

MUTUAL FUND FOR RURAL POPULATIONS

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The world's population can be divided into three basic segments based on the economic pyramid. Majority of them would lie at the bottom of the pyramid with annual income less than \$1000. This economic inequality must be overcome to ensure the welfare and happiness of people all around. The need of the hour is to develop innovative products or services for these people.



A mutual fund for the rural population is one such solution. The fund would require minimal investment on the part of the people in the rural areas and will be designed in such a manner that it helps them increase their financial position with respect to the other strata of the society. The fund will be designed in the simplest possible manner so that even a layman or an illiterate can understand the way it will function and will have no complex terms and conditions. The fund will not only boost the income of the rural households but will also increase their spending capacity thereby leading to the overall welfare and development of the regions in which they reside.

If we consider the case of India, even the irregularity of monsoon can play a role in the overall functioning of the fund. By securing or insuring the rural people against such natural phenomenon, the fund can extend its advantages to higher levels.

But for all this to happen, private partnership in this initiative is also a must. Large corporate houses must come forward and join hands with the government in building a financial instrument of this kind so that the people at the bottom of the pyramid can have something to cheer about and lead a better life altogether.

They should take up the responsibility of first creating awareness about such a thing by educating the masses about it and then taking up the cause of these people by developing a



simple instrument of this kind.

By developing this mutual fund and implementing it, the rural population will definitely be moved to a new level in the economic pyramid.

BRINGING ABOUT A CHANGE IN RURAL INVESTMENT PATTERN

The next wave of growth in rural areas will come from the rural markets. Presently the underdeveloped world is facing a crisis in the infrastructure sector. Once the growth story embraces this sector, the biggest gainer will be

the villages. Government policies and employment generation programs will also improve the standard of living of rural masses by enhancing their per capita income.

Now a question which lingers on everyone's mind is: How can ordinary, presently low-income earners, from rural background become

rich? The answer to that question is as simple as it is routine: Start by saving and investing something regularly, even modest

amounts, in anticipation of big returns in the future. If a villager is looking for big returns, it cannot come from the traditional sources like bonds or insurance.

Having said that, we must appreciate that although the rural economy is looking to give the urban economy a run for its money, there isn't enough exclusively "rural" financial instruments to channel this money to productive purposes. The most feasible tool seems to be "Mutual Fund" specially designed to address the unique needs of the rural world. The concept of Mutual Funds for the poor

provides significant institutional mechanisms to move the poor out of the village economy and into the more dynamic corporate sector, to a stage where a significant share of corporate wealth could be owned by the poor.

The Mutual Fund is but one institutional mechanism to link the rural population to the corporate sector. The underlying premise of the Mutual Fund is the notion of creating possibilities for the poor to own corporate assets. Financial policy could accordingly be restructured to ensure that all assets, from urban land to real estate development, from banks to corporate trading houses, could be redesigned to accommodate the rural masses (indirectly by the MF way) as equity partners. The two institutional instruments to make this possible remain the Mutual Fund and the need for private limited companies to transform themselves into public limited companies. Here monetary and fiscal policy can provide incentives to encourage the corporatisation of private wealth along with the reservation of space for equity ownership of this wealth by the rural public

The savings of the poor can not only augment the savings base but also broaden the investment capacity of the economy, whilst transforming the poorest rural household into stakeholders in the process of national economic growth. So any mutual fund that

targets the rural economy for raising the money and investing it at the best place can change the face of rural investment pattern and has the potential to become a big threat to low interest yielding insurance or post office products.

A GOOD STRATEGY HAS TO BE CHALKED OUT

To produce worthwhile returns any investment instrument which can be offered needs to be linked with the equity markets but the returns have to be assured. The only viable option is regular investment through a scheme similar to Systematic Investment Plan (SIP), a scheme where you can periodically invest a fixed sum, which could be as low as INR 500 per month. Considered as one of the ideal low-risk methods of wealth accumulation, SIP helps investors overcome the fluctuations of equity investment. Investing through SIP makes timing and cycles of the share market totally irrelevant. With SIP, farmers have to invest a fixed amount regularly. Therefore, they end up buying more units when the markets are down (when the NAV is low) and fewer units when the markets are up (when the NAV is high). SIP works as a disciplined investment method as it forces you to buy even when the markets are low, which is actually the best time to buy.

There must be no risk to the capital invested. Looking at all these aspects a special type of mutual fund has to be designed for the rural

Indian market. The per capita income is below INR 50 per day for a huge chunk of the population. So keeping their standard of living, risk profile, awareness towards such instruments, etc. the concept has to be very unique. It's very difficult on their part to accept any instrument which can require even an iota of their wealth. The device needs to be backed up by some assurance from a trustworthy sponsor like the government or reputed business houses like Birla or Tata. For a player who has low recognition in the rural market it is difficult for the rural masses to accept it.

