

*microfinance India*  
SUMMIT 2010



# Relevance of Gold as a Long Term Savings Instrument



WORLD GOLD COUNCIL



**TABLE OF CONTENTS**

About World Gold Council (WGC) ..... 3

About ACCESS ASSIST ..... 4

About the Roundtable Event ..... 7

Context ..... 8

Roundtable Proceedings..... 10

Annexure-1: Agenda ..... 13

Annexure-2: List of participants ..... 13

## **About World Gold Council (WGC)**

World Gold Council is an international organization that acts as information resource for gold, investment, jewellery, science and technology, historical and culture.

The World Gold Council's mission is to stimulate and sustain the demand for gold and to create enduring value for its stakeholders. The organisation represents the world's leading gold mining companies, who produce approximately 60% of the world's annual corporate gold production in a responsible manner and whose Chairman and CEOs form the Board of the World Gold Council (WGC).

As the gold industry's key market development body, WGC works with multiple partners to create structural shifts in demand and to promote the use of gold in all its forms; as an investment by opening new market channels and making gold's wealth preservation qualities better understood; in jewellery through the development of the premium market and the protection of the mass market; in industry through the development of the electronics market and the support of emerging technologies and in government affairs through engagement in macro-economic policy issues, lowering regulatory barriers to gold ownership and the promotion of gold as a reserve asset.

The WGC is a commercially-driven organisation and is focussed on creating a new prominence for gold. It has its headquarters in London and operations in the key gold demand centres of India, China, the Middle East and United States. The WGC is the leading source of independent research and knowledge on the international gold market and on gold's role in meeting the social and economic demands of society.

## **About ACCESS ASSIST**

ASSIST is a newly incorporated entity as a specialized affiliate of the ACCESS group, which has been set-up to give strategic focus to some of the key initiatives within the microfinance vertical of ACCESS, particularly the ACCESS Microfinance Alliance (AmFA), a network of partner institutions. In the last three years since birth, ACCESS has enjoyed phenomenal success and an accelerated pace of growth; and has established strong credibility within the sector. Its two important verticals, microfinance and livelihoods, offer a wide range of services at all levels within the value chain – local and national. In order to proactively manage the challenge of growth and focus and to ensure that customer satisfaction is not sacrificed, a need was felt for a separate entity that would focus on our partner relationships and further enhance performance on all fronts. ACCESS-ASSIST was born out of this need.

Most of the Tier I & Tier II portfolio of ACCESS was transitioned into the new company with a mandate to organize and aggregate demand and thereby catalyze a larger quantum of fund flow to the poor. The core operational strategy would be to incubate and build strong microfinance institutions / SHPIs (self Help Promoting Institutions) and microfinance support institutions. Simultaneously, one prong of the ASSIST strategy would focus on engaging with the supply side and building the interest among banks and other FFIs, investors and promoters towards greater engagement with smaller institutions.

While broadly, ASSIST will further build on the ACCESS microfinance portfolio passed to the new entity, it will seek to further innovate and refine its strategies to remain relevant and provide value to the sector through its interventions. ASSIST will position itself as a narrowly focused, specialized affiliate of ACCESS to contribute to both the organized growth of the microfinance sector and the larger national agenda of financial inclusion

## **ACCESS Development Services – The Parent Institution**

ACCESS Development Services (also referred to as ACCESS) was instituted jointly by CARE and DFID in March 2006, as an exit strategy to build on the expertise and experiences of a large scale successful program called CASHE (Credit and Savings for Household Enterprises), one of the most successful program of DFID with a value of GBP 10 million.

### **Vision**

“ACCESS is a global partner of choice providing inclusive and innovative livelihood solutions enabling the poor to overcome poverty and live with dignity”.

### **Mission**

“To build the capacity of community based institutions that deliver relevant financial; and livelihood development services to the poor and unreached households.”

ACCESS Development Services is a national technical services company with focus on supporting the up-scaling of the microfinance sector in India as well incubating innovations for sustainable enterprise development of the poor. ACCESS is structured uniquely, to work at all levels of the sectoral value chain – implementing program on the ground, working with Civil Society organizations, Government Departments, Corporate sector, and Multilateral / Bilateral agencies as

also undertaking a few national initiatives. Although ACCESS has a national concern, given the scenario of low penetration of development services in certain regions of the country, ACCESS focuses its efforts in the more underserved regions.

