GOVERNMENT OF INDIA – UNITED NATIONS DEVELOPMENT PROGRAMME

PROJECT BRIEF

Project title	Financial Inclusion
Project start and end date	Start Date: November 15, 2008 End date: December 31, 2012
National priority as per 11th Plan	The 11th Plan seeks to provide an opportunity "to restructure policies to achieve a new vision based on faster, more broad-based and inclusive growth." The plan emphasizes creation of employment opportunities, access to financial products and services, equality of opportunity, empowerment and skill development, particularly for the