





**IFMR Trust** is a private trust  
whose mission is to ensure  
that every individual and every enterprise  
has complete access to financial services

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# From the President

It gives me great pleasure to present the first annual report of IFMR Trust. At IFMR Trust, we are engaged in building an architecture from the ground-up that will increase access to high-quality financial services across India, within a reasonable time-frame. It is our belief that recent developments in financial markets and technology, combined with our keen understanding of the financial services needs of individuals and businesses in underserved areas of India, give us an unprecedented opportunity to work towards our mission of universal financial inclusion.

We have assembled a young, passionate and tremendously talented team of people in pursuit of our mission. Comprising bankers, experts in structured finance and supply chain enthusiasts, our team is seemingly diverse, but we all have two things in common. We believe that the pace at which the incomes of low-income households in India are growing is unacceptable. We also have deep faith in the fact that creative engagement with mainstream markets can substantively alter the current reality. Across the team there is a palpable sense of excitement and privilege at the opportunity to apply ourselves to the challenges ahead of us.

In the year under review, we incorporated two subsidiaries (IFMR Trust Holding Company and IFMR Trust Advisory Services), made investments of about USD 8 million in rural supply chain opportunities, launched our first Kshetriya Gramin Financial Services (KGFS) company, completed a defining securitisation transaction for a leading micro finance institution (MFI) in India, and partnered with ideas42 at Harvard University in the creation of the Centre for Innovative Financial Design at the Institute for Financial Management and Research (IFMR), Chennai.

In the current year we look forward to making substantive progress in executing our mission by deploying customer-centric KGFS branches in remote parts of rural India, incubating enterprises in key supply chains which will receive investments through IFMR Trust's Network Enterprises Fund (NEF), working with micro finance institutions in India through the proposed IFMR Trust Guarantee Company to release capital constraints, and furthering innovation and action-research through our proposed IFMR Foundation.

I would like to record our sincere appreciation to ICICI Foundation and the ICICI Group of companies for their valuable mentorship. We also thank our key enterprise partners — Sandhi, Earthy Goods and STRIVE — for their help in shaping our thinking about rural supply chains. We have benefited greatly from the practical and insightful work of various centres at the Institute for Financial Management and Research.

India needs models that work and deliver real impact in underserved markets, and do so in a way that can be replicated. Creating these models will take patience, the deployment of talent and the humility to learn from people who are working in these fields. We will consider ourselves successful when we have been able to demonstrate very high-quality execution of our ideas that, in turn, might be found worthy of imitation by other players in the market. We believe that high-impact organisations need to aggressively learn from and partner with like-minded organisations. We welcome the opportunity to learn from and partner with you and your organisation.

Sincerely

Bindu Ananth

# Business Approach

**A**t IFMR Trust, we believe that ensuring complete access to financial services for every individual and every enterprise is the key to unlocking the economic potential of India and her people. Without access to financial services, people are unable to invest in and benefit from their skill sets. Without well-functioning financial markets, they cannot generate surpluses for future investments.

It is our belief that access to finance will have a direct impact on low-income households. They will be able to move out of high-cost debt cycles, invest in productive assets, smooth consumption over time without resorting to distress action, expand existing businesses, and add value to output.

IFMR Trust will adopt a systemic approach in pursuit of its mission. This systemic approach will focus on creating the market infrastructure and building blocks of an inclusive financial system that can then be leveraged by thousands of other enterprises with a similar mission.

We believe the path leading to universal access to financial services entails the following:

- High-quality and sustainable channels for origination (credit) and distribution (non-credit financial services) that reach out to underserved regions.
- Well-functioning rural supply chains.
- Funding structures that use capital judiciously.
- An aggressive learning environment that informs regulation and innovation.

Consistent with this strategy, IFMR Trust has promoted four ventures:

- IFMR Trust Holding Company (ITHC) is rolling out rural, regionally focused entities called Kshetriya Gramin Financial Services (KGFS) companies for the distribution of financial services.
- IFMR Trust Advisory Services (ITAS) is an asset management company that has launched its first equity fund, IFMR Trust's

Network Enterprises Fund (NEF), to harness commercial capital to address key gaps in rural supply chains.

- IFMR Trust Guarantee Company (ITGC) is being structured as a non-banking finance company which will provide smooth access to debt markets for asset originators that are relevant to rural low-income households, through structuring, guarantees and market-making.
- IFMR Foundation is a not-for-profit company that focuses on bridging knowledge, practice and regulatory gaps in pursuit of IFMR Trust's mission.

IFMR Trust will focus on making sure that each of these ventures is well-conceptualised, adequately resourced and sharply executed against the over-arching mission.

# People Philosophy

FMR Trust is more than just an employer. Indeed, working at IFMR Trust is both a career and a crusade. Our people have a deep passion for taking action to create universal financial inclusion. We do exciting work at IFMR Trust and it is a privilege to have a seat at the Trust. When we give someone a place at the Trust we expect them to increase the level of commitment to social change in the building. We invest heavily in the growth of our employees, and we expect them to approach our mission as if it were their own personal crusade. If we have hired well, then our mission will be our team's mission. As of August 2008 we have a team strength of 88 people; we expect to grow by at least 50% before the end of the year and by 200% by the end of 2009. We expect our pace of growth to keep increasing in the years that follow.