ACCESS has broadly defined its initiatives under two verticals i.e. microfinance and livelihoods.

**Microfinance**

At the ground level, ACCESS provides technical assistance and mentoring support to new / nascent and grown-up NGOs / MFIs which have the potential to transform to full fledged sustainable microfinance operations through its Microfinance Resource Centres spread across six regions. Prior to providing the technical assistance and mentoring support, a qualitative and quantitative assessment is done of the NGOs / MFIs through the Institutional and Capacity Assessment Tool (I-CAT). Based on the results of this assessment, customized technical services are provided to the institutions.

At the meso level, ACCESS has established the ACCESS Microfinance Alliance (AmFA) spread across the country and covering around 4 million clients. The partners in the network are provided various services including structured technical support, linkages with financial and non-financial institutions and learning opportunities by ACCESS.

At the national level, as supporting sector building, we have structured a slew of initiatives under the banner of "Microfinance India" where we organize the Annual Microfinance India Summit, release the annual State of the Sector Report, organize policy retreats and work with stakeholders to develop a state vision document in an underserved region.

**Livelihoods**

Besides, executing over 20 livelihoods (enterprise development as called in India) initiatives across the country and impacting the livelihoods and incomes of over 100,000 primary producers; ACCESS has been successfully organizing one of the significant initiatives since last 6 years i.e. the Micro Finance India Summit. The summit is participated over 1000 by global resource persons and experts. This has been established as global platform for microfinance in India. Besides the MF India Summit, ACCESS has also been successfully organizing the Livelihoods India Conference, with specific focus on livelihoods and enterprise development issues and challenges the poor face.

Under the Livelihoods (Enterprise Development) initiatives, ACCESS impacts the lives of the poor by developing sustainable solutions for improving their incomes and improving various income generation activities. To optimize its resources and maximize the results of its interventions, ACCESS believes in partnering with key stakeholders in the sector in order to develop mutually reinforcing strategies, bring convergence of competencies and build consensus on key issues.

ACCESS operates on a pan India basis, but focuses on building local capacity in more underserved regions. Headquartered at New Delhi, ACCESS has operational offices in 7 States and closely works with respective State Government Departments and Central Govt. Ministries and Departments. ACCESS has engaged with a host of other donors/stakeholders, including UNDP, Ford Foundation, SDC, IFC, SEEP Network, Trehan Foundation, Citibank Foundation, Rabobank Foundation, ABN AMRO Bank Foundation and GDS Trust. In 2008, DFID supported the Sustainable Livelihoods India initiative of ACCESS and the "State of Livelihoods—the 4 P Report". Out of a DFID grant of Revolving Loan Fund

of GBP 2 million, ACCESS is setting up a wholesale entity for providing start up loans to emerging institutions.

ACCESS is consortium partner in two major microfinance and livelihoods programs (Poorest Areas Civil Society (PACS) and Poorest States Inclusive Growth (PSIG) Programmes) being implemented in poorest states in India supported by DFID for a period of six years.

## About the Roundtable Event

**Venue** : Willows Hall, India Habitat Center, New Delhi

**Topic** : Relevance of Gold as a Long Term Savings Instrument

In today's world, the primary question that remains in the minds of most consumers, especially in the low-income segment, is how does one save and thereafter how does one protect his/ her existing savings. The idea of saving in gold may be a feasible option for the middle-class and the upper-middle class, but for those living at the Bottom of the Pyramid, the concerns are totally different. While the means to invest are minimal, non-accessibility to credible sources of supply, rising costs and increasing inflation is surely a dampener to their goals. It is the women in this segment who desire to save in gold not only to preserve their wealth but also to fulfil for future family social obligations like a daughter's wedding, purchase of a new housing shelter, children's education and so on.

It is in such an environment that micro-finance institutions made an entry with an agenda which was mostly social. While the microfinance segment has been successful in its attempt to uplift the lively hood of many Indian households in this category, they have not yet provided enough savings opportunities for these very consumers. While credit is an important financial service, saving is an equally important financial service required at this level that can help people in smoothening their cash flows and use money when it is required rather than when it is earned.

