Project Brief: Financial Inclusion

1. Situational Analysis

Financial inclusion is the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.


Access to finance by the poor and vulnerable groups is an important aspect of poverty reduction, and an integral part of the Government of India’s efforts towards inclusive growth. Such access can help strengthen the livelihoods of the poor by building their asset base, supporting income generating activities and expanding the range of choices available to them. At the same time, risk mitigating financial products can also protect the poor from losses associated with production, income and productive assets.

Current Initiatives Towards Strengthening Financial Inclusion

In recent years, developing countries including India have witnessed significant efforts by civil society organisations and governments to promote thrift activities among the poor especially women. This has been followed by interventions in the area of micro-credit and microfinance. The designation of 2005 as the International Year of Micro credit by the United Nations helped to raise global awareness on the pivotal role that more inclusive finance can play in achieving the Millennium Development Goals. Globally, the focus is now on financial inclusion and on strategies to make available a range of financial products and services that meet the specific needs of the poor. The Government of India has also reiterated its commitment to financial inclusion and the draft Eleventh Five Year Plan recognizes the need to introduce suitable policy interventions and technological innovations to maximize financial inclusion during the Plan period.

India has a massive network of 69,417 commercial bank branches. It also has an evolved microfinance program, with the Self Help Group Bank Linkage Program (SHGBLP) and Micro Finance Institutions (MFIs) together reaching out to 50 mn households, largely through women’s groups. In fact, SHGBLP is the biggest microfinance program in the world in terms of outreach, and dominates 80% of the sector in India. Both models, particularly MFIs, are showing rapid growth and are beginning to expand their operations to less developed areas of the country. Private venture capital has also made a recent entry, investing USD 50mn in microfinance activities in 2007 as compared to virtually nothing the year before.

In the last 2 years, the Government of India has taken several positive steps towards strengthening financial inclusion:

- Financial Inclusion Fund and Financial Inclusion Technology Fund constituted with a corpus of Rs. 500 Cr. each. This was one of the key recommendations of the Government of India’s Committee on Financial Inclusion, chaired by Dr. C. Rangarajan. (2008)
- Convenor banks of the State Level Bankers’ Committees in all states tasked with achieving 100% financial inclusion in at least one district in each state, by providing a ‘no-frills’ account and issuing general purpose credit cards (GCCs). Please refer to Annexure 1 for a list of such districts in the UN Focus States of Rajasthan, Madhya Pradesh, Uttar Pradesh, Chhattisgarh, Jharkhand, Bihar and Orissa. (2006)
- Banks permitted to utilise the services of non-governmental organisations (NGOs), SHGs, MFIs (other than NBFCs) and other civil society organisations as intermediaries in providing financial and banking services through the Business Facilitator and Business Correspondent models. (2006)
- NGO-MFIs permitted to mobilize savings in the form of “thrift”, under the draft Microfinance Bill. (2007)
State governments, such as those of Orissa and Madhya Pradesh, are developing microfinance vision documents. In Orissa for instance, the Vision Document provides a comprehensive plan for the microfinance sector as a whole to enable the government and other stakeholders to facilitate its systematic growth.

Several donor-supported programmes have also played a significant role in strengthening financial inclusion in India. These include initiatives supported by DFID (Financial Deepening Challenge Fund), the Consultative Group to Assist the Poor or CGAP (several efforts including support to the Ultra Poor Programme), GTZ (Rural Financial System Development Programme), Swiss Agency for Development and Cooperation (rural finance activities including product innovation, networks and enterprise clusters), Ford Foundation, the International Labour Organisation (social protection including HIV/AIDS prevention) and Friends of Women’s World Banking (bulk loans to NGOs/MFIs, capacity building and social security). Some pertinent lessons learnt from donor funded microfinance programmes across the world are:

- Poor people need a variety of financial services, not just loans. In addition to credit, they want savings, insurance, and money transfer services.
- Among the poor, there is a need to review whether the disadvantaged groups have accessed and benefited from financial inclusion efforts till date and what are the barriers and constraints they face.
- Governments need to facilitate a supporting policy environment.
- Donor funds should complement private capital, not compete with it. Donors should use appropriate grant, loan, and equity instruments on a temporary basis to build the institutional capacity of financial providers, develop support infrastructure, and support experimental services and products.
- The key bottleneck is the shortage of strong institutions and managers. Donors should focus their support on building capacity.

Despite the positive steps that are being taken in the area of financial inclusion, there are two main challenges that stand out today – those of the depth and breadth of financial services.

Challenges of Depth and Breadth

a) Challenges of Depth

Depth refers to reaching increasingly poorer and more remote people through financial services. Despite the scale of the formal banking system and the microfinance movement and the policy initiatives undertaken by the Government, access to financial services continues to elude a majority of the poor:

- **Only 22% of all poor households are currently receiving microfinance services:** 50% of SHG members and only 30% of MFI members are estimated to be below the poverty line (BPL).

- **Agriculture and the poor within it, remain largely excluded:** 51% of farmer households are financially excluded from both formal/informal sources of credit, while 73% have no access to formal sources. Only 8 out of 28 Public Sector Banks achieved the Priority Sector Lending targets of 18% for agriculture during 2006-07. As the definition of the priority sector has broadened, banks have migrated towards the “bankable” within the sector rather than the excluded. They have catered to the needs of small farmers, but not to those of marginal/sub-marginal farmers, tenants/share croppers, oral lessees, non-cultivator households etc.

- **Social exclusion is apparent in access to financial services:** Broken down by social groups, 49% of farmer households belonging to Scheduled Castes (SCs) and Other Backward Classes do not have access to credit. The Scheduled Tribes (STs) are worse off at 64% and serviced mostly by informal sources. The Sachar Committee report highlighted that among socio-religious groups, a lower percentage of households in villages with high Muslim concentration avail of banking facilities. This
may be explained by the prohibition of interest in Islam and non-availability of banking facilities in these areas. In fact, the share of Muslims in total Priority Sector Advances of Public Sector banks is much lower than their share of the population (4.6% vs. 13.4%). Also, the average amount outstanding per account is about one third for Muslims as compared to ‘Others’\textsuperscript{16}, implying that on an average, loans to Muslims are smaller than those to other socio-religious communities.

- **Some regions are more underserved than others:** While the UN focus states are home to 57.32% of India’s poor, they account for only 34.3% of commercial bank branches and 20.8% of MFI clients\textsuperscript{17}. None of the 28 districts that have achieved 100% financial inclusion under the Reserve Bank of India’s pilot initiative are from the 7 UN focus states\textsuperscript{18}.

- **Sectors vs. segments of exclusion:** Depth requires moving away from sectors to segments of people that are excluded. For instance, a focus on agriculture often benefits the non-poor\textsuperscript{19}, as stated in the draft report of the Committee on Financial Sector Reforms. There could be cultural and attitudinal barriers that have led to exclusion of certain groups and also instances of self exclusion by disadvantaged groups that hinder their participation/access to financial institutions. With respect to excluded segments, it may also be useful to understand the attitudes to finance, thrift and investment and apply the insights to strategies of inclusion.

- **The formal banking system is not able to meet the needs of the poor in both rural and urban areas:** The poor operate largely in the unorganized sector and hence are difficult to cover\textsuperscript{20}. The number of rural bank branches declined from 35,134 in 1991 to 30,572 in 2006, and the number of small borrowers accounts (less than Rs.25,000) declined from 625.48 lakh to 387.33 lakh. However, the share of money lenders in the total dues of rural households increased from 17.5% in 1991 to 29.6% in 2002\textsuperscript{21}.

- **Increasing the number of bank branches does not guarantee inclusion:** Branches have not gone out of their way to reach the poor - the poor in richly branched urban areas have no more access than the poor in rural areas\textsuperscript{22}.

Financial exclusion as described above is caused by a number of factors (please refer to Annexure II).

The challenge of depth needs to be understood from both the supply and demand side. On the supply side, concerns relate to the profitability of lending to the poor, attitude of bank staff in rural areas, and poor geographic coverage of existing delivery channels. While it is clear that demand is affected by the suitability of what is supplied, it is also recognized that supply-side interventions alone are not sufficient to enhance the depth of outreach. These need to be accompanied by demand-side efforts to strengthen the livelihoods of the poor. For instance, the Rangarajan Committee on Financial Inclusion identified several demand side issues responsible for financial exclusion. Some examples were gaps related to human development, access to land and work, infrastructure support, income and productivity enhancement, value addition, market linkages, risk mitigation through non-financial channels and organizing the unorganized producers. The vulnerability of livelihoods of the poor needs to be addressed if depth is to be enhanced. Efforts on the demand side can also help to increase the absorption capacity of the poor with regard to financial products and services.

b) **Challenges of Breadth**

There is now also a growing consensus that the **breadth** of finance needs to be extended, by ensuring that a range of appropriate products and services are available to everyone and enabling them to understand and access those services\textsuperscript{23}. Breadth is closely linked to enhancing depth – providing a range of products and services that suit the needs of the poor (breadth) can in turn help to ensure that larger numbers of the poor are covered (depth).

Traditionally, financial inclusion has been understood as opening a savings bank account and providing access to credit. The SHG Bank Linkage Program and MFIs too have focused on delivery of credit and also
largely for consumption rather than production needs. However, an exclusive focus on credit can lead to undesirable consequences such as over-indebtedness, and may not yield desired results unless accompanied by measures to create livelihood opportunities.

The poor need a variety of financial services (refer to Figure 1). The most important financial services are vulnerability reducing instruments that are integrated with livelihood promotion and income protection - to truly financially include the poor would require providing a range of such products. Unless major risks are simultaneously covered, exposure to one risk may wipe out an entire livelihood and the poor may fall into a cycle of inclusion and exclusion (refer to Annexure II).

**Figure 1: The Poor Need a Variety of Financial Services**

Presently, the range of such products is limited and there are issues of pricing and cost:

- **The poor do not have many choices beyond credit:** Only 10% of the total population is served by micro insurance. Only 6% of livestock (an important source of income for the poor) are insured. Insurance tends to be focused on life – while health insurance is in greatest demand, it is in short supply. Half of the households at the bottom of the pyramid spend more than INR 2,400 per year on health care, but less than 2% of the population is covered by health insurance. Remittance services are not yet well tested and demand exceeds availability. But with growing migration of the rural poor to urban centres and other rural areas in search of employment, several efforts are being made in this area.