## 'People Group'

As a result, we are initiating a human resources effort that we call the 'People Group'. Components of the People Group are as follows:

### *Recruiting*

We are creating new types of organisations, thereby new types of jobs. As a result, we are developing an in-house recruiting team that is familiar with our mission and the intricacies of our work. The team has launched a global search that reaches from India to major development-focused cities around the world.

### *Performance management*

Although all the companies owned by IFMR Trust operate as independent entities, we choose to focus on compensation, leave, and performance management centrally. In this way, we can encourage cross-training and lateral movement of employees within the IFMR Trust companies, as well as IFMR's research centres. Our performance management system tracks key competencies and goals that cascade down from the IFMR Trust mission.

### *Processes*

We have been working for several months on mapping and refining the processes of each IFMR Trust company with the objective of coming up with clearly defined processes and matrices that can be viewed by all employees at any given time. It is our belief that this level of process transparency will increase the pace of process improvement and will ensure that all employees have a clear sense of how they and their teammates relate to the overall mission of IFMR Trust. Given that our structure is complex, we view this aspect of our 'people' strategy as critical.

### *Training and development*

The training needs of IFMR Trust companies are vast. We have launched a separate training company to create quality training material that is relevant to the rural Indian context and can be easily translated into local languages. Our belief is that in creating high-quality material for our needs, we will also create material that will be of great value to other organisations facing similar challenges.

The training needs we seek to serve include skill and knowledge development. We are finding, however, the greatest challenge we face is in changing the beliefs of prospective employees so that they are able to see what is possible for them to achieve. Balancing the acquisition of skills and knowledge with transformation of the way people see themselves is the focus of our training effort.

### *Assessment*

One of the major challenges facing IFMR Trust companies is employee selection. Over the next decade, IFMR Trust companies expect to hire thousands of employees. Given the scale of our hiring effort we are eager to make early investments in the development of consistent assessment tools that help us avoid interviewer bias. We have already seen an interest in this project by large Indian employers with whom we expect to work to further refine our



assessment tools. The early research we have done to develop these assessments has yielded a region-specific book that will be used to train all KGFS employees.

### *Community*

The IFMR Trust group and our mission excites people all over the world. People want to be part of what we are doing, and want to help us realise the mission of universal access to financial services. This means that the human capital we are able to tap is far greater than our employees and our partners. When people are inspired by the work of IFMR Trust and work together towards a common goal we will have achieved much more than is possible with just our employees and partners. Therefore, the People Group is working with leaders in the use of online tools to harness the power of these tools to build a movement behind IFMR Trust's efforts.

These are the initiatives of IFMR Trust's People Group.

Because we are investing heavily in the development of people, we are extremely careful about who we hire.

### **Qualities of an IFMR Trust team member**

#### *Social entrepreneurship*

We seek people who want to solve social problems using entrepreneurial means. Specifically, social entrepreneurs with a market orientation. People who agree with us that access to finance and markets is part of the answer to meeting India's challenges. People with the entrepreneurial confidence to believe that they can change the world.

#### *Systems thinking*

We are oriented towards looking at entire systems and taking action to fix the whole system rather than just solve a local issue. We want people who share this way of looking at situations. Working at the system level requires enough flexibility to recognise and question unchallenged assumptions embedded in systems that aren't working.

#### *Proactive*

If someone looks at a situation and asks herself: "Is this part of my job?" then she should consider working somewhere else. If she asks herself: "How can I act to make that better?" then we would like to talk to her.

#### *Pan-India scale*

Our people are committed to having a pan-India impact. Taking action on this scale requires building and cultivating networks so that the impact is felt beyond one's immediate surroundings. It also means getting on a train or plane and building those networks. This takes tenacity and patience. We hire people who are in it for the long haul, and who have the internal fire to carry them through long, hard days.

#### *Self-confidence*

If someone is terrified of the risks involved in a venture like ours, he/she is the wrong person for the job. We are at the cutting-edge of finance. It is both dangerous and exciting out here. Our people are confident enough of their ability to change the world and are not worried about an exit strategy. When we succeed, the rewards will have been worth the risk.

Qualified applicants for each job are interviewed by various people within IFMR Trust. To get a seat at IFMR Trust is not easy; someone on the team, in the end, will take personal responsibility for each person hired. If the person succeeds, the team member who vouched for him/her will benefit. If the person doesn't succeed, someone is held accountable. This level of accountability enables us to maintain a high level of quality.

Dave Wallack  
Senior Vice President, People, IFMR Trust

# IFMR Trust Holding Company (ITHC)

Year 2007-08 was an exciting time for us at IFMR Trust, in the financial services space, and, against the backdrop of our actual accomplishment, a tremendously satisfying experience. IFMR Trust Holding Company (ITHC) has taken the first step in meeting the ambitious goal of setting up a nationwide network of rural financial services entities — Kshetriya Gramin Financial Services (KGFS).

Months of determined effort ensured that KGFS, besides being a strong concept, finally saw the light of day in the form of Pudhuaaru, the first KGFS company, and its first branch, at Karambayam village. The story is best told from the beginning.

Since its inception in October 2006, IFMR Trust has been steadfast in its approach to rural financing. There were glaring gaps in the existing models that were too strong to ignore. We wanted a design that had a strong geographical focus without losing sight of unserved and underserved populations.