Also, while savings are important for the low-income groups, it is also a good source of funds for the MFIs. The cost of funds generated through savings is generally much lower than the cost of commercial borrowings. Hence a good balance between credit and savings is important for these consumers; there is only a need for a suitable product to capture these savings... AND WHAT WOULD BE A BETTER OR MORE EFFECTIVE SAVINGS PRODUCT THAN GOLD, ESPECIALLY IN THE INDIAN CONTEXT!

In light of this, the concept of gold linked micro-finance savings scheme was initiated by the World Gold Council in 2008 with the objective of making good quality gold accessible and more importantly affordable to the members of the bottom of the pyramid segment.

**Participants** : The event was moderated by Mr Keyur Shah from WGC. The discussion was attended by various stakeholders. MFIs which form most formidable part were represented in large no. There were representatives from representatives from MFIs like Survodaya, Anjali MAARG, ESAF. Experts from microfinance industry were also represented by delegates from Microsave, ACCESS development services, Pondicherry University. Representatives from Reliance money formed crucial part of discussion as reliance sells gold to MFIs and also reserves same for them. Muthoot group, Mimo Finance, IFMR holdings shared their experiences of Gold loan. The list of all the participants is presented in Annexure-2.

## **Context**

Since ages, gold has been one of the best instruments to invest. Main form of gold was ornaments which were traditionally brought down from generations. Most the gold demand was met through informal sources like trusted ornament shops.

However since the liberalization policy, Indians have moved out of their traditional places and have settled in different cities across country and world. This has resulted in increase demand form formal sources in gold. Thus since early years of this decade, formal sectors have started contributing to this sector. As of now, formal sectors form 20% of market and informal sources are still at a high of 80%. Formal sources constitute the banks, corporate, NBFCs, Private players, Post Offices. With the rise of formal sector, rise of other forms of gold apart from jewellery grew. Currently Gold is available in form of bars, coins etc however till date jewellery forms most sought after form of gold.

Despite being the largest global gold consumer, Indian jewellery consumption intensity is still relatively low. Its consumption of jewellery on a per capita basis of 0.4 grams in 2009, remains below countries such as Italy and the US.

Over the past decade, gold consumption has increased at an average rate of 13% per year, outpacing the country's real GDP.

### **Current scenario**

Gold Jewellery demand in India, the world's largest gold jewellery market, rose 67% year-on-year to 272 tonnes in the first half of 2010. Over the same period, the average domestic gold price surged to almost Rs52,800/oz, before hitting a new high of Rs60,460/oz on 15 October 2010.

In India gold often represents a large percentage of the family assets and during the first six months of 2010 the Indian retail investment market was one of the strongest in the world. Demand increased substantially by 264% to 93 tonnes in this period (from 25 tonnes in H1 2009) and accounted for 25% of total domestic gold demand.

The main participants in the domestic gold industry, including Reserve Bank of India and commercial banks such as HDFC, India Post Office, Muthoot Pappachan Group, and gold jewellers (such as Tanishq, GRT, TBZ to name a few) provide consumers and investors with a broad range of other channels and products. These products include the sale of gold coins and bars, gold saving schemes and "Swarna Varsham" microfinance gold link scheme.

\*Note: The facts and figures of this section have mainly been taken from publications of World Gold Council

### **Loan against gold**

Historically many have taken loan against gold through many informal sources. Number of NBFCs have also started giving such loans. Muthoot finance, being best known in the sector. This business has been excelling in south India whereas in North Indian states same is not the case.



WGC in order to increase access to gold among lower income class people has promoted the concept of gold loan i.e. giving loan for buying of gold. This discussion was aimed at promoting gold as an investment opportunity among poor.

Till date in India, micro-finance has been mainly limited to providing loan to enhance income opportunities. This has also resulted in many clients using the loan for consumption and showing to MFIs fake assets during loan utilization. However with investment in gold, the asset would be safe as the probability of price appreciation is quite high. This option of having gold as a long term investment option has mainly been available for middle to higher class, however with this product, poor may also make investment in gold even though small. The USP of this product is the fact that it is secured and the price will appreciate only.

