with SwadhaarFinAccess to develop the centre approach by piloting of a FILC in Mumbai's Chembur slum. The insights gathered in the process will feed into a toolkit that will support other stakeholders in replicating the approach. Sharing and learning activities for relevant stakeholders would also be conducted as part of the pilot project.



#### STUDY ON THE FEASIBILITY OF PACS ACTING AS BC

Primary Agricultural Credit Societies (PACS) have traditionally played an important role in rural India for developing a scalable, broad based model of financial service delivery. Cooperative banks of the short-term Cooperative Credit Structure together with the associated PACS have reached an impressive outreach to the underserved rural population. By acting as a Business Correspondent of a suitable partner bank, PACS could possibly diversify their business and improve revenues. The strong rural presence of PACS could thus be leveraged to provide a broader range of financial products and services to the local communities, while complementing existing efforts for PACS business development.

Against this background, the RFIP has recently commissioned a study to explore the possibility of linking PACS as Business Correspondents. The study is expected to be concluded by October 2012.

## PAST EVENTS

**Round Table “State of Rural Finance in India: Challenges and Opportunities”, 24th September 2012, New Delhi**

ACCESS-ASSIST in cooperation with GIZ organized a first round table on the “State of Rural Finance in India: Challenges and Opportunities” in New Delhi on the 24<sup>th</sup> September 2012. Participants at this event included representatives from NABARD, RBI, World Bank, IGIDR, IIBF and Rabo Bank besides the former Chairman of NABARD, Mr. Y C Nanda and the former Executive Director of SIDBI, Mr. Brijmohan. GIZ was represented by Dr Detlev Holloh and Mr. Ramakrishna Regulagedda.

This first round table focused on the situation of farmers and the growth patterns of agricultural credit. Mr. Srinivasan, Senior Consultant, presented an analysis of trends in agricultural development and rural finance. This was further supported by a presentation of Mr. R Bhaskaran on the patterns of agricultural credit and followed by a discussion of key issues and challenges in the sector.

The round table concluded that there is a need to look at the present status of rural finance in India in a more holistic manner encompassing divergent initiatives and the changing patterns of the rural economy in India. It is proposed to attempt a comprehensive State of the Sector Report to take stock and assess the adequacy, relevance and effectiveness of rural finance initiatives in the context of the real sector development. The report should also discuss the framework conditions of rural finance and the future development of the Rural Finance Architecture. It is envisaged to position the report as a reference document for policy makers, practitioners and researchers on rural finance. In a first step a discussion paper on “The State of Rural Finance Sector in India: Broad Framework and Strategies” will be elaborated with the



**Training Consultation Meet on SHG-Bank Linkage Programme, 28<sup>th</sup> July, 2012 at BIRD, Lucknow:** In their effort to constantly improve and increase the capacities of bankers, NGO staff, PRI workers, staff and members of federations and SHGs and other stakeholders involved in the SHG Bank Linkage Programme, NABARD and GIZ have developed a new training and capacity development strategy, which focuses on training bankers and building up training capacities through Training of Trainers. On the basis of in-depth focus group discussions and interviews in 11 states with various stakeholders, new training modules have been developed and discussed with selected participants during the national training consultation meet.

**RFIP Steering Committee Meeting: 7th August, 2012 at NABARD, Mumbai:** On 7th August the RFIP Steering Committee led by Mr. V Ramakrishna Rao, Executive Director, NABARD met to discuss the activities and strategy of the RFIP. The Steering Committee included all implementing and partnering departments of NABARD, i.e. CPD, IDD, MCID, FID, DoS and CPEC-BIRD, as well as the GIZ RFIP management and implementing team. There was a positive feedback from the ED and all departments on the past activities of the RFIP as well as on the alignment of the programme components to policy changes in the fields of cooperative banking, microfinance and financial inclusion.

**GIZ Financial Systems Development: Global Retreat, 15th till 17th August, 2012 in Koenigstein, Germany:** During the bi-annual global retreat in Germany, all GIZ projects working on Financial Systems Development had the opportunity to meet. Focus of the 3 day retreat was to discuss global and regional development as well as challenges in the financial sectors thematic and consequent strategic approaches by GIZ and its partners. During the first 2 days, topics like Consumer Protection, Collaboration with Central Banks, Linkages between Financial and Real Sector, as well as Risk Management and Insurance, Financing Food Security, and Branchless Banking were being discussed. The 3rd day was reserved for the regional working groups to meet. RFIP (Ramakrishna Regulagedda) held a presentation on “Innovations in Agricultural Microfinance in India” during the session “Financing Food Security – Agricultural and SME Finance for Agricultural Production and Rural Development”.