Many players were already attempting rural financial services; their approach was radically different from ours. Even new MFIs and budding entrepreneurs in the sector were applying traditional lending-based models to serve the rural populace. IFMR Trust's own view is that the need of the hour is to offer a full suite of products to the rural customer, ensuring convenience of access, real-time on-line service fully customised to meet the specific needs of the rural population, and to operate in very tight and well-defined geographies.

This difference in approach was met with scepticism among market players. But we at IFMR Trust strongly felt that there was a need to build, operate and demonstrate a model that would showcase our thinking — a need to implement the concept and demonstrate its superior relevance under the present circumstances.

Thus IFMR Trust took the decision to set up its own network of financial institutions offering a full suite of financial services. KGFS was the name given to the financial institution, to reflect the local flavour of the entity. The model to be followed was that of a thin front-end (branch) present in the very community it serves, fully equipped to meet all the financial services needs of the community.

Once this decision was made, we faced a big challenge: locating the starting point.

Since technology was the cornerstone of the entire strategy, we thought we could co-locate with some players providing connectivity solutions through the kiosk model. One of our technology partners had a strong presence in the Thanjavur and Pudukkottai districts of Tamil Nadu.

Immediately, visits were commissioned to Thanjavur to see whether the ground was indeed right for us to sow the seeds of the first KGFS company there. While the connectivity partnership did not quite suggest itself as a solution, the geography, level of activity, glaring gaps in the financial services available and consequent demand clearly visible among the people meant that we could not leave the area without accomplishing the task at hand.

Thus began the spadework to set up the first KGFS company at Thanjavur.

We started by extensively touring the district to understand the local flavour. Soon, we began targeting specific villages. We devised a survey to gather details about the villages on various aspects of infrastructure and services available. With this data in hand we visited each village and talked to the local people, to better understand their lives and livelihoods and, at the same time, to grasp dominant trends in the region by which our strategy would be refined.

Meanwhile, our efforts at finding CEOs for KGFS led us to a veritable goldmine. Not one but four impressive candidates with a



distinguished background of serving the country in the defence services were eager and willing to join our mission.

Products and processes were also examined closely to ensure that only the best and most relevant were delivered to clients.

Thorough brainstorming sessions coupled with constant feedback from the ground catalysed this process. Technology solutions and providers were fully evaluated to ensure that technology remains a competitive advantage for each branch and each KGFS company. Branding and communication strategies were fine-tuned to effectively reflect and convey our mission to the customer. Properties were identified to locate offices. A number of villages were considered for the setting up of branches, and many locations shortlisted as potential sites for these branches.

A chance meeting with a local landlord ended our search for a name for the first KGFS company. *Pudhuaaru* means 'new river' in Tamil: an apt name for a brave new effort!

It was now time to configure the branch in line with the overall strategy. This meant that it had to be a technology-intensive, thin front-end manned by two people.

It was decided that the best legal form the KGFS company could take was that of a Section 25 (not-for-profit) company, given its strong governance requirements and regulatory compliance environment. With very little time left to launch KGFS, immediate action was taken to get the 'Pudhuaaru' name approved and secure a licence for KGFS. Both tasks were accomplished in record time.

After several rounds of passionate debate and field visits, it was decided that Karambayam village would make an ideal location for our first branch. A lot of introspection went into identifying what informed our decision; we thus worked out the algorithm for the selection of future branches.

Vendors were contacted for equipment required at the branch. As connectivity was the cornerstone of our entire strategy, we decided to bite the bullet and go in for high-end VSAT technology, despite its high cost. Other vendors were similarly engaged; prices and terms were finalised over many rounds of negotiations. After numerous phone calls, most of the basic equipment was finally delivered at the branch.

We successfully 'soft launched' KGFS on May 1, 2008, when we conducted a dry run of all the processes to check our readiness for the June 1 launch.

We realised there were bigger challenges before us; our task had only just begun.

Branch design was as big a challenge as any other. While the branch had to have an open feel to it, it still had to exude a secure ambience, inviting and at the same time reassuring the customer. Multiple options and iterations later, we arrived at a design that was able to tread this fine line. By the time it was finalised and we had zeroed in on the civil contractor to execute the job, we had exactly one week left to get the branch ready to meet our deadline. Extending the deadline would mean that the pace would slacken significantly and set back the entire effort. This was the most serious hurdle we had encountered. Having come so close we were not in a mood to miss the deadline and slow the momentum!

Hours and days of constant follow-up and supervision, anxious phone calls and some extraordinarily clever site improvisations ensured that the interior work of the branch was completed within a period of just five days, ending exactly four hours before the actual launch.

It was a moment of special celebration and heady exhilaration when we opened the branch at 8 am on Sunday, June 1, 2008, exactly as planned. Indeed, it was a moment of pride for each of us as we saw our first customers step

in to take advantage of services that we had spent many months designing. It was true vindication of all our efforts over long months of perseverance.

Now that Karambayam is up and running and going strong, it's time to set our sights higher. The plan over the calendar year 2008 is not only to expand in Thanjavur but to set up operations in other parts of the country as well. Also, to deepen the product suite on offer. Pudhuaaru itself will have more branches concentrated around three hubs in the district. Concerted action is being taken to launch products such as jewel loans, savings accounts, mutual fund options and remittances. These products will be launched with respective mainstream partners to fulfil the promise of delivering a full suite of real-time financial services.