## Roundtable Proceedings

The roundtable discussion began with a welcome address by Mr. Keyur Shah followed by a small presentation detailing about WGC, gold, models that can be adopted. His presentation covered following main points:



- Introduction to WGC
- Gold market in India
- Retail market of gold in India
- Segment wise gold consumption
- WGC Vision about gold as investment option for BoP segment
- BoP an attractive market segment
- Gold as an attractive opportunity for BoP segment
- Challenges and opportunities for players operating/planning to operate in this segment
- WGC India projects
- Details of current practices
  - Business Model
  - Product & pricing
  - Various financing options
  - Market development activities to be carried out
  - Various operational challenges to be overcome
  - Various external challenges that may arise

- How would WGC help the interested organizations

This detailed presentation was followed by presentations by various organizations currently engaged in this product. Muthoot finance was the first to present



Mr Sadaf Sayeed of Muthoot Fincorp presented details of operations of his group. He told that Muthoot group charges an interest of 24% reducing and bundles up loan only with existing loan of JLGs. Gold is hypothecated and is returned only when both the loans (JLG & Gold) are returned by client. Muthoot also offers buy back arrangement with clients whereby clients after few years may sell gold back. Muthoot charges 3% charge on

market price in buy back, however since market price generally increases a lot, clients won't mind paying 3%. As per Mr Sayeed, this is a secured product and also good for clients.

Then Mr Nitin Chowdhary of IFMR holding presented experiences of his organization. IFMR holdings charge 16% declining interest rate and finance only upto 80% of loan. They however do not bundle the product with normal JLG loan. In fact only after completing existing loan can a client take this gold loan. Buy back was guaranteed at market price. However there was no guarantee to buy back at a higher price only.

This presentation was then followed by another presentation by Mr R. Thirunavakarasu of Mimo finance. Mimo charged 9% flat interest and a processing fee of 2% mainly to ward off non serious clients. Mimo tied up with reliance money for buying of gold and storage of same. Initially Mimo gave only 'Redemption slips' to clients after getting processing fee and gold only after loan has been repaid. Clients seemed unsatisfied due to this. Hence Mimo started giving gold worth 2% of processing fee. This step shot up the demand for gold among clients and there was a heavy rush.

These presentations were followed by discussion on problems being faced. Mr. Anand Krishnamoorthy of Reliance Money informed that logistics were biggest issue as Reliance keeps the gold in its custody till loan is repaid and it costs a lot to transport few gold coins safely to MFI's office. He stated these cost would come down once no of end customers goes up due to economies of scale.



Discussions were also held on bank's response to these loans. Whether banks raised any objections to fund MFIs to buy gold? Whether this would be regarded as PSL? Mr R. Thirunavakarasu responded to all these queries. He told that till date banks had not objected to Mimo's selling of gold

loan and that there was no common view among bankers however some bankers advised not to bundle gold loan with JLG loan

Discussions were also held whether this loan went against basic premise of microfinance to provide collateral free loan.

Discussions concluded with all participants agreeing to the fact that Gold offers excellent investment opportunity and there was need to bring in more innovation, participation, in model and also increase the number of clients so as to bring down the cost of delivery.

**Annexure-1: Agenda**

**Microfinance India Summit**  
**“Relevance of Gold as a Long Term Savings Instrument” Roundtable**  
**November 17, 2010**  
**1030 – 1300 hrs**

Willows Hall  
 India Habitat Center, Lodhi Road, New Delhi

*Moderator: Mr. Keyur Shah (World Gold Council)*

<b>1030-1130 hrs</b>	Presentation by Mr. Keyur Shah, World Gold Council
<b>1130-1200 hrs</b>	Sharing of experiences by partners
<b>1200-1330 hrs</b>	Discussions and Queries
<b>1300-1400 hrs</b>	Lunch

**Annexure-2: List of participants**

S. No.	Name of the Participant	Name of the Institution
1	Gurkirat Sandhu	HAMMER
2	John Mayne	Anjali Microfinance
3	K. V. Jayaraj	Anjali Microfinance
4	Joseph Varghese	ESAF Microfinance
5	Gouri Datta	MAARG-GFSPL
6	Anand Krishnamoorthy	Reliance Money
7	D. Lazar	Pondicherry University
8	B. Anjaneyulu	Microsave
9	Aparna D.	Gradatim IT Solutions
10	R. Thirunavakarasu	Mimo Finance
11	Mohan Baliyarsingh	ACCESS Development Services
12	R. Bhaskar Babu	Suryodaya Microfinance
13	Nitin Chaudhry	IFMR Holdings
14	Sadaf Sayeed	Muthoot Fincorp
15	Keyur Shah	World Gold Council