- **Even within product categories, the range is limited:** In the case of microcredit, the limited product offerings of lenders usually do not meet major household life cycle needs like long-term housing investments. Less than 0.1% of MFI clients access emergency loans. In the case of micro insurance, though public sector insurers claim the existence of more than 100 rural insurance products covering a range of crop, livestock and business assets, health risks and accidents, field investigations during a recent UNDP study found that only a few were operational on the ground, e.g. cattle, life and accident insurance. The full range of products available on paper is neither promoted nor demanded in the marketplace. Missing insurance products relate primarily to medical care and maternity benefits. In the case of death, households need quick payouts to cover immediate expenses such as funeral costs, but no insurance product addresses this need. Taking the example of insurance products, a detailed list of limitations is provided in Annexure III.

- **Standardized products do not cater to the localized needs of the poor:** Standardized, “one size fits all” product designs also prevent inclusion in a country as diverse as India. For example, inflexible working capital loans with rigid loan cycles and amounts are of limited utility to the poor, as their cash flows are...
not regular\(^7\) - this is particularly true for women. In the case of livestock insurance, the annual cycle followed by insurance companies does not match the 6-8 month timeline that livestock owners need for exchanging milch animals\(^8\). Furthermore, the absence of a veterinary network in an area can delay claims settlement\(^9\). Regional diversity is often not taken into account - drought and health are of greater concern to the poor than life per se in Rajasthan and interior Orissa, while asset losses are more important in disaster-prone coastal Orissa\(^{10}\).

- **Issues of price/affordability:** For instance, insurance premiums not exceeding a day’s wage per month are affordable for the poor, but current premiums are higher for common insurance needs like crops, livestock and health\(^{11}\). Moreover, affordability is a function of the value for money (i.e. what benefit), and is not the same as low price alone.

- Female mortality rates are lower than male, a factor which needs to be taken into account while pricing life insurance products\(^{12}\).

- **“High risk groups” are often avoided:** In India, the coverage of HIV/AIDS patients is purposely avoided by insurance providers, and so are areas with a high prevalence of HIV/AIDS\(^{13}\). The remote areas in which many disadvantaged groups such as tribals live also act as a deterrence for service providers, who avoid visiting them to generate product awareness or to service claims.

In addition to efforts on the supply side, enhancing the breadth of financial services also need to be linked to creating and sustaining demand. Again, this requires that livelihoods be strengthened and that the products and services offered are responsive to the types of livelihood activities that the poor undertake. Demand side efforts also should include awareness generation or financial literacy, so that the poor understand these products and services and how to access them.

Finally, to enhance both depth and breadth, the capacities of a range of stakeholders (financial institutions, MFIs, poor clients, regulators etc.) need to be strengthened. This may include support on systems and processes needed to deliver/access services at the grassroots level, particularly for excluded groups and remote areas.

### 2. Scope and Strategy

The proposed project on “Financial Inclusion” is aligned with UNDP Country Programme Outcome 1.1: *Improved effectiveness of poverty reduction and livelihood promotion programmes in disadvantaged regions and for vulnerable groups, especially women*. It reiterates the priorities of UNDP’s Strategic Plan, to promote inclusive growth with a special focus on helping create an enabling environment for access to a broad range of financial services\(^{14}\).

The project on Financial Inclusion is a part of UNDP’s Poverty Reduction Programme for 2008-12, whose other component is the project on State Level Support to Livelihood Promotion Strategies. Both projects will be implemented in the 7 UN focus states namely Rajasthan, Madhya Pradesh, Uttar Pradesh, Chhattisgarh, Jharkhand, Bihar and Orissa.

The project seeks to address the challenge of financial inclusion through a new paradigm which goes beyond mere access to the affordable delivery of a range of financial products and services that reduce the vulnerability of the poor and provide new opportunities to diversify their livelihoods. Refer to Annexure IV for the problem and results tree presenting key barriers to financial inclusion and the project’s strategy to address these.

The project keeps the poor – their priorities and organizations – at the centre of the strategy. The emphasis will be on disadvantaged groups such as SCs, STs, migrants, minorities, female-headed households, People Living with HIV (PLHIV), Persons with Disabilities, and involuntarily displaced persons.
The project will be launched in partnership with the National Bank for Agriculture and Rural Development (NABARD). NABARD is committed to promoting financial inclusion which is evidenced from the fact that the Financial Inclusion Fund and Financial Inclusion Technology mentioned above are housed at NABARD. It has regional offices located in all UN focus states. In addition to a broad-based development approach encompassing several sectors and activities, NABARD has the advantage of linking up with regulators, financial institutions, civil society and the private sector. NABARD is also well positioned to catalyse a platform for bringing a range of stakeholders together to provide bundled financial services for the poor. It is also ideally poised to influence policy level outcomes.

To formulate and inform the project strategy, UNDP commissioned a scoping paper on financial inclusion and held consultations with eminent sector experts. It also commissioned assessment papers for the seven UN focus states to capture the current status with respect to financial services and products in each state, the profile of service providers and their target clients, and the efforts of government, financial institutions, MFIs and others in this area. The proposed strategy builds on the findings of these studies, which have pointed to gaps in the availability of financial products and services for the poor, and also to the challenges faced in reaching out to them through existing delivery channels. It also draws from the UNDP report “Building Security for the Poor-Potential and Prospects for Microinsurance in India” (2007), as well as on the lessons of the UNDP-Government of India pilot initiative on Community Health Insurance in Karnataka. The proposed strategy is outlined in Figure 2.

The project will adopt an integrated approach to promoting financial inclusion the following components:

a. Supporting design and pilot financial products and services for the poor, particularly disadvantaged groups among them.

The project will provide technical support to the Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF) being managed by NABARD, to ensure that they are able to achieve their goal of greater financial inclusion, particularly for the poor and disadvantaged groups. Specifically, this collaboration will help to develop and strengthen initiatives that design and deliver innovative financial products and services to meet the livelihood needs of such groups. At the same time, a range of stakeholders working in the area of financial inclusion will have better access to financial resources, technical support and linkages to enable them to reach disadvantaged groups.

FIF aims to support developmental and promotional activities with a view to securing greater financial inclusion, particularly among weaker sections, low income groups and in backward regions/unbanked areas. FITF aims to enhance investment in Information Communication Technology (ICT) aimed at promoting financial inclusion, stimulate the transfer to research and technology in financial inclusion, increase the technological absorption capacity of financial service providers/users and encourage innovation and cooperation among stakeholders. Each fund has an overall corpus of Rs. 500 Cr each, with contributions from GoI, Reserve Bank of India and NABARD. Funding is being contributed in a phased manner over a maximum period of five years, depending on fund utilization.

Given the mandates of the two Funds, technical support to them will consist of advisory services to identify possible partners, and develop proposals and assessment criteria. It will also assist in rolling out, monitoring and evaluating initiatives, ensuring that issues of inclusion are addressed. These services will be provided through a Project Management Team comprising professionals with expertise in financial inclusion, including the barriers faced by the poor and disadvantaged groups in accessing financial products/services and in the design and delivery of such products. The geographic emphasis of UNDP’s support to the Funds will be on 7 UN focus states.
An Advisory Board has been constituted by the Government of India for each Fund. It guides and renders policy advice on various aspects relating to the Fund including the quantum and terms of assistance to eligible organizations/institutions. The Board is mandated to meet every six months. With UNDP support a sub-group may also be constituted to support the Advisory Board. It would meet on a more regular basis to screen proposals submitted to the Funds for product pilots/innovation, on pre-decided assessment criteria, and provide oversight to the Project Management Team mentioned above. This group would comprise eminent experts/organizations working on financial inclusion and livelihood promotion, NGOs and specialized institutions addressing the exclusion of disadvantaged groups (e.g. Indian Institute of Dalit Studies).

Product innovation will be closely integrated with demand-side efforts to strengthen livelihoods under the GoI-UNDP Project on State Level Support to Livelihood Promotion Strategies. Where possible, product needs will be identified from ground-level work on livelihood promotion, such as support to value chains managed by the poor or producer groups of the poor. The capital constraints on new age institutions such as producer companies may also be addressed. In addition, synergies between the two projects will be used to strengthen social mobilization and organizations of the poor along with efforts towards financial inclusion. This can also help to tackle some of the underlying social causes of financial exclusion, particularly for disadvantaged groups such as SCs and STs.

UNDP will also help to make international expertise available to the Funds, such as from the UN Capital Development Fund (UNCDF) including its Regional Technical Advisor (Inclusive Financial Sectors) based at the UNDP Regional Centre in Colombo. It will also leverage the expertise of UN Solution Exchange-Microfinance Community, for instance to invite stakeholders to participate in the mechanism and ideate on the types of activities possible. Process documentation will be supported to ensure that lessons/good practices are captured and shared with a wider range of stakeholders at state/national levels.

UNDP’s involvement will catalyse people-oriented Public-Private-Community-Partnerships (PPCPs) with clearly defined roles for governments, private sector and organizations of the poor. In this way, the Funds would also improve linkages between civil society and financial service providers, to ensure that innovations reflect ground realities and requirements. Stakeholders who could be brought in are the Rajasthan Mission on Livelihoods, state governments, MFI’s, community based institutions, producer organizations, public and private sector banks, Regional Rural Banks, Development Finance Institutions, wholesale lenders, NGOs, the private sector, governments, donors including UN agencies particularly the International Labour Organization, and others. UNDP will help to forge partnerships/collaborations with other government schemes/programmes such as SGSY and NREGA, and donor supported programmes. It will also assist the Funds in leveraging existing public infrastructure, such as Post Offices as possible delivery channels for financial products/services.

**Figure 2: Schematic Overview of the Project Strategy**

```
Financial Inclusion

of the poor, especially disadvantaged groups & those living in remote areas
```
Disadvantaged groups in the following thematic areas will be targeted:
- Agriculture, allied activities (fisheries, animal husbandry, apiculture etc.), forestry (including Minor Forest Produce collection and sale, agro/social forestry), rural tourism etc.
o Specialized enterprises and clusters in sectors like silk, leather goods, brassware, metal, bamboo and cane, garments and textiles etc.

o Skill development especially among youth.

A monitoring system will be set up to track utilization of funds and quality of implementation, along with action research and documentation of proposed pilots.

b. Supporting district level demonstration pilots to test out new products, delivery channels and models designed for disadvantaged groups and regions:

Building on the alliances and partnerships forged above, the project will support demonstration pilots to increase the depth and breadth of financial services. These pilots will work both on the supply side (by designing and delivering innovative financial products/services) and demand side (by ensuring the participation of the poor in design and delivery). Keeping people at the centre, the design of products and services will focus on the specific needs of different types of disadvantaged groups. They will focus on both vulnerability reduction (e.g. through remittances, insurance and pensions) as well as income enhancement (through business, housing and investment loans). A few examples of pilots that could be experimented with are provided in Box 1. These pilots will necessarily build on lessons from what has worked/not worked in the past.