Anil Kumar  
Senior Vice President, IFMR Trust and  
CEO, IFMR Trust Holding Company

# IFMR Trust Advisory Services (ITAS)

IFMR Trust Advisory Services Private Limited (ITAS) is a fully-owned subsidiary of IFMR Trust that will manage the Network Enterprises Fund (NEF), a private equity fund focused on strengthening rural supply chains, to be launched by IFMR Trust. NEF will raise Rs 6 billion (~ USD 150 million) from Indian and international investors and will deploy this capital over a period of three years through industry-specific holding companies called Network Enterprises (NEs). Each NE acts as a rural supply chain accelerator by first mapping the numerous supply chain gaps within its respective industry, and then identifying scaleable enterprises that can opportunistically plug these gaps.

NEF will also invest in shared technologies and back-end operations which can be leveraged across numerous investee companies.

NEs will be created in sectors such as rural tourism, vocational training, agricultural terminal markets, rural business process outsourcing, crafts, apparel and furnishings, processed food, water, healthcare, and cost-efficient energy.

We believe this strategy of targeted, rural supply chain interventions will result in 1) access for rural producers to larger channels of distribution and more competitive prices for their products, 2) improved delivery and affordability of essential goods and services to rural consumers and communities, and 3) attractive returns for investors.

The process of registering the fund has been initiated. AZB Partners, a leading law firm in India, is advising IFMR Trust on the structure and other issues related to setting up the fund. IFMR Trust introduced the fund's investment philosophy to a few select commercial investors during the year and received a positive response. Firm commitments have been received to the tune of Rs 1 billion (~ USD 22 million). ITAS, the Asset Management Company (AMC) for NEF, has been registered and will be staffed in 2008.

Pending registration of the fund, IFMR Trust began the process of making a few investments that would also act as proof of concept for the fund. So far, IFMR Trust has made investments aggregating Rs 300 million. Below are brief descriptions of these investments.

## Our investments

### *Earthy Goods (processed food and consumer goods)*

Earthy Goods and Services Private Limited, New Delhi, is a unique business-solutions provider that links rural producers to large urban markets for processed food and other consumer goods. Earthy Goods has identified a large number of segments where demand for low-volume but highly-customised niche products continues to remain unmet. Such products typically cannot be produced economically in mechanised units owing to very small batches.

Earthy Goods identifies, strengthens and invests in producer companies that can effectively meet such demand. Its key role is to identify and fix gaps in the supply chain for such products. Most of these gaps are addressed by investing in back-ends that help address issues of information asymmetry (around quality, ability to supply on time, etc) and reduction in the cost of such products.

Earthy Goods undertakes to purchase 65% of all production. IFMR Trust has so far made an investment of Rs 12.5 million in Earthy Goods.

### *Sandhi (crafts, apparel and furnishings)*

Sandhi Hand Craft Private Limited is a Mumbai-based supply chain accelerator working in the crafts, apparel and furnishings space. Sandhi has identified the growing demand for handcrafted quality apparel and furnishings. While a large number of households are engaged in the production of such goods, there are several supply chain constraints that do not allow the steady flow of high-quality products that meet market requirements.

Sandhi's work is concentrated on building high-quality hubs across the country that work with a number of producers in a given geography. These hubs act as back-ends, helping producers improve the quality of their products. They also aggregate production and are responsible for their finish. Sandhi guarantees an off-take of 50% of each hub's total production. IFMR Trust has made an investment of Rs 15 million in Sandhi.

#### *STRIVE (vocational training)*

Skills Training and Research in Vocational Education Services India Private Limited (STRIVE) is a Hyderabad-based company working in the skills training field. STRIVE identifies key areas where the corporate sector faces a human resource shortage and works on "right-skilling" unemployed youth mainly from rural areas to help overcome this shortage. STRIVE accredits rural training centres to ensure that prospective candidates trained by them meet the requirements of corporate employers. The organisation plays an important role in addressing other supply chain constraints too, such as provision of finance to trainees to help them meet their training expenses, development of content based on corporate sector requirements, etc. STRIVE also offers a placement guarantee to anyone trained at an accredited training partner. IFMR Trust has made an investment of Rs 13 million in STRIVE.

#### *Water Health India (drinking water)*

Water Health India Private Limited (WHI), a Hyderabad-based private limited company, is a fully owned subsidiary of Water Health International. WHI's business model enables the delivery of affordable clean water to even the most remote, low-income rural communities. WHI is engaged in running decentralised water purification plants in rural India, in partnership with the local self-government (panchayat) and local NGOs. WHI has access to patented technology developed by Water Health International that is deployed in rural plants. It is also responsible for the

maintenance of these water plants. Water is sold to households at a price that translates to less than Re 1 per day for a household of five members. WHI has installed 100 water purification plants in partnership with IFMR Trust. IFMR Trust has made an investment of Rs 200 million in WHI.