In the initial stage, the mutual fund can be introduced for as low as INR 200 to join; this variant of mutual fund can be targeted to daily wage laborers and landless farmers as they have the ability to pay that small sum up front when they get their wages or remuneration. They have surplus cash whenever they get their pay and will be willing to invest it if the terms and conditions are simple. To keep the depositor involved and interested in the process of making money from the savings, the mutual fund needs to bring in the option of adding to their investment in increments as small as Rs. 20 and as frequently as daily or weekly.

The average length of time an investor stays in a securities scheme, other than a money market/liquid scheme, is one-fifth of the time in the UK and two-fifths of the time in the US.

Furthermore rural people will normally remain invested for even lesser time. While designing the network this point has to be kept in mind. One challenge is to tackle the liquidity issue of the instrument. To make it customer oriented, the liquidation of the instrument should be very fast and there should be no impediment to exit from the investment. Communication and synergies between the channel partners thus becomes a decisive issue in the overall state of affairs.

LEVERAGING THE RURAL ECONOMY – THE GRAMEEN BANK EXAMPLE

We believe that promoters of such rural world focused fund have to follow a course that few others in the world have done -- and that is, leverage the rural economy. This is something that most of the Mutual fund companies don't do because it requires hard work. There have been some incidences of similar instruments invented to cater to the investment needs of rural population, but they were unable to tap such a huge population of villages. So the main challenge lies in reaching to such a mammoth area. So their challenge is to invent a new business model where they can create a distribution base effectively in all the villages in the world, and to learn to do that at one-tenth the cost of implementing it in the urban world. Just to put that on a scale that someone could understand, to succeed in urban world, they

need to be able to do business at one-tenth the cost of the West. The challenge is to be able to work with partners because that the branch-led model will not work in this context. For example, they might partner with a local financial institution (banks, post office, insurance agents, cooperative banks, etc.), a micro-finance agency or companies' outlet like ITC's Choupal Sagar in India or someone who is already in the village for a business purpose. The Mutual fund might even partner with someone who is selling fertilizers or seeds or tractors. How can we leverage these partnerships to do business? That question drives the need for a new business model to reach out to this market.

A classic case in point for the overall setup is Grameen Bank, Bangladesh. It has taken the initiative in launching the first Mutual Fund of the poor, where it is providing opportunities for investing a small fraction (15 Crore taka) of the savings of its members, in a managed, close-end, Mutual Fund which would invest its portfolio in the corporate sector. The potential of this experiment has to be tested within the small, rather unstable capital market of Bangladesh. On the contrary, looking at the huge, fundamentally strong and stable stock markets in India, the probability of success of such Mutual Fund is much higher. Many clues can be taken from this model to develop a similar instrument in other parts of the world.

VARIOUS CONCERNS

The biggest risk is the failure of the monsoon. Now, can one expect savings and investment from rural population without fixing this risk? What they have to do, is to ask if this is an insurable risk. Can they get such insurance? The answer is yes. Can they then sell this insurance to the farmers? Again, the answer is yes. Finally, can this insurance be further reinsured outside the home country so that the risk was shared even more widely? Yet again, the answer is yes. This will create a win-win situation for all. The farmers will be liberated of the jeopardy of tribulations of monsoons. This can surely act as a side stream of revenues for the same company which is coming up with the MF. Otherwise they can gain from strategic alliance with insurance companies to get readymade insurance product. The same distribution channel will be used to sale insurance products. This protection provided to farmers will ensure a continuous flow.

The next point of concern lies in redistribution of the returns as they understand simple things like the value of their money doubling in 5 years. This is possible considering a modest return of 14-15 % compounded annually over a horizon of 5 years. The money can be tripled in less than 9 years at the same interest rate. They can understand this concept better than the complicated NAV for MF. Generating this kind

of returns will not be a daunting task for the expert fund managers who are at presently generating much higher return than that.

ROLE OF IT AND FUTURE

For this MF, information technology will play the most vital part. Instead of making it too complicated by involving paper work, chip embedded cards can be issued to all the investors. The rural population is familiar with such cards like Kisan credit card, etc. These cards will store all the information regarding the investor and all the addition to the fund can be easily made without any paper work. The investor should be allowed to check the value of his/her investment. Different schemes can be made based on the requirement of the investor. The minimum time period for exit should be 3 to 5 years for any scheme. The people who start investing for the marriage of the son/ daughter or retirement planning, etc can remain invested for a longer period of time.

There should not be any entry load for the fund but exit load of around 3-5% should be imposed. We can make this instrument a unique one where the investor can see his money grow and be encouraged to invest more money. The surplus money is generally wasted because it is difficult for them to find rational avenues for spending this money or to invest them in a cogent manner. The investment

opportunity should be made as trouble-free and effortless as possible.

People in rural areas should be educated about such instruments with the help of Gram Panchayats and other influential people in rural areas.

There are many complexities involved in the model. Keeping in mind the basic framework suggested above, we can work upon the idea of such a MF by presenting the idea among the people who have crystal clear knowledge about the conditions prevailing in the rural market and those who are competent enough to chalk out the intricacies of the MF. We are sure this mutual fund has the potential to see the light of day and also show the rural Indians some light at the end of the long tunnel.

COMMENTS

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