Given the exclusion of disadvantaged groups, the product pilots will envision them as integral part of the entire operation and not only as beneficiaries at certain stages. The product design stage will be guided by the profile of the disadvantaged groups, the external-internal barriers they face, sub-groups and gender issues and the situation of youth, and ensure that different sections are included. Particular emphasis will be on ensuring that a detailed demographic profile of such groups is developed, going beyond existing BPL lists to identify the poor in a participatory manner. The design will create mechanisms that enable disadvantaged groups to overcome the barriers to participating and constructively articulating their concerns. Further, numerical and proportionate targets for inclusion of disadvantaged groups in all areas and stages of the product pilots will also be established.

It is proposed that at least 10 products are piloted through linkages with the funding mechanisms described above. Where possible, the pilots will be carried out in selected districts of the UN's programme on convergence.

The pilot proponents will work with formal financial institutions to design and deliver products and services, as these are well-positioned to address the challenge of breadth with their diverse portfolio of products and services, and also have significant advantages in terms of scale. At the same time, they will also support experiments with alternative delivery channels such as organizations of the poor, particularly federations and producers' organizations. The latter may have an advantage in terms of their ability to reach remote regions and relationships with disadvantaged groups. The pilots will also explore the possibility of linking financial inclusion with social security schemes such as national insurance schemes and NREGS, to leverage the income streams and delivery channels already created by these schemes.

Pilots will be linked to the GoI-UNDP project on Livelihood Strategies. For instance, they may cater to the financial needs of value chains supported under that project. This will enable the development of a few complete prototypes that incorporate the social, technical, institutional, managerial and financial dimensions of such value chains. For this, the project will also build on the experiences of the GoI-UNDP initiative 'Social Mobilisation Around Natural Resources Management for Poverty Alleviation'. As part of Pradan's efforts under that project, prototypes for value chains have been created and financial products for organizations of poor producers are being explored.
Product pilots will leverage the use of technology to reach remote areas and groups, reduce delivery cost and enhance transaction security. The use of technology may also be explored to help to measure and monitor impact, such as through hand-held devices to record client data and delivery of financial services. It may also be leveraged to develop a information system to within NABARD to identify the poor and disadvantaged groups. Other forms of technology which may be leveraged are rural ATMs, mobile phone based solutions, biometric devices and low cost smart cards. Linkages with FITF will help to direct resources towards financially excluded groups, as well as to work with existing technology service providers.

As part of the product development process, efforts will be made to strengthen the capacity of communities and formal financial institutions especially at the district level for improved design and delivery of financial products and services for the poor. For instance, although a latent need may exist for a pension or insurance product, the poor may require capacity building support to move from identifying the problem (e.g. destitution in old age or frequent drought affecting agricultural productivity) to articulating its solution in the form of a financial product or service (micro pension or crop insurance). The products and services developed necessarily will be simple and easy to understand. As mentioned earlier, the project will also support process documentation of pilots to ensure that lessons and best practices are culled out for wider dissemination.

Once the products are tested on ground and are ready for dissemination, partnerships with private sector and financial institutions will be forged for scaling up across 7 states and at the national level.
### Box 1: Possible Demonstration Pilots to Financially Include Disadvantaged Groups

#### Vulnerability Reducing Products/Services
- **Debt swap products** that replace high cost debt of the poor from informal sources with lower cost formal debt.
- **Risk management products** such as mutual health insurance tailored to the needs of low income clients, delivered through community based intermediaries. Action research pilots to help assess feasibility.
- **Warehouse receipt financing**, with adaptable products tailored to different contexts and needs of the poor, for facilitating reduction in risk/vulnerability of those engaged in agriculture. Other post harvest financing products in the value chain.

#### Income Enhancing Products/Services
- **Value chain financing** where profit sharing is in tune with risk borne, value created and effort put in by small producers.
- **Client Sensitive Contract Farming**, sensitive to needs of low income/small producers, and involving producer groups.
- **Combination loans for multiple livelihood activities** so as to diversify the risk of livelihood failure.
- **Micro-finance** for marginal/small farmers with seasonal agricultural loans that offer flexible repayment options.
- **Family centric financing**, whereby the household rather than the individual is financed for multiple activities, could be tested and upscaled.
- **Livelihood financing**, using a sub-sectoral approach and/or also a cash flow based financing/leasing.

#### Innovations in Delivery Channels/Systemic Changes
- **Financing the most vulnerable groups** such as lessees, share croppers and landless labourers. Experimenting on how to lend to them and provide access to other services. E.g. in small scale fisheries (Orissa), financially including the coolies or crew. Pilots with producer organizations.
- **Reducing transactions cost** for retailing to low income clients, especially in remote areas. Using a range of technology (SMS Banking, Mobile ATMs) by investing in PPCPs.
- **Segmentation and outsourcing of claims settlement in insurance** especially for remote and distant regions associated with significant delays and dissatisfaction in terms of claims settlement.
- **Understanding the impact of financial inclusion** through action research pilots that identify factors that enable financial inclusion strategies to have a longer/stronger lasting impact. Testing/rolling out financial products that can facilitate the presence of these factors.
A schematic summary of the product pilot process is provided in Figure 3.

**Figure 3: Schematic Overview of the Product Pilot Process**

### Identifying the Poor and Building their Capacities
- Conducting baseline surveys and PRAs to identify the poorest and most disadvantaged groups and regions
- Analysing the financial needs of the poor in the context of their livelihoods e.g. across product value chains, and products/services available
- Building the capacities of the poor to articulate their demand for financial products/services and participate in design and delivery

### Designing Products/Services
- Segmenting groups that would benefit from piloted products/services
- Designing products for each segment and understanding local needs
- Product design would include features, cost-benefit analysis, exclusions (e.g. in case of insurance), terms and conditions, integration of ICTs etc.

### Piloting Products/Services
- Enrolling clients
- Exploring appropriate delivery channels e.g. producer companies, NGOs, cooperatives, federations and mainstream financial service providers
- Establishing monitoring systems to measure “inclusion” and performance parameters
- Process documentation

**c. Strengthening financial literacy through information provision and protection of the poor:**

The project will support financial literacy in 3 main areas: building technical capacities of the poor and more specifically the disadvantaged groups, strengthening the attitudes and functional capacities of formal financial institutions/MFI staff, and conducting awareness campaigns on available financial products and services. It will identify and collaborate with at least one technical institute/agency to undertake these initiatives. An awareness generation and capacity development plan for all 7 UN focus states will be formulated in the first year of the project to ensure that all key stakeholders and levels are covered, along with a strong focus on the needs and situation of disadvantaged groups.

The Eleventh Plan recognizes that although steps are needed to improve access to and supply of credit and other financial services, there can be no overemphasis of the importance of building up the capacity of weaker sections to use financial services. Strengthening the demand side with respect to financial inclusion, the project will support capacity building of organisations of the poor, to articulate their demand for financial products/services, to participate in the design and delivery of these services and in the long run acquire the ability to do business with financial institutions. This will include support to the provision of advice and counseling on financial service providers and products, application forms, grievance mechanisms etc. It will also involve generating awareness about rights so that poor clients are able to make informed decisions. Such efforts will extend not only to the poor but also to their organizations, such as federations and producer companies. These activities will involve a significant role.
for community based organizations. They may also involve partnerships with technical institutions that focus on generating financial awareness, knowledge and skills among the poor to enable them to manage their finances52.

Secondly, the project will support the sensitization of staff of financial institutions in rural areas towards “dealing with” disadvantaged groups such as tribal and PLHIV. Evidence shows that this can yield positive results. For instance, in a study conducted in Madhya Pradesh, it was found that attitudes of branch managers shape branch lending behaviour, and that a majority of the branch managers held negative attitudes towards lending to the poor. There was also a positive correlation between the training received by the branch managers and their overall attitudes53. In addition, exposure programmes will be designed (e.g. “immersion programmes”) to understand and study how exclusion happens in the financial services sector and its impact on the poor, especially disadvantaged groups.

Thirdly, the project will collaborate with mainstream financial institutions, MFIs and NGOs to conduct state level awareness campaigns. It will adopt an area-based approach by focusing on select districts/clusters that are remote and/or have a high concentration of disadvantaged groups. Awareness campaigns will have messages tailored to the needs of different groups. To begin with, this approach may be demonstrated in the 100% financial inclusion districts designated by RBI and/or select UN convergence districts in select UN focus states. It may also be linked to the Farmers’ Service Centres proposed under FIF and FITF, which will provide a host of financial and farm advisory services to excluded customer segments.

d. **Supporting knowledge sharing at state and national levels to help exchange new ideas and good practices, share experiences and scale up:**

This component will support efforts at national level knowledge sharing as well as across all 7 UN focus states. With UN Solution Exchange for the Microfinance Community as the key partner, the project will support knowledge sharing and multi stakeholder platforms to exchange experiences among existing actors working on financial inclusion. As new models of financial inclusion are tested on the ground, the project will support the documentation and sharing of good practices and successful, replicable interventions from pilot initiatives. For this, the project will also support the annual State of the Sector Report on Microfinance, which is a repository of information and activities on this sector.

UN Solution Exchange and other knowledge sharing platforms such as the Microfinance India Platform will be leveraged to provide access to information and best practices on financial inclusion. In this way, these efforts will also build the capacity of stakeholders, especially the organizations/ representatives of the poor and excluded groups, state and district-level formal financial institutions, MFIs, NGOs and private sector. The poor and excluded groups would find representation at such platforms. These knowledge sharing platforms will also enable lessons to be drawn from other regions/states/countries that experience similar issues, e.g. the Northeast, where there are important lessons from traditional institutions undertaking financial intermediation. Support to knowledge sharing platforms will be linked to the project component on “Policy Advocacy” below.

Scaling up and sustainability of project pilots will be one of the key focus areas of such knowledge sharing initiatives. Using client satisfaction surveys on piloted financial products/services, as well as assessments of the financial viability of different business models, the project will identify “successful” pilots. Through knowledge sharing platforms, project experiences will be disseminated to other states, both UN focus states and beyond, thereby encouraging replication and scaling up. Scaling up of pilot initiatives will also involve collaborations with public and private sector banks, cooperatives, MFIs and organizations of the poor. A plan will also be developed for sustainability and partnerships beyond
UNDP support. This will include capacity building support to select organizations of the poor to carry
the agenda of financial inclusion forward.

e. Policy Advocacy:

This component will seek to influence national level policy discussions as well as generate policy debate
across all 7 UN focus states.