#### *Education Initiatives (rural education)*

Education Initiatives (EI) is an Ahmedabad-based company that was formed with a mission to work towards qualitative improvements in India's educational system. The company achieves this by offering products and services based on research in assessments that accurately and meaningfully measure students' learning, and providing insights into the learning process thereby improving quality of learning. The company has already made an impact through its strong credibility with parents, schools, policy-makers and academics. EI offers systematic feedback that can be used to monitor progress and eventually correct weaknesses. It is already a preferred partner for some of the most elite schools in India.

EI's partnership with IFMR Trust will take the company's testing-related work to rural schools. As one of the investors in the company, IFMR Trust made a total investment of Rs 19.9 million in EI.

#### *DESI (energy)*

DESI Power (Kosi) Private Limited has its operations in Bihar's Araria district. DESI's business plan is to provide electricity to villages that do not have reliable grid power. It aims to fulfil the energy needs of rural India through small, locally operated power plants. It also engages in power distribution.

DESI launched a 100-village 'EmPower Programme' in Araria in 2001-02 with existing and potential rural enterprises as the primary target. The programme aims to provide reliable and sustainable energy solutions which will in turn help set up/improve capacities of micro enterprises. A significant proportion of DESI's

capital costs is met through the sale of carbon credits that accrue from its plants. IFMR Trust has invested Rs 3.5 million in DESI.

#### *CapStone (housing)*

CapStone Financial Services Private Limited (CapStone) is a Chennai-based financial services company set up by the US-based Development Innovations Group. CapStone is a lending service company engaged in the provision of home improvement and business micro finance loans to customers. CapStone will expand to include a variety of financial products to satisfy household and business needs. IFMR Trust has invested Rs 10 million in CapStone.

#### *Aarusha Homes (low income group housing)*

Aarusha Homes, a company promoted by three urban and housing sector professionals, is dedicated to finding housing solutions for low income households. In the ownership market, it will work with developers in customer mobilisation (including housing finance) and partial underwriting of stock to reduce their risks. In the rental market, it will increase the housing supply for formal and informal workers and families. In rural areas, it will work with NGOs, MFIs and SHGs to provide intermediation services for design, materials and finance. In due course, Aarusha sees opportunities in incremental and rehabilitation housing in slums; and, mortgage and leasing services for deepening of house finance products. Based on opportunities and partnerships, Aarusha Homes will sequence its activities in these areas.

### **Plans**

IFMR Trust will launch NEF in 2008-09. The fund aims its first close of Rs 2 billion (~ USD 50 million) in February 2009. It will attempt to forge favourable alliances that align with its objectives. ITAS will be fully staffed within the year. The team currently has four members and will grow to nine members by the first close of the fund.

IFMR Trust will ensure that it has a pipeline of investment across all investment areas. We are in the process of hiring individuals with a strong industry background for each of the NEs, and are looking at various proposals in the fields of education, rural BPO, rural tourism, clean drinking water, food processing, housing, etc.

Puneet Gupta  
Senior Vice President, IFMR Trust and  
Managing Partner, The Network Enterprises  
Fund



# IFMR Trust Guarantee Company (ITGC)

**W**e at IFMR Trust Guarantee Company (ITGC) have a dream of bridging the gap between mainstream capital markets and underserved sectors relevant to low-income households, such as micro finance institutions and rural enterprises. We believe we will have an enormous impact on the ability of these institutions to succeed, by bringing our expertise, developing tools for risk evaluation and using financial structuring to mitigate and tailor risk. I would like to share with you how we intend to realise this dream: laying the foundation, the beginnings we have made, and our plans for the future.

Our aim is to reduce the cost of capital for the end borrower by developing access to debt capital markets, creating transparent criteria for the evaluation of these new asset classes, and using financial structuring tools to generate high-quality assets leading to price discovery, liquidity and growth in these new markets. We will also develop scaleable and affordable risk management strategies, specifically designed for rural economies to manage economic volatility.

ITGC will operate as a registered Non-Banking Financial Institution (NBFI) regulated by the RBI under Section 45-IA. We will provide and enable access to debt capital for the following focus sectors:

- Rural financial service providers
- Urban financial service providers that focus on low-income households
- Municipalities
- Rural infrastructure
- Small and medium enterprises in the rural sector
- Agriculture, low-cost housing, and other sectors relevant to low-income households in both urban and rural areas

We will use a combination of strategies to achieve our objectives:

- Identify high-quality underlying portfolios and achieve diversification by pooling risks

across various sectors and geographical locations. The quality of the underlying portfolio will be maintained by strict adherence to underwriting guidelines developed by ITGC for each asset class.

- Use financial structuring tools such as re-packaging, securitisation and credit enhancement to tailor products that match the risk profile of investors.
- Structure debt to achieve efficient pricing, for instance high-quality priority sector eligible assets for Indian bank investors, credit-enhanced AAA-rated securities for fund investors.

The foundation for each of these strategies will be our initiatives in market development:

- Set market standards for micro finance loan-backed securities, municipal financing instruments and project finance bonds.
- Develop a sound theoretical pricing framework.
- Design rating methodologies for new asset classes and structures with rating agencies.
- Provide liquidity by making two-way markets in municipal bonds, structured finance securities.

## Landmark transactions

In the first quarter of 2008, we provided mezzanine financial guarantees to portfolios of micro finance loans originated by BISWA and Bandhan. These landmark transactions were the first of their kind and we proved our ability to attract mainstream capital at very attractive pricing.