## UPCOMING EVENTS

**October**

- 08<sup>th</sup> to 12<sup>th</sup> RFIP (GIZ and NABARD) strategic retreat, Kerala.
- 15<sup>th</sup> to 26<sup>th</sup> Appraisal Mission for the planned Programme "Risk Reduction through Rural Insurance Services", Delhi.
- 15<sup>th</sup> to 30<sup>th</sup> Training of trainers: Financial Education of SHG Members, Lucknow and Ahmadabad.
- 15<sup>th</sup> to 30<sup>th</sup> Regional Workshops on "Demand-oriented financial products and services for SHG members", in Tamil Nadu, Rajasthan, and Odisha.
- 29<sup>th</sup> Workshop on SHG as a BC, IHC New Delhi.

**November**

- 2<sup>nd</sup> to 4<sup>th</sup> Training of Trainers on Corporate Governance for Financial Cooperatives, BIRD Lucknow.
- 7th GIZ *Rural Finance Innovation Forum* presents the "Financial Capabilities of Rural Low-Income Households" Workshop, India Habitat Centre New Delhi.
- 13th Conclave of Cooperatives in Odisha – International Year of Cooperatives.
- 14th Workshop for Financial Cooperatives in Odisha – OSCERT.
- 19th Workshop for all accredited Cooperative Training Institutes at BIRD, Lucknow.
- 26th Conclave of CEOs of State Cooperative Banks (31) at Munnar, Kerala
- 27<sup>th</sup> to 29<sup>th</sup> Workshop on Governance for Financial Cooperatives for CEOs of State Cooperative Banks (31) at Munnar, Kerala.
- 27<sup>th</sup> to 28<sup>th</sup> National Microfinance Summit, Ashoka Hotel New Delhi.

**December**

- 11<sup>th</sup> to 12<sup>th</sup> National Conference on Community Based Microfinance for Inclusive Growth, Hyderabad.

**FINANCIAL CAPABILITIES**

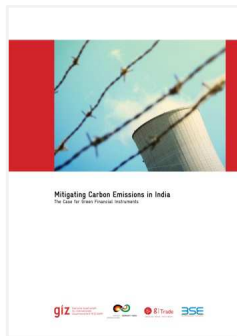
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**RURAL LOW-INCOME HOUSEHOLDS**

...for more impressions

Visit the **WORKSHOP** on November 7<sup>th</sup> 2012.

## GIZ INDIA - GTRADE - BSE COLLABORATION



## Mitigating Carbon Emissions in India - The Case for Green Financial Instruments

**Chapter 1: Relevance and Benefits of Mitigating Carbon Emissions through  
Market-based Mechanisms**

**Chapter 2: The Carbon Landscape in India**

**Chapter 3: The Case of the Cement Sector**

**Chapter 4: The Green Financial Instruments Market**

The new publication "Mitigating Carbon Emissions in India - The Case for Green Financial Instruments" is based on case studies, which were carried out by gTrade Carbon Ex Ratings Service Private Limited (gTrade) in the framework of the ongoing collaboration between GIZ India, gTrade and BSE Limited (formerly known as Bombay Stock Exchange Limited).

The authors conclude that "resilient investment is the key challenge of financing transition to a low-emission economy". "For 'green' market mechanisms and investment vehicles to be viable and effective, they must efficiently ensure that the transmission mechanism works and only performance based, credible signals are relayed to the open markets. This becomes even more important in the context of a developing country due to the nascent capital markets, and urgent need for scaling up sustainability initiatives – both at the firm and policy levels."

Currently three additional studies are being conducted: "The Role of Capital Markets for Sustainable and Inclusive Growth Strategies in India", "Investor Awareness, Education and Protection in India - The Way Forward", and "Further Development of the BSE-GREENEX - Approach and Stakeholder Feedback". We expect that the outcomes of these studies will show the way forward for the tripartite collaboration. The awareness, education and protection of the consumers of financial products all belong to a cross-cutting theme of all our financial sector activities. This theme will also be a focus of our collaboration with GTrade and the BSE.

### ABOUT US

The newsletter series "Rural Finance and Financial Systems Development India" is published by the Rural Financial Institutions Programme (RFIP), a technical cooperation of the National Bank for Agriculture and Rural Development (NABARD) and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ). The RFIP focuses on providing capacity development support for strengthening the Short-term Cooperative Credit Structure, improving the delivery and use of microfinance services through SHGs, and promoting financial inclusion through improved bank business correspondent models.

The newsletter series covers these areas of work as well as our initiatives in other fields of financial systems development such as micro insurance, agricultural insurance and risk management, and green finance. Cross-cutting issues are financial literacy, financial capability, and consumer protection.

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