Policy design and implementation can have a significant impact on the livelihoods of the poor – this is
also true in the case of the financial services sector. For instance, the Micro Financial Sector
(Development and Regulation Bill) 2007 has come under intense debate in recent times, and attempts to
assess the social performance of MFIs are also gaining importance. The project will support the
identification of select national/state policies or policy gaps that affect financial inclusion of the most
disadvantaged groups. Building on project implementation experience and support to knowledge
sharing platforms, evidence based advocacy will be used to influence the policy environment for
financial inclusion. Legal protection mechanisms and instruments, particularly for the poor, will also
explored. Advocacy efforts will seek to propagate the view that financial inclusion is an entitlement of
the poor and disadvantaged.

For the policy advocacy component, the project will collaborate with the Microfinance India Platform,
which organizes the annual Microfinance India summit, as well as leads the State of the Sector Report on
Microfinance. Through this platform, the project may also support state visioning workshops for financial
inclusion, as well as policy retreats where policy makers and sector experts discuss and evolve
recommendations on specific themes related to financial inclusion. Policy advocacy efforts will also
involve engagement with: national level committees set up by the Government of India; apex banks
such as the Reserve Bank of India, National Bank for Agriculture & Rural Development (NABARD) and
Small Industries Development Bank of India (SIDBI); and UN’s Solution Exchange knowledge community
on Microfinance. State governments will also be kept informed of major policy barriers and lessons as
these are identified through the policy advocacy efforts described above.

A Caveat: Linking Financial Inclusion with Livelihood Promotion

The proposed strategy recognizes that financial inclusion is not a panacea for poverty alleviation and is at
best a supplementary tool that must go hand in hand with other efforts to strengthen the livelihoods of the
poor. For instance, the Expert Group on Agricultural Indebtedness recognizes that besides credit delivery,
there is a need to help farmers to improve their farming practices through better access to appropriate
technology, extension services, improved processing and marketing capabilities, and risk management54.
Credit alone can mean increased debt for poor households if incomes do not increase simultaneously, and
income protection measures are futile if there is no income to protect.

Therefore, financial inclusion cannot be a substitute for investments in health, education and infrastructure.
It must also be accompanied by livelihood promotion efforts such as social mobilization, livelihood planning,
micro enterprise development, capacity building and technical support such as business development
services. Therefore, as explained above, the project on Financial Inclusion will be closely linked with the
project on State Level Support to Livelihood Promotion Strategies.

The project will benefit from the GoI-UNDP project on Livelihood Strategies for a range of non-financial
services to help ensure that financial inclusion is sustainable, as this is in turn related to the viability and
sustainability of the poor’s livelihoods. The non-financial services would include market research (e.g. value
chain analysis55 for a better understanding of the financial products required by the poor at various points in
the value chain), capacity building (e.g. institution building and skill development), business development
services (e.g. productivity enhancement and market linkages) and legal advice. Another area of synergy could be that the organizations supported as alternative delivery channels under the project on Financial Inclusion, may also be involved with the other UNDP project on Livelihood Strategies.

3. Project Deliverables Outline

During the project period, the above strategy will be operationalized through a partnership-based approach, involving communities and organizations of the poor, government, MFIs, financial institutions, NGOs, private sector and national/international donor agencies. The following deliverables are envisaged:

- **Supporting innovation in financial products and services suited to the livelihood needs of the poor:** The project will provide support to the GOI’s Financial inclusion Fund and Financial Inclusion Technology Fund for enabling a range of stakeholders to come together and access financial and technical resources for financial inclusion. For further details, please see Section 2.a above.

- **A range of financial products and services piloted to promote livelihoods and reduce vulnerabilities of the poor in UN focus states:** Based on support to the above mechanism, it will strengthen the supply side of financial inclusion by encouraging innovation in financial products and services specifically targeted at poor/vulnerable groups. On the demand side, it will build the capacities of the poor and excluded groups to participate in the design and delivery of such products and services. For further details, please see Section 2.b above.

- **Financial literacy strengthened for the poor on available financial products and services, pricing and terms and conditions in 7 UN focus states:** The project will support advice and counseling to further strengthen the demand side of financial inclusion. This will include conducting awareness campaigns (in collaboration with financial service providers and civil society) and demonstrating an area-based approach to reach the most disadvantaged groups. For further details, please see Section 2.c above.

- **Knowledge sharing networks supported/established nationally and across 7 UN focus states between actors of the financial services sector to encourage delivery and scaling up of financial products and services for the poor:** Through these consultations and state/national level platforms such as UN Solution Exchange and Microfinance India, the project will enable stakeholders to learn from good/bad practices and failures in financial inclusion and conduct evidence-based advocacy in this area. For further details, please see Section 2.d above.

- **Policy environment for financial inclusion strengthened:** The project will support the identification of select national/state policies or policy gaps that affect financial inclusion, and employ evidence based advocacy to influence the policy environment for financial inclusion. For further details, please see Section 2.e above.

The targets associated with each output are elaborated on in the Results and Resources Framework in Section 4 below. They will be detailed out as annual workplans are developed for each partner state during the course of project implementation.
4. Results & Resources Framework

Intended Outcome as stated in the Country Programme Results and Resource Framework:

UNDP Country Programme Outcome 1.1.: Improved effectiveness of poverty reduction and livelihood promotion programmes in disadvantaged regions and for the inclusion of poor women and men from SC and ST groups, minorities and the displaced

Outcome indicators as stated in the Country Programme Results and Resources Framework, including baseline and targets.

% of financial service providers (banking or non-banking) delivering financial services and products targeting vulnerable groups in 7 UNDAF States.

Baselines and targets to be established during Project Initiation Phase.

Applicable Strategic Plan Key Result Area: Promoting inclusive growth, gender equality and MDG achievement

Project title and ID (ATLAS Award ID): Financial Inclusion

<table>
<thead>
<tr>
<th>Intended Outputs (as outlined in CPD/CPAP)</th>
<th>Output Targets for (years)</th>
<th>Indicative Activities (deliverables)</th>
<th>Responsible parties</th>
<th>Inputs</th>
</tr>
</thead>
<tbody>
<tr>
<td>CPAP Output (originally 1.1.4; revised 1.1.3) Better access to financial products and services to reduce their risks and enhance livelihoods in at least two states for the poor, especially women and men from SC and ST groups, minorities and the displaced.</td>
<td>Innovation support in financial products and services suited to the livelihood needs of the poor (2009)</td>
<td>2008 - Consultant identified to develop a strategy for technical support to FIF and FITF - A sub-group identified for advisory services 2009 - Technical support to the funding mechanisms (FIF and FITF) initiated to support pilots on design and delivery of financial products and services to promote livelihoods or to reduce risks in UN focus states - Sub-group established for advisory services - Monitoring system established to track utilization of funds, quality, risks/constraints and results - Action research commissioned to document the process of designing and piloting financial products and services - Exit strategy developed 2010 - Good practices from action research studies and product pilots compiled for wider dissemination</td>
<td>A list of possible responsible parties is provided in Annexure V. Actual selection will be done in consultation with state governments and IP. This will also be based on an assessment of their capacities and willingness to work with the poor and disadvantaged groups.</td>
<td>Core resources: USD 4.5 mn</td>
</tr>
<tr>
<td>Year</td>
<td>Events</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>------</td>
<td>--------</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| 2009 | - Linkage established with the project on livelihood strategies to identify financial products and services which address needs of the poor in UN focus states  
- 4 innovative financial products designed by pilot proponents |
| 2010 | - 4 identified financial products piloted  
- 6 more innovative financial products designed by pilot proponents |
| 2011 | - 6 identified financial products piloted to promote livelihoods or to reduce risks in selected UN focus states  
- Selected product pilots scaled up in partnership with private sector/financial institutions. |
| 2012 | - Selected product pilots scaled up in partnership with private sector/financial institutions. |
| 2008 | - Consultant identified to prepare a strategy for financial literacy  
- Responsible parties identified to strengthen financial literacy among the poor and to sensitize banks/MFIs/NGOs staff on dealing with |

**A range of financial products and services piloted to promote livelihoods and reduce vulnerabilities of the poor in UN focus states (2012)**

- Discussion on long-term legal agreements for sustainability beyond project support initiated
- Exit strategy implemented
conditions in 7 UN focus states (2012) disadvantaged groups

2009
- Awareness generation campaigns designed and launched on financial products and services, particularly among identified excluded groups in 7 UN Focus states
- Capacities of organizations of the poor on financial management and accessing financial services strengthened (through linkage with the project on livelihood strategies)
- Capacity building plan for formal banks/MFIs formulated
- Capacity building plan for banks/MFIs/NGOs staff rolled out to deal with clients from disadvantaged groups

2010
- X number of poor households who are aware of financial products and services measured
- Awareness generation campaigns continued on financial products and services, particularly among identified excluded groups in 7 UN Focus states
- Capacities of organizations of the poor on financial management and accessing financial services strengthened (through linkage with the project on livelihood strategies)
- Capacities of banks/MFIs/NGOs staff strengthened to deal with clients from disadvantaged groups

2011
- Awareness campaigns designed and launched on successful piloted products and services.

2012
- 10,000 poor households informed of available financial products and services, pricing and terms and
<table>
<thead>
<tr>
<th>Year</th>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>- 1 knowledge sharing network, namely Microfinance Community of Practice, Solution Exchange, United Nations supported</td>
</tr>
</tbody>
</table>
| 2009 | - 2 state level consultations supported and held for key stakeholders to discuss operational and policy challenges in the area of financial inclusion  
      - 1 national consultation supported and held for experience sharing among pilot proponents as well as with partners of the project on livelihood promotion strategies |
| 2010 | - 1 national consultation supported and held for experience sharing among pilot proponents as well as with partners of the project on livelihood promotion strategies  
      - Baseline established on level of client satisfaction with regard to piloted financial products and services  
      - Networks of the poor strengthened to share experiences of successful products and services |
| 2011 | - 1 national consultation supported and held to share the experience from state level pilots and identify opportunities for replication and scaling up.  
      - Level of client satisfaction assessed with regard to piloted financial products and services |
| 2012 | - 1 national consultation supported and held to share the experience from state level pilots and identify
opportunities for replication and scaling up.
– x level of client satisfaction with piloted financial products and services on a scale of 0 - 5 *(Target to be established after baseline survey)*
– Selected product pilots scaled up in partnership with private sector/financial institutions.