We have also kick-started our foundation building efforts by entering into an MoU (Memorandum of Understanding) with CRISIL and the ICICI Foundation for Inclusive Growth to promote projects aimed at development of asset classes that will impact low-income households. Under the agreement, signed in Mumbai on July 17, 2008, CRISIL will develop products for rating micro finance institutions, micro loan portfolios and urban local bodies, enabling better analysis and a deeper

understanding of these entities. CRISIL will publish and disseminate rating criteria for such entities. We will work with CRISIL to develop market standards for these asset classes and provide access to enterprises and institutions working in these areas.

#### *BISWA*

IFMR Trust provided credit protection in the form of a guarantee to a portfolio of agricultural loans originated by BISWA (Bharat Integrated Social Welfare Agency), an MFI in Orissa. The protection is limited to 45% of the portfolio size of Rs 230 million (USD 5.75 million) and ranks senior to a First Loss Default Guarantee of 5% of the portfolio size provided by the originator. The tenure of the portfolio is one year, and the transaction was placed in the banking sector. The concerned bank bought out the portfolio at an interest rate of 6%, 150 basis points lower than the one-year G-Sec rate at the time, in India. This, after taking into account the guarantee and structuring fee, resulted in net pricing to BISWA that is very attractive in the context of emerging micro finance institutions.

#### *Bandhan*

IFMR Trust provided a guarantee that enabled Citibank to make a Rs 150 million (USD 3.75 million) term loan to Bandhan Financial Services (BFS), a micro finance institution in West Bengal. The protection provided by IFMR Trust is for 27% of the outstanding loan, and ranks senior to a First Loss Default Guarantee of 3% provided by BFS. The tenure of the loan is 14 months. This structure enabled BFS to access funding at a very attractive rate of 10.5%.

### **The way forward**

In 2008-09, we aim to be at the cutting-edge of financial innovation to develop new asset classes: micro finance, municipalities and rural infrastructure. We will invest heavily in product and market development, and then leverage on this base to expand our business rapidly for maximum impact on economic development in these sectors. Some of the key milestones we

hope to achieve in 2009 are:

- Joint launch with CRISIL of underwriting guidelines and rating criteria for micro finance institutions and micro finance loan securitisations.
- Launch micro finance loan and rural-infrastructure-asset-backed securities on bond trading platforms, and subsequently provide liquidity via market-making on these platforms.
- Acquisition of a diverse portfolio of micro finance loans for further re-packaging/ securitisation from a diverse range of institutions by geography, maturity and loan type.
- Set benchmarks for pricing of financial guarantees and rated securities.
- Rating of IFMR Trust Guarantee Company by a leading Indian rating agency.

We believe that ITGC will play an important role in providing the missing link that will not only give underserved sectors like micro finance institutions and rural enterprises access to commercial capital, but also provide investors with a unique asset that will add value in terms of portfolio diversification and risk-return profile.

Sucharita Mukherjee

Senior Vice President, IFMR Trust and  
CEO, IFMR Trust Guarantee Company

# IFMR Foundation (IF)

In 2007-08, IFMR Foundation expanded and deepened its efforts to realise the vision of universal access to financial services. We applied our energies and resources to initiate action research projects, strengthen existing projects, provide incubation support to new institutions, and document and disseminate knowledge. We also focused on defining and designing our strategic paradigm.

The central focus has been to become a creative and strategic group that can deploy its ideas, energies and non-commercial financial resources to create leveraged impact on the state of access and use of high-quality basic financial services for low-income households in India. Below is a brief overview of the main decisions and actions in the year 2007-08.

Our action research partnership with Aajeevika Bureau ([www.aajeevika.com](http://www.aajeevika.com)) in Rajasthan, motivated by a common interest in delivering financial and other services to rural migrants, expanded in scope and reach while achieving certain key milestones. The effort to provide financial services to migrants received a strong impetus with the launch of the Rajasthan Shram Sarathi Association (RSSA), a micro finance institution promoted by Aajeevika Bureau. RSSA is a next-generation effort in micro finance that is building models for financial services delivery to migrants, who represent a group that is underserved by traditional models of financial services delivery. The work with Aajeevika Bureau has received acknowledgement from the government of Rajasthan, which recognised the photo ID cards issued by Aajeevika Bureau as authorised cards of the Department of Labour and Employment, Government of Rajasthan. The initiative also received recognition from the media, with *Outlook Business* (May 3, 2008) selecting it as one of the key examples for its special issue on '25 ideas that will change our world'.

We initiated a partnership with Drishtee Foundation (DF) ([www.drishteefoundation.org](http://www.drishteefoundation.org)) to pilot a kiosk-based individual lending model for financial services delivery through entrepreneur-owned kiosks supported by DF in Uttar Pradesh

and Assam. The project is testing the implications of a number of important innovations including: individual lending to micro entrepreneurs; management of outreach, processing (with the help of DF), disbursement and repayment by local kiosk owners; and linking incentives of kiosk owners to new loans and repayments.

A research-cum-advocacy effort in collaboration with the Institute for Human Development (IHD), focusing on scheduled castes, came close to completion with field work concluding this year. The study aims to understand the involvement of dalits in micro credit initiatives in four different regions of India, successes and failures of dalit entrepreneurs/groups and reasons for the same.

Staying true to our strategy of incubating and supporting innovative institutions with sectoral mandates, the IFMR Foundation provided incubation finance to the Centre for Innovative Financial Design (CIFD), a new research and resource centre at IFMR, Chennai. CIFD, which has been set up in partnership with ideas42 at Harvard University, will create usable conceptual advances in financial design for emerging markets like India, and actively disseminate them to financial designers and policy makers. The Centre's work revolves around the innovation, testing and design of principles to improve and create more effective access to finance for poor and middle-class households in emerging markets.

The IFMR Foundation team wrote a working paper, 'Linking Financial Inclusion with Social Security Schemes', linking it with schemes like the National Rural Employment Guarantee Scheme.

In 2008-09, we are going to focus our efforts on deepening existing activities and strategies whilst developing new areas of work, including vibrant practices around the dissemination of knowledge and policy advocacy.

Bindu Ananth  
President, IFMR Trust

# Senior Management Team



**Bindu Ananth**  
President, IFMR Trust

Bindu Ananth worked with ICICI Bank in its micro finance practice between 2001 and 2005 and was Head of the New Product Development Group within the bank's rural finance business in 2007.

She founded the Centre for Micro Finance, IFMR, and has published in the *Small Enterprise Development Journal*, the *Economic and Political Weekly*, the OECD working paper series and the IFMR working paper series.



**Dave Wallack**  
Senior Vice President, People, IFMR Trust

Dave Wallack worked for over 10 years as an Executive Coach and Organisational Design Advisor for various private sector and political clients in the US.

He specialises in building and motivating organisations to operate effectively in rapidly changing environments.



**Anil Kumar SG**  
Senior Vice President, IFMR Trust and  
CEO, IFMR Trust Holding Company

Anil Kumar started his career in a rural branch of Canara Bank. Later he joined ICICI Bank, where he was Head of the Micro Finance Institutional Development Team, which created over 100 MFIs across the country in 25 states.

He was involved in structuring several innovative models of finance to reach out to clients at the bottom of the economic pyramid, and has conducted several training programmes aimed at identifying entrepreneurs for the micro finance sector.



**Puneet Gupta**  
Senior Vice President, IFMR Trust and  
Managing Partner, The Network Enterprises Fund

Puneet Gupta worked with the Social Initiatives Group (SIG) of ICICI Bank as Coordinator of its education and micro finance programmes.

At ICICI Bank, he led teams that worked to improve the quality of mainstream systems of delivery for education and access to financial services for low-income households.



**Sucharita Mukherjee**  
Senior Vice President, IFMR Trust and  
CEO, IFMR Trust Guarantee Company

Sucharita Mukherjee led the origination and structuring effort in credit derivatives and structured finance for corporates at Morgan Stanley in London. Her work includes developing innovative asset-backed financing structures in such areas as intellectual property and healthcare receivables.

She was also part of the credit derivatives team at Deutsche Bank in London, structuring credit-derivatives-linked repackaged investments for financial institutions.

# Governing Council



**Dr Nachiket Mor**  
Chairman

Dr Nachiket Mor stepped down from the board of directors of ICICI Bank in October 2007 to assume charge of the ICICI Foundation for Inclusive Growth as its President.

He is on the board of the Institute for Financial Management and Research (IFMR), CARE USA, International Food Policy Research Institute (IFPRI), and several taskforces of the Planning Commission. Earlier, he served as Chairman of the Fixed Income Money Market and Derivatives Association of India (FIMMDA) for two years and as a board member of Wipro Limited for five years. He worked with ICICI Bank from 1987 to 2007.



**Deidra Wager**

Deidra Wager, Executive Vice President, Starbucks Coffee Company, retired in 2005 to pursue an interest in non-profit work and sustainable agriculture. She is on the board of CARE USA and is a founding member and board member of The Lacewing Foundation dedicated to girls' education and maternal health. She is also on the board of YouthCare, a Seattle-based agency serving homeless youth.

During her 13-year tenure at Starbucks, Wager was instrumental in developing the company's operating infrastructure. She has a consulting practice specialising in retail strategy development and implementation.



**Dr Tilman Ehrbeck**

Dr Tilman Ehrbeck is a partner in the Global Healthcare Payor and Provider of McKinsey, and has been based in New Delhi since 2005. He has served for-profit and non-profit healthcare providers and insurance companies on issues of growth, organisation, business performance and service operations in North America and, more recently, India.

Before moving to India, Dr Ehrbeck led McKinsey's proprietary consumer research on opportunities and challenges associated with the rise of consumer-directed health plans in the US.



**W Bowman Cutter, III**

W Bowman Cutter, III is Managing Director, Fund Raising and Investor Relations, Warburg Pincus LLC. He was Deputy Assistant to the US President for economic policy, and served on the National Economic Council during the Clinton administration before joining Warburg Pincus in 1996. He was earlier Executive Associate Director for Budget at the Office of Management and Budget during President Carter's administration.

Cutter is a member of the Council on Foreign Relations and Chairman on the board of directors of CARE. He is also associated with several other institutions.



**Bindu Ananth**  
President, IFMR Trust

Bindu Ananth worked with ICICI Bank in its micro finance practice between 2001 and 2005 and was Head of the New Product Development Group within the bank's rural finance business in 2007.