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- 1 national level microfinance policy platform supported</td>
</tr>
<tr>
<td>2009</td>
<td>- State level consultation/policy retreat supported and held to identify policy issues with regard to financial inclusion.</td>
</tr>
<tr>
<td>2010</td>
<td>- 1 State level consultations/policy retreat supported and held to identify policy issues with regard to financial inclusion.</td>
</tr>
<tr>
<td>2011</td>
<td>- 1 national consultation/policy retreat supported and held to inform the formulation of the Twelfth Five Year Plan</td>
</tr>
<tr>
<td>2012</td>
<td>- 1 national consultation/policy retreat supported and held to inform the formulation of the Twelfth Five Year Plan</td>
</tr>
</tbody>
</table>
The proposed project envisages the following risks which need to be considered once it becomes operational.

**Policy/macro level:**
- The current regulatory framework, e.g., as envisaged in the Microfinance Bill (2007), could restrict development of pro-poor products and services for some MFIs.
- Shortfall in financial commitment by GOI/RBI/other financial institutions, may constrain financial flow as well as development of financial products/services that the poor require.
- Changes in financial sector regulations and macro economic policy e.g., higher interest rate for lending and larger capital adequacy norms for financial institutions, may undermine financial inclusion efforts by financial institutions, NBFCs and other stakeholders.

**Institutional/organisational level risks:**
- Lack of interest among financial institutions to expand their outreach to disadvantaged people and regions especially in the rural areas of UN focus states, due to profitability, infrastructure or human resource constraints.
- Problems in coordination between the range of partners envisaged under the project due to difference in priorities.

**Retail/micro-level risks:**
- Unanticipated/unexpected bottlenecks at the client-end may result in insufficient acceptance of innovative financial products/services by targeted communities/households.
- Missing factors may undermine the positive impact of improved financial access: price and availability of raw materials, market facilities, transportation, skills etc.
- Inadequate financial products or lack of support for certain disadvantaged groups.

5. Management Arrangements

**Implementation Arrangements**

A Programme Management Board (PMB) convened by DEA and UNDP for the Poverty Reduction Programme Outcome (Outcome 1.1 in CPAP) will oversee the delivery and achievement of results at the Outcome level. The PMB will comprise DEA, UNDP and National Bank for Agriculture and Rural Development (NABARD).

**Potential Implementing Partner:** The project will be implemented by NABARD. The Implementing Partner will designate a National Project Director (NPD), who will be responsible for overall management including achievement of planned results, and for the use of UNDP funds through effective management and well established project review and oversight mechanisms. The Implementing Partner will sign a budgeted Annual Work Plan (AWP) with UNDP on an annual basis, as per UNDP rules and regulations and submit duly signed quarterly Fund Authorization and Certified Expenditure (FACE).

NABARD will facilitate knowledge and advocacy component at national level, experience sharing across 7 UN focus states, and generation of feedback on relevant policies and regulatory issues, including inputs into the XII Plan formulation process.

NABARD will designate from its department or hire on project funds a Project Manager and set up a Project Management Team which will be headed by the Project Manager. The Project Manager will be responsible for the day-to-day management of the project. S/he will coordinate the project activities including the preparation of Annual and Quarterly Work Plans, Budget, Financial Reports, etc. and will interface on project management issues.
Responsible Parties: To achieve project results, Responsible Parties will be identified. These could be NGOs, civil society organizations (CSOs), financial institutions, private sector development agencies or UN agencies.

The Implementing Partner will sub-contract institutions/organizations or procure the services of consultants to ensure proper implementation of project activities. Procurement of services from “Responsible Party (ies) will be through capacity assessment and a process of competitive bidding to undertake specific tasks linked to project outputs carried out under the overall guidance of the Project Steering Committee. If the entity short-listed is another Government Institution or a UN Agency, the process of selection of the Responsible Party(ies) will be carried out through appropriate capacity assessment and appraisal processes. Notwithstanding, the contracting arrangements will be fully documented and endorsed by the Project Steering Committee. Based on initial scanning of organizations, a list of possible partners is attached (Annexure V).

Project Steering Committee: A Project Steering Committee (PSC) will be set up under the project. NABARD will designate a National Project Director (NPD), who will be the chairperson of the PSC. The PSC will also comprise a designated representative from UNDP and a senior national-level expert as members. The PSC will:

- Ensure that project goals and objectives are achieved in the defined timeframe;
- Review project progress and suggest implementation strategies periodically;
- Review project expenditures against activities and outcomes; and
- Approve Annual and Quarterly Work Plans.

The PSC will be the group responsible for making, by consensus, management decisions for the project and holding periodic reviews. In order to ensure UNDP’s ultimate accountability, the final decision making rests with UNDP in accordance with its applicable regulations, rules, policies and procedures. Project reviews by the PSC will be carried out on a quarterly basis during the running of the project, or as necessary when raised by the Project Manager.

Project Management Team (PMT): The PMT will comprise a Project Manager, a Monitoring, Evaluation and Communication Officer and an Administrative Assistant. They will be responsible for day-to-day management, monitoring and review of project activities, coordination with partners and different stakeholders, and decision making and will be accountable to the NPD and PSC. The PMT will prepare the detailed activity and monitoring plan based on the Annual Work Plan (AWP) and Budget and submit it to the PSC for approval. The Project Manager will ensure that the project produces the results specified in the project document, to the required standards of quality and within specified constraints of time and cost.

The PMT will be based at NABARD and if agreed otherwise, alternative arrangements will be made and charged to the project. The recruitment and staffing process will give due attention to considerations of gender equality and promoting diversity at workplace and will not discriminate on the basis of HIV/AIDS status.

Project Assurance: Project Assurance will be the responsibility of UNDP. The Project Assurance role will support the PSC by carrying out objective and independent project oversight and monitoring functions. During the implementation of the project, this role ensures (through periodic monitoring, assessment and evaluations) that appropriate project management milestones are managed and completed.

Project Assurance, in collaboration with the Project Manager, will convene an annual review meeting involving the Implementing Partners and Responsible Parties to review the progress in the previous year and approve the work plan for the coming year. An independent external review may be conducted through
resource persons/groups to feed into this process. Project Assurance and Project Manager will meet quarterly (or whenever guidance/decision is required by an implementing agency).

**Funds Flow Arrangements and Financial Management:**

UNDP will release funds to NABARD as per the signed Annual Work Plan and Quarterly Work Plan. NABARD will account for funds received from UNDP and/or request UNDP to proceed directly with payments on its behalf on a quarterly basis through the standard Fund Authorization and Certificate of Expenditure (FACE) Report duly signed by the NPD. No funds shall be released by UNDP without prior submission of a duly filled and signed FACE report. The Project Manager will be responsible for compilation and collation of these Financial Reports. Unspent funds from the approved AWPs will be reviewed in the early part of the last quarter of the calendar year and funds reallocated accordingly. The detailed UNDP financial guidelines will be provided on signature of the project.

NABARD may enter into an agreement with UNDP for the provision of support services provided by UNDP in the form of procurement of goods and services. UNDP rules and regulations as well as charges will apply in such cases. Also the cost for the implementation support services provided by UNDP will be charged as per UNDP rules and regulations. The details of UNDP’s support services will be outlined while finalizing the Annual Work Plan and Budgets for each year.

Upto 1% of the total project budget will be allocated for activities related to communication, advocacy and accountability purposes undertaken by UNDP.

**Interest Clause:** A separate account head will be opened to track the activities and flow of UNDP funds under the project and any interest accrued on these funds during the project cycle will be ploughed back into the project in consultation with UNDP or refunded to UNDP if there is no scope for ploughing it back and accordingly the project budget will stand reduced by the corresponding amount.

**Audit:** The project shall be subject to audit in accordance with UNDP procedures and as per the annual audit plan drawn up in consultation with DEA. The project shall be informed of the audit requirements by January of the following year. The audit covering annual calendar year expenditure will focus on the following parameters – (a) financial accounting, documenting and reporting; (b) monitoring, valuation and reporting; (c) use and control of non-extendable reporting; (d) UNDP Country Office support. In line with the UN Audit Board requirements for submitting the final audit reports by 30 April, the auditors will carry out field visits during February/March. Detailed instructions on audit will be circulated by UNDP separately and on signature.

**6. Monitoring & Evaluation**

A monitoring and evaluation system will be established to track the project’s progress. It will also help identify lessons and good practices with potential for policy advocacy and replication/scaling up in other states/regions. The monitoring tools used will promote learning (including identification of factors that impede the achievement of outputs). Such learning will be used to adapt strategies accordingly and avoid repeating mistakes from the past. ICTs will be used to provide easily accessible information to various stakeholders.
NABARD will have the overall responsibility of monitoring the project, in line with the roles and responsibilities described above and through regular monitoring visits and quarterly review meetings by the PSC. The Project Manager will be responsible for day-to-day monitoring of project activities through periodic field visits, interactions with state level project teams/partners and desk reviews. He/she will also prepare and submit periodic progress reports to the PSC. Monitoring will be an on-going process and mid-course corrections will be made if required.

An annual project review will be conducted during the 4th quarter of each year to assess the performance of the project and the extent to which progress is being made towards outputs, and ensure that these remain aligned to relevant outcomes. Based on the status of project progress, the Project Manager will prepare an Annual Work Plan for the subsequent year which will be discussed and approved at the annual review meeting. In addition, UNDP will commission a mid-term project review and annual management and financial audit during the project period. In the last year, the annual review will be the final evaluation of the project and this will involve all key project stakeholders. A variety of formal and informal monitoring tools and mechanisms should be used by the Project Management Team. This would include field visits as well as reports in standard UNDP formats and as per UNDP’s web-based project management system (ATLAS). Within the annual cycle, the Project Manager in consultation with the NPD and UNDP will ensure quarterly review and reporting.

7. Exit Strategy

A comprehensive exit strategy will be formulated for the gradual withdrawal of UNDP support. This strategy will be formulated by the end of 2010 in discussion with project stakeholders to decide the form of continuation of the project. Based on the anticipated needs after 2012, stakeholders, especially responsible parties, will decide how they will proceed to maintain the established functions. Adequate mechanisms and systems will be established for a steady and smooth transition to institutionalize key functions in the state/national governments, regulatory bodies, public/private sector banks, MFIs, community based organizations, platforms/networks and identified institutions (e.g. new institutions created under the project). This may include additional capacity development of stakeholders to undertake these functions. Further plans may also be developed by national and state governments to move onto next steps, including establishing post-project monitoring/handholding mechanisms. Dissemination workshops will be organized to share project lessons and to identify elements to be taken up on a sustained basis by national and state governments.