She founded the Centre for Micro Finance, IFMR, and has published in the *Small Enterprise Development Journal*, the *Economic and Political Weekly*, the OECD working paper series and the IFMR working paper series.



# Financial Highlights

Balance Sheet as at 31st March 2008

(Amount in Rs)

	As at 31st March 2008	As at 31st March 2007
<b>I SOURCES OF FUNDS</b>		
General Fund	1,000	1,000
Loan Funds		
Unsecured Loans	964,628,532	84,382,336
<b>Total</b>	<b>964,629,532</b>	<b>84,383,336</b>
<b>II APPLICATION OF FUNDS</b>		
Fixed Assets		
Gross Block	2,675,375	181,070
Less: Accumulated Depreciation	1,217,172	54,321
<b>Net Block</b>	<b>1,458,203</b>	<b>126,749</b>
Capital Advances	40,750,000	5,299,320
Investments	25,999,018	—
Advance Subscription towards proposed investment in Equity Shares Refer Note 3.2 of Schedule 10	24,750,000	6,907,400
Current Assets, Loans & Advances		
Cash and Bank Balances	583,909,460	66,319,271
Loans & Advances	292,035,084	4,716,467
	<b>875,944,544</b>	<b>71,035,738</b>
Less: Current Liabilities & Provisions		
Current Liabilities	7,548,720	724,283
Provisions	1,258,325	(73,940)
	<b>8,807,045</b>	<b>650,343</b>
<b>Net Current Assets</b>	<b>867,137,499</b>	<b>70,385,395</b>
Profit and Loss Account	4,534,812	1,664,472
<b>Total</b>	<b>964,629,532</b>	<b>84,383,336</b>

For Deloitte Haskins & Sells  
Chartered Accountants

For and on behalf of the Trust

Sd/-  
Bhavani Balasubramanian  
Partner  
Place: Chennai  
Date: 25th September 2008

Sd/-  
President

Profit and Loss Account for the year ended 31st March 2008

(Amount in Rs)

	For the year ended 31st March 2008	For the period ended 31st March 2007
<b>INCOME</b>		
Interest on Loans (Tax deducted at Source Rs 94,905) (Previous year - Nil)	9,011,883	—
Interest on Fixed Deposits with Bank (Tax deducted at Source Rs 10,25,319/- (Previous Year - Rs 91,940/-)	9,049,570	819,425
Consultancy Fees Received	33,374,866	—
Document processing charges	200,000	—
<b>Total</b>	<b>51,636,319</b>	<b>819,425</b>
<b>EXPENDITURE</b>		
Staff Costs	14,776,740	267,226
Administrative and Other Expenses	35,964,788	2,144,350
Interest	162,280	—
Depreciation	1,162,851	54,321
<b>Total</b>	<b>52,066,659</b>	<b>2,465,897</b>
Loss for the year	(430,340)	(1,646,472)
Taxation		
- Current tax	2,100,000	—
- Fringe Benefit Tax	340,000	18,000
	2,440,000	18,000
Loss after tax	(2,870,340)	(1,664,472)
Loss brought forward from previous year	(1,664,472)	
Loss carried to balance sheet	(4,534,812)	(1,664,472)

For Deloitte Haskins & Sells  
Chartered Accountants

For and on behalf of the Trust

Sd/-  
Bhavani Balasubramanian  
Partner  
Place: Chennai  
Date: 25th September 2008

Sd/-  
President

Cash flow statement for the year ended 31st March 2008

(Amount in Rs)

	For the year ended 31st March 2008
<b>A. CASH FLOW FROM OPERATING ACTIVITIES:</b>	
Loss for the year	(430,340)
Adjustments for:	
Depreciation	1,162,851
Interest Paid	162,280
Interest received on fixed deposits	(9,049,570)
Assets written off	85,800
Operating Profit before working capital changes	(8,068,979)
Adjustments for:	
Increase in loans and advances	(325,423,488)
Increase in current liabilities and provisions	6,973,437
Cash used in operations	(326,519,030)
Direct Taxes paid	(136,511)
Net cash used in operating activities	(326,655,541)
<b>B. CASH FLOW FROM INVESTING ACTIVITIES:</b>	
Purchase of fixed assets	(2,280,785)
Purchase of Investments	(19,999,118)
Investment in a subsidiary	(999,900)
Subscription towards purchase of equity shares	(18,092,600)
Interest Received	5,534,217
Net cash (used in) investing activities	(35,838,186)
<b>C. CASH FLOW FROM FINANCING ACTIVITIES:</b>	
Proceeds from Revocable grant	880,246,196
Interest Paid	(162,280)
Net cash generated from financing activities	880,083,916
Net increase in cash and cash equivalents (A+B+C)	517,590,189
Opening balance of cash and cash equivalents	66,319,271
Closing balance of cash and cash equivalents *	583,909,460
* - Includes an amount of Rs.10,59,00,000 under lien with bank	

For Deloitte Haskins & Sells  
Chartered Accountants

For and on behalf of the Trust

Sd/-  
Bhavani Balasubramanian  
Partner  
Place: Chennai  
Date: 25th September 2008

Sd/-  
President









1, Cenotaph Road, Teynampet

Chennai 600 018, India

Tel: +91-44-43051500 Fax: +91-44-43051558

Website: <http://www.ifmrtrust.co.in>