As part of the exit strategy, efforts will be made to ensure that any community-based institutions supported under the project are empowered to play important roles in post-project institutional mechanisms. These organisations will also be integrated with or linked to wider state and national level networks/organisations for continued post-project support and sustainability. The exit strategy will also allow UNDP and the Implementing Partner to withdraw from the project in the case of risks (anticipated or unanticipated) that prevent the achievement of project deliverables. The Project Manager will define the process for the formal handover of project assets/equipment, documents and files to the Implementing Partner and/or responsible parties as per UNDP guidelines and PSC decision. A mechanism for post-project maintenance of assets will also be established.

8. Legal Context

This document together with the CPAP signed by the Government and UNDP which is incorporated by reference constitute together the instrument envisaged in the Supplemental Provisions to the Project Document, attached hereto (Annexure VI). Consistent with Supplemental Provisions, the responsibility for safety and security of the IP and its personnel and property, and of UNDP’s property in the implementing partner’s custody, rests with the implementing partner. The implementing partner shall:
- put in place an appropriate security plan and maintain the security plan, taking into account the security situation in the country where the project is being carried;
- assume all risks and liabilities related to the implementing partner’s security, and the full implementation of the security plan.

UNDP reserves the right to verify whether such a plan is in place, and to suggest modifications to the plan when necessary. Failure to maintain and implement an appropriate security plan as required hereunder shall be deemed a breach of this agreement.

The implementing partner agrees to undertake all reasonable efforts to ensure that none of the UNDP funds received pursuant to the Project Document are used to provide support to individuals or entities associated with terrorism and that the recipients of any amounts provided by UNDP hereunder do not appear on the list maintained by the Security Council Committee established pursuant to resolution 1267 (1999). This provision must be included in all sub-contracts or sub-agreements entered into under this Project Document.

9. Budget

<table>
<thead>
<tr>
<th>Proj ID</th>
<th>Expected Outputs</th>
<th>Key Activities and Deliverables</th>
<th>Budget Description</th>
<th>Amount (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>X CPAP</td>
<td>Output 1.1.2: Better access to financial products and services to reduce their risks and enhance livelihoods in at least two states for the poor, especially women and men from SC and ST groups, minorities and the displaced.</td>
<td><strong>Activity 1: Supporting design and delivery of financial products and services suited to the livelihood needs of the poor</strong></td>
<td>Contract Services - Studies and Research Services: 72125 Assessment: 74120 (identify partners)</td>
<td>1,214,952</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Set up a sub-group for advisory services and identify areas of technical support to FIF and FITF.</td>
<td>Contract Services - Local Consultants: 71300</td>
<td>248,942</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Commission action research, process documentation and compilation of good practices</td>
<td>Contract Services - Local Consultants - Technical: 71305</td>
<td>65,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Support design of financial products/services for the poor/disadvantaged groups</td>
<td>Contract Services - Studies and Research Services: 72125 Local consultants - Technical: 71305</td>
<td>370,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Support pilot initiatives in the field including process documentation</td>
<td>Local consultants - Technical: 71305</td>
<td>531,010</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Activity 2: Informing poor households of available financial products and services, pricing and terms and conditions in selected UN focus states</strong></td>
<td></td>
<td>950,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Support awareness campaigns at state/national levels</td>
<td>Contract Services - Training and Education Services: 72145</td>
<td>250,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Support training programs for clients and service providers including systems for collection and dissemination of information at village/district levels</td>
<td>Contract Services - Training and Education Services: 72145</td>
<td>400,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Test communication effectiveness of financial literacy efforts</td>
<td>Contract Services - Studies and Research Services: 72125</td>
<td>300,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Activity 3: Facilitate knowledge sharing between actors of the financial services sector to share experiences related to design and delivery of pro-poor financial products and encourage scaling-up</strong></td>
<td></td>
<td>923,000</td>
</tr>
<tr>
<td>Proj ID</td>
<td>Expected Outputs</td>
<td>Key Activities and Deliverables</td>
<td>Budget Description</td>
<td>Amount (USD)</td>
</tr>
<tr>
<td>---------</td>
<td>------------------</td>
<td>---------------------------------</td>
<td>--------------------</td>
<td>--------------</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Knowledge building and sharing through practitioner networks</td>
<td>Contract Services - Local Consultants: Technical: 71305</td>
<td>240,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Supporting state of sector reports</td>
<td>Contract Services – (72000)</td>
<td>83,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Support workshops for experience sharing among clients, product development and scaling up</td>
<td>Contract Services - Training and Education Services: 72145</td>
<td>120,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Test client satisfaction to identify &quot;successful pilots&quot;</td>
<td>Contract Services - Studies and Research Services: 72125</td>
<td>300,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Facilitate partnerships for scaling up</td>
<td>Contract Services - Training and Education Services: 72145</td>
<td>180,000</td>
</tr>
</tbody>
</table>

**Activity 4: Strengthening policy environment for financial inclusion**

<table>
<thead>
<tr>
<th></th>
<th>Budget Description</th>
<th>Amount (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consultations/policy retreats</td>
<td>Contract Services – (72000)</td>
<td>99,577</td>
</tr>
<tr>
<td>Support to national level microfinance policy platforms</td>
<td>Contract Services – (72000)</td>
<td>124,471</td>
</tr>
</tbody>
</table>

**Activity 5: Providing effective support to project implementation and management**

<table>
<thead>
<tr>
<th></th>
<th>Budget Description</th>
<th>Amount (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recruitment and orientation of Project Management Team</td>
<td>Contract Services - Local Consultants: 71300</td>
<td>572,633</td>
</tr>
<tr>
<td>Technical support to project and partners</td>
<td>Contract Services - Local Consultants: Technical: 71305</td>
<td>61,973</td>
</tr>
<tr>
<td>Project monitoring, evaluations, studies and assessment</td>
<td>Contract Services - Studies and Research Services: 72125</td>
<td>66,931</td>
</tr>
<tr>
<td>Documentation and communication</td>
<td>Contract Services - Communication Services: 72135</td>
<td>37,184</td>
</tr>
<tr>
<td>Office equipment and other office support</td>
<td>Office Equipment: 72200 Rental and Maintenance - Premises: 73100</td>
<td>37,184</td>
</tr>
<tr>
<td>Administrative expenses and sundries</td>
<td>Office Equipment: 72200 Miscellaneous Expenses - Sundry: 74525</td>
<td>37,184</td>
</tr>
</tbody>
</table>

**Activity 6: Project Monitoring, Evaluation & Capacity Development**

<table>
<thead>
<tr>
<th></th>
<th>Budget Description</th>
<th>Amount (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical consultancy support</td>
<td>Contract Services - Local Consultants: Technical: 71305</td>
<td>45,000</td>
</tr>
<tr>
<td>UNDP State Coordinators</td>
<td>Contract Services - Local Consultants: 71300</td>
<td>108,000</td>
</tr>
<tr>
<td>Project quality assurance</td>
<td>Travel: 71600</td>
<td>37,911</td>
</tr>
<tr>
<td>Midterm and terminal evaluation</td>
<td>Contract Services - Studies and Research Services: 72125 Travel: 71600</td>
<td>49,000</td>
</tr>
<tr>
<td>Annual and terminal audits</td>
<td>Audit: 74110</td>
<td>28,000</td>
</tr>
<tr>
<td>Meetings, consultations and workshops</td>
<td>Miscellaneous Expenses - Sundry: 74525</td>
<td>23,000</td>
</tr>
<tr>
<td>Proj ID</td>
<td>Expected Outputs</td>
<td>Key Activities and Deliverables</td>
</tr>
<tr>
<td>---------</td>
<td>------------------</td>
<td>--------------------------------</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Documentation and communication (1%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Implementation Support Services (ISS)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sundries</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Annexure I: List of SLBC-Designated 100% Financial Inclusion Districts
(where the target has been achieved)

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Bank</th>
<th>District</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Uttar Pradesh</strong></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Allahabad Bank</td>
<td>Sitapur, Balrampur, Sonebhadra, Chitrakoot, Hamirpur</td>
</tr>
<tr>
<td>2</td>
<td>Bank of Baroda</td>
<td>Rampur, Raebareli, Sultanpur, Fatehpur, Pratapgarh</td>
</tr>
<tr>
<td>3</td>
<td>Bank of India</td>
<td>Hardoi, Barabanki</td>
</tr>
<tr>
<td>4</td>
<td>Canara Bank</td>
<td>Agra, Aligarh, Etah, Hathras</td>
</tr>
<tr>
<td>5</td>
<td>Central Bank of India</td>
<td>Etawah, Auraiya, Deoria, Kushi Nagar</td>
</tr>
<tr>
<td>6</td>
<td>Punjab National Bank</td>
<td>Muzaffar Nagar, Jhansi, Bijnor, Saharanpur, Badaun, Lalitpur</td>
</tr>
<tr>
<td>7</td>
<td>State Bank of India</td>
<td>Sant Kabir Nagar, Sidharth Nagar, Basti, Gorakhpur, Maharajganj</td>
</tr>
<tr>
<td>8</td>
<td>Syndicate Bank</td>
<td>Ghaziabad, Mathura, Meerut, Moradabad, J. P. Nagar, G.B. Nagar</td>
</tr>
<tr>
<td>9</td>
<td>Union Bank of India</td>
<td>Chandauli, Azamgarh, Jaunpur, Ghazipur</td>
</tr>
<tr>
<td></td>
<td><strong>Madhya Pradesh</strong></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Allahabad Bank</td>
<td>Satna, Jabalpur</td>
</tr>
<tr>
<td>2</td>
<td>Bank of Baroda</td>
<td>Sagar, Jhabua</td>
</tr>
<tr>
<td>3</td>
<td>Bank Of India</td>
<td>Khandwa, Khargone, Burhanpur</td>
</tr>
<tr>
<td>4</td>
<td>Bank Of Maharashtra</td>
<td>Balaghat, Betul</td>
</tr>
<tr>
<td>5</td>
<td>Central Bank Of India</td>
<td>Hoshangabad, Raiser, Mandla, Ratlam</td>
</tr>
<tr>
<td>6</td>
<td>Canara Bank</td>
<td>Shahdol, Gwalior</td>
</tr>
<tr>
<td>7</td>
<td>Corporation Bank</td>
<td>Ujjain</td>
</tr>
<tr>
<td>8</td>
<td>Dena Bank</td>
<td>Dhar</td>
</tr>
<tr>
<td>9</td>
<td>Indian Overseas Bank</td>
<td>Bhopal</td>
</tr>
<tr>
<td>10</td>
<td>Oriental Bank Of com.</td>
<td>Morena, Bhind</td>
</tr>
<tr>
<td>11</td>
<td>Punjab &amp; Sindh Bank</td>
<td>Ashok Nagar</td>
</tr>
<tr>
<td>12</td>
<td>Punjab National Bank</td>
<td>Datia, Sehore</td>
</tr>
<tr>
<td>13</td>
<td>State Bank Of India</td>
<td>Harda, Chhatarpur, Damoh</td>
</tr>
<tr>
<td>14</td>
<td>State Bank Of Indore</td>
<td>Vidisha, Neemuch, Shivpuri</td>
</tr>
<tr>
<td>15</td>
<td>Syndicate Bank</td>
<td>Guna</td>
</tr>
<tr>
<td>16</td>
<td>Union Bank Of India</td>
<td>Sidhi, Rewa</td>
</tr>
<tr>
<td>17</td>
<td>UCO Bank</td>
<td>Narsinghpur, Sheopurkalan</td>
</tr>
<tr>
<td>18</td>
<td>Vijaya Bank</td>
<td>Indore</td>
</tr>
<tr>
<td></td>
<td><strong>Rajasthan</strong></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Bank of Baroda</td>
<td>Dungarpur</td>
</tr>
<tr>
<td>2</td>
<td>Punjab National Bank</td>
<td>Dholpur</td>
</tr>
<tr>
<td>3</td>
<td>Oriental Bank of Commerce</td>
<td>Sriganganagar (A Minority-concentrated district of the State)</td>
</tr>
<tr>
<td>4</td>
<td>UCO Bank &amp; Jaipur Thar</td>
<td>Dausa</td>
</tr>
<tr>
<td>5</td>
<td>Gramin Bank</td>
<td>Jhalawar</td>
</tr>
<tr>
<td>6</td>
<td>The Bank of Rajasthan &amp; State Bank of Bikaner and Jaipur</td>
<td>Rajsamand</td>
</tr>
<tr>
<td></td>
<td><strong>Orissa</strong></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>UCO Bank</td>
<td>Ganjam, Puri, Cuttack, Keonjhar Nayagar &amp; Rayagada</td>
</tr>
<tr>
<td></td>
<td><strong>Jharkhand</strong></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Ranchi</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Compiled from Official RBI Documents by Ramesh S. Arunachalam, 2008*
Annexure II: Dimensions of Exclusion & Inclusion

Dimensions of Financial Exclusion

A range of factors may explain why financial exclusion takes place:

- **Access exclusion**: the restriction of access through the processes of risk assessment, wherein banks decide to lend (or not) based on the risk profile of the borrower.
- **Condition exclusion**: where the conditions attached to financial products make them inappropriate for the needs of some people. This is true for women as they often have far more difficulty than men in accessing credit, largely due to a lack of access to resources (land title, agricultural inputs, extension services, decision making power and technology). This is also true in the case of Muslims as interest is prohibited in Islam.
- **Price exclusion**: where some people can only gain access to financial products at prices they cannot afford;
- **Marketing exclusion**: whereby some people are effectively excluded by target marketing and sales;
- **Self-exclusion**: people may decide that there is little point applying for a financial product because they believe they would be refused. Sometimes this is a result of having been refused personally in the past, sometimes because they know someone else who has been refused, or because of a belief that 'they don’t accept people who live round here'.

*Source: Kempson and Whyley, as cited in Financial Services Authority, “In or out? Financial exclusion: a literature and research review”, 2000*
Cycle of Inclusion & Exclusion

1. Excluded Low Income Groups
2. Financial Inclusion through Delivery of Financial Services
3. Failure of Livelihood Due to Structural and Other Factors
4. Increased Debt with Reduced Ability to Repay – Usually Delinquency and Default with Occasional Write-offs
5. Financial Exclusion
6. Enhanced Dependence on Informal Money Lender Again

Several Consequences

### Coverage and Limitations of Current Products

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Life – group and individual, endowment, credit shield</th>
<th>Health</th>
<th>Livestock / Other assets</th>
<th>Crop</th>
<th>Disaster</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current products</td>
<td>Life – group and individual, endowment, credit shield</td>
<td>Mediclaim, PA, PTD, UHIS for poor families</td>
<td>Livestock, hut insurance</td>
<td>NAIS, rainfall insurance, farm income Insurance Scheme (FII)⁴</td>
<td>Property insurance covers losses due to earthquake, floods, etc.</td>
</tr>
<tr>
<td>Covered losses</td>
<td>Accidental and natural death</td>
<td>Hospitalization, loss of earning due to disability, critical illnesses</td>
<td>Loss of property due to fire, theft, burglary and riots, death of livestock</td>
<td>Yield loss, farm income loss</td>
<td>Loss of property and life</td>
</tr>
<tr>
<td>Design limitations</td>
<td>Lengthy terms and high premium make the product unattractive</td>
<td>Does not cover OPD or chronic illnesses⁵</td>
<td>Does not cover loss due to illness of livestock</td>
<td>Coverage not available for several crops due to unavailable data. Crops excluded include vegetables and horticulture</td>
<td>Many natural disasters, such as heavy downpour, remain uncovered</td>
</tr>
<tr>
<td></td>
<td></td>
<td>No coverage for transportation expenses, livelihood loss</td>
<td>Hut insurance available only when institutional credit sources were used and coverage for household assets limited to Rs1,000</td>
<td>Lack of data makes it difficult to assess losses</td>
<td>No distinction in sum insured to irrigation according or topography</td>
</tr>
<tr>
<td>Claim servicing</td>
<td>Documentation required is complicated and time consuming</td>
<td>Claim settlement is delayed since loss assessment process is lengthy and costly⁶</td>
<td>Claim settlement is delayed since loss assessment process is lengthy and costly</td>
<td>Crop insurance claims often are delayed</td>
<td>Often delayed and cease to have the relief effect</td>
</tr>
<tr>
<td></td>
<td>Prolonged transfer time in the absence of bank accounts</td>
<td>TPAs not active in rural areas</td>
<td>Absence of veterinary network in an area delays claim settlement</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Building Security for the Poor-Potential and Prospects for Microinsurance in India, UNDP Regional Centre in Colombo, 2007*
Annexure IV: Problem and Results Tree for the Project

Problem Tree

- Poor access to financial products and services by the poor and vulnerable sections
  - Insufficient outreach and availability of wide-ranging financial products and services for the poorest sections
    - Lack of a national level mechanism to innovate on affordable financial products for the poor
    - Lack of availability of a range of financial products to reduce the risk and vulnerabilities of the poor
    - Lack of awareness among poor about financial products
    - Lack of a Multi-stakeholder platform for experience sharing on financial products for the poor
    - Lack of conducive policy environment for financial products and services targeted to poor and remote regions

Results Tree

- Better access to financial products and services by the poor and vulnerable sections
  - Increased outreach and availability of wide-ranging financial products and services for the poorest sections
    - Central mechanism to support innovation on affordable financial products for the poor established
    - Demonstration of pilots to test out a range of financial products to reduce the risk and vulnerabilities of the poor supported
    - Financial literacy among the poor about financial products strengthened
    - Multi-stakeholder platform for experience sharing on financial products for the poor established
    - Policy environment for financial inclusion strengthened
### Annexure V: List of Possible “Responsible Parties” at National and State Levels

<table>
<thead>
<tr>
<th>Category</th>
<th>Possible Responsible Parties</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>National Level</strong></td>
<td></td>
</tr>
</tbody>
</table>
| Regulators/Apex Development Banks/National Advisory Bodies | • Reserve Bank of India, Rural Planning and Credit Department  
• National Bank of Agricultural and Rural Development, Micro Credit Innovation Department  
• Small Industries Development Bank of India (SIDBI)  
• National Commission for Enterprises in the Unorganized Sector (NCEUS) |
| National Networks | • Microfinance India Platform  
• Sa-Dhan  
• UN’s Solution Exchange for the Microfinance Community |
| Industry Associations | • Confederation of Indian Industry (CII)  
• Federation of Indian Chambers of Commerce and Industry (FICCI)  
• Indian Banks Association |
| **State Level** | |
| State governments | • Livelihood Missions such as Rajasthan Mission on Livelihoods  
• Development Programmes such as Mission Shakti |
| Partnerships with the following to be finalized based on an assessment of their ability to work with the poor and disadvantaged groups: | |
| Consultancy Firms | • EDA Rural Systems  
• M-Cril  
• Intellecap  
• ACCESS Development Services |
| Micro Finance Institutions | • AJIWIKA Society, Bandhan Konnagar, Evangelical Social Action Forum (ESAF), Nav Bharat Jagriti Kendra (NBJK), Sarvodaya Nano Finance Ltd. (SNFL) and Vedika Credit Capital Limited (Jharkhand)  
• BAL-Mahila Vikas Samiti (VAMA), Jeevika Livelihoods Support Organisation, Priyasakhi Mahila Sangh, Share Microfin (Madhya Pradesh)  
• ADARSA, Adhikar, BASIX, Bharat Integrated Social Welfare Agency (BISWA), Cooperation Development Council (CDC), Darabar Sahitya Sansad (DSS), Gram Utthan, KAS Foundation, Swayamshree Micro Credit Services (SMCS) (Orissa)  
• BASIX, Bhoruka Charitable Trust, Indian Institute For Rural Development (IIIRD), Sarvodaya Nano Finance Ltd. (SNFL), Satin Credit Care Network Ltd, S.E. Investments Ltd. (SEIL) (Rajasthan)  
• Cashpor, Nirman Bharathi, People’s Action For National Integration (PANI) and Sonata Finance Pvt. Ltd, (Uttar Pradesh) |
| NGOs/Resource Organisations | • Micro Insurance Academy  
• Institute for Financial Management and Research (IFMR)  
• Mahila Abhivruddhi Society Andhra Pradesh (APMAS)  
• SKS Foundation  
• Marg Darshak (Uttar Pradesh)  
• Gram Vikas (Orissa) |
<table>
<thead>
<tr>
<th>Category</th>
<th>Possible Responsible Parties</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category</td>
<td>Possible Responsible Parties</td>
</tr>
<tr>
<td></td>
<td>• Centre for Microfinance (Rajasthan)</td>
</tr>
<tr>
<td></td>
<td>• Bankers Institute of Rural Development (BIRD)</td>
</tr>
<tr>
<td></td>
<td>• Pradan</td>
</tr>
<tr>
<td></td>
<td>• BAIF</td>
</tr>
<tr>
<td></td>
<td>• Myrada</td>
</tr>
<tr>
<td></td>
<td>• SIFFS (Orissa)</td>
</tr>
<tr>
<td></td>
<td>• Indian Institute of Technology-Chennai</td>
</tr>
<tr>
<td></td>
<td>• Friends of Women’s World Banking (FWWB)</td>
</tr>
<tr>
<td></td>
<td>• Intellecash</td>
</tr>
<tr>
<td></td>
<td>• Bellwether</td>
</tr>
<tr>
<td></td>
<td>• Lok Capital</td>
</tr>
<tr>
<td></td>
<td>• Aavishkaar</td>
</tr>
<tr>
<td></td>
<td>• Unitus</td>
</tr>
<tr>
<td></td>
<td>• IFMR Trust</td>
</tr>
<tr>
<td></td>
<td>• MicroVentures</td>
</tr>
<tr>
<td>Funding agencies and venture capital funds</td>
<td>• State Bank of India</td>
</tr>
<tr>
<td></td>
<td>• UCO Bank</td>
</tr>
<tr>
<td></td>
<td>• Bank of India</td>
</tr>
<tr>
<td></td>
<td>• Andhra Bank</td>
</tr>
<tr>
<td></td>
<td>• Punjab National Bank</td>
</tr>
<tr>
<td></td>
<td>• Vijaya Bank</td>
</tr>
<tr>
<td></td>
<td>• Indian Bank</td>
</tr>
<tr>
<td>Public Sector Banks (with a strong microfinance focus in the states)</td>
<td>• HDFC Bank</td>
</tr>
<tr>
<td></td>
<td>• Axis Bank</td>
</tr>
<tr>
<td></td>
<td>• ICICI Bank</td>
</tr>
<tr>
<td></td>
<td>• ABN Amro</td>
</tr>
<tr>
<td>Private Commercial Banks</td>
<td>• Chhattisgarh Rajya Sahakari Bank Maryadit</td>
</tr>
<tr>
<td>Cooperative Credit Banks</td>
<td>• Mashuta (Pradan-promoted producer company for tasar in Jharkhand)</td>
</tr>
<tr>
<td></td>
<td>• Lohardaga Grameen Poultry Cooperative Society (Pradan-promoted poultry cooperative, Jharkhand)</td>
</tr>
<tr>
<td></td>
<td>• Sundarpahari Adivasi Sahakari Samiti (Pradan-promoted NTFP cooperative, Jharkhand)</td>
</tr>
<tr>
<td></td>
<td>• Agri-horti cooperatives in Khunti and Gumla districts (Jharkhand)</td>
</tr>
<tr>
<td></td>
<td>• Dairy cooperatives in Lohardaga district (Jharkhand)</td>
</tr>
<tr>
<td></td>
<td>• vikasbazaar.net (Jharkhand)</td>
</tr>
<tr>
<td></td>
<td>• SHG clusters (promoted by KSRA in Khunti, Jharkhand)</td>
</tr>
<tr>
<td></td>
<td>• Ama Sangathan (federation of SHGs, Orissa)</td>
</tr>
<tr>
<td>Community based organizations</td>
<td>• Life Insurance Corporation</td>
</tr>
<tr>
<td></td>
<td>• Agricultural Insurance Company of India</td>
</tr>
<tr>
<td></td>
<td>• Aviva</td>
</tr>
<tr>
<td></td>
<td>• Bajaj Allianz</td>
</tr>
<tr>
<td></td>
<td>• Tata-AIG</td>
</tr>
<tr>
<td></td>
<td>• Birla Sun Life</td>
</tr>
<tr>
<td></td>
<td>• Megatop (ITC)</td>
</tr>
<tr>
<td>Category</td>
<td>Possible Responsible Parties</td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>------------------------------------------------------------------</td>
</tr>
<tr>
<td>Pension Funds</td>
<td>• run by UTI AMC  \n• run by SBI  \n• run by LIC</td>
</tr>
<tr>
<td>Technology Service Providers and telecom companies</td>
<td>• Financial Information Network and Operations (FINO)  \n• Airtel</td>
</tr>
<tr>
<td>State level networks</td>
<td>• VANI (Voluntary Action Network India) (Orissa)  \n• AMFA (Access Microfinance Alliance) (Orissa)</td>
</tr>
<tr>
<td>Partners for Financial Literacy</td>
<td>• FWWB  \n• Citi Bank  \n• Access Development Services  \n• CII  \n• FICCI</td>
</tr>
</tbody>
</table>
Endnotes

2 Draft Eleventh Five Year Plan, p. 273
3 Data for 2006 extracted from the Report on Trend and Progress of Banking in India, RBI.
4 Samanth Subramanian, ‘NGOs Struggle as they Venture into Microfinance’, Mint, 20 Apr 2008
5 Reserve Bank of India, Report of Trend and Progress of Banking in India 2006-07, p. 28
6 Report of Trend and Progress of Banking in India 2006-07, p. 28
7 Extracted from CGAP, Good Practice Guidelines for Funders of Microfinance, 2006
11 These targets are stipulated by RBI for bank lending to agriculture, small scale industries and other priority sectors. Report of Trend and Progress of Banking in India 2006-07, p. 72
12 Report of the High Level Committee on Financial Sector Reforms headed by Dr. Raghuram Rajan, April 2008, Chapter 3, p. 2-3
13 Draft Eleventh Five Year Plan, p. 274
14 Report of the Government of India Committee on Financial Inclusion; the report states that 51% of farmer households belonging to Scheduled Castes (SCs) and Other Backward Classes have access to credit, with the Scheduled Tribes (STs) at 36%
15 As cited in Social, Economic and Educational Status of the Muslim Community of India, Report of the Prime Minister’s High Level Committee headed by Justice Rajindar Sachar, p. 136
16 Social, Economic and Educational Status of the Muslim Community of India, p. 125. Data cited here refer to Priority Sector Advances by Public Sector Banks. ‘Others’ refers to Non-Muslims excluding other Minorities.
18 Report of Trend and Progress of Banking in India 2006-07, p. 28
19 Report of the High Level Committee on Financial Sector Reforms headed by Dr. Raghuram Rajan, April 2008, Chapter 3 p. 2
21 Draft XI Five Year Plan, p. 273-274
22 Report of the High Level Committee on Financial Sector Reforms headed by Dr. Raghuram Rajan, April 2008, Chapter 3 p. 2
24 Report of the High Level Committee on Financial Sector Reforms headed by Dr. Raghuram Rajan, April 2008, Chapter 3 p. 2
25 Report of the High Level Committee on Financial Sector Reforms, Chapter 3 p.2
26 Vulnerability is defined as “the exposure to uninsured risk leading to a socially unacceptable level of well-being”. Johannes Hoogeveen et al., A Guide to the Analysis of Risk, Vulnerability and Vulnerable Groups, World Bank
29 Building Security for the Poor-Potential and Prospects for Microinsurance in India, UNDP Regional Centre in Colombo, p.40
30 Microfinance India, Conference Report 2007, p. 27-28
31 For example, by Adhikar and Shramika Shajoga in Orissa and Aajeevika Bureau in Rajasthan
34 Building Security for the Poor-Potential and Prospects for Microinsurance in India, p.51
35 Microfinance India, Conference Report 2007, p. 25
36 Building Security for the Poor-Potential and Prospects for Microinsurance in India, p.53. Some NGOs such as DHAN Foundation are using revolving funds of SHG federations to innovate in this area.
37 Building Inclusive Financial Sectors for Development (Blue Book), p. 37
38 Building Security for the Poor-Potential and Prospects for Microinsurance in India, p.49
39 BASIX has adopted an innovative approach to address this issue. Building Security for the Poor-Potential and Prospects for Microinsurance in India, p.64
40 Building Security for the Poor-Potential and Prospects for Microinsurance in India, p.51
41 Building Security for the Poor-Potential and Prospects for Microinsurance in India, p. 71-72
42 Building Security for the Poor-Potential and Prospects for Microinsurance in India, p.43
43 Building Security for the Poor-Potential and Prospects for Microinsurance in India, p.43. A Karuna Trust-UNDP pilot health insurance project in Karnataka has attempted to address this gap, and lessons can be drawn upon.
45 This initiative was piloted in partnership with Karuna Trust, the Centre for Population Dynamics and the National Insurance Company. For further information see Karuna Trust, A Healthy Change: Community Health Insurance, 2005
46 Examples include: engineering workshops in Ghaziabad, ceramic products in Khurja, chikan work in Lucknow, carpet weaving in Mirzapur, brassware in Moradabad, bone and hoof products in Saraitareen, metal work in Hazaribagh (Jharkhand), hand block printing in Jaipur etc.
For instance, experiences of the UNDP-supported Community Health Insurance Initiative in Karnataka, and challenges faced during the ICICI Lombard-Pradan pilot on weather insurance in Madhya Pradesh.

In Karimnagar, Andhra Pradesh, the state government, with the help of FINO, has used smart cards, biometrics, and hand-held devices to disburse wages under NREGS. For more details, see Natu et al, Linking Financial Inclusion with Social Security Schemes, IFMR, 2008

Some examples of organizations already working in this area are FINO, Airtel, A Little World and Ekgaon.

This draws on the process followed by Karuna Trust in the pilot CHI initiative supported by GoI-UNDP

Draft Eleventh Five Year Plan, p. 273

For e.g. the Citi Centre for Financial Literacy at the Indian School of Microfinance for Women at Ahmedabad. The centre is jointly promoted by SEWA, FWWB, Coady International Institute (Canada) and Citi and aims to conduct financial literacy drives among poor women across 10 Indian states.

Report of the Committee on Financial Inclusion, p.50

Ministry of Finance, Expert Group on Agricultural Indebtedness, Chaired by R. Radhakrishna, July 2007, p.2

Value chain analysis is a method for accounting and presenting the value that is created in a product or service (applicable to any sector, farm or non-farm) as it is transformed from raw inputs to a final product consumed by end users. Supriya Kumar, Recommendations for Private Sector Engagement Strategy, UNDP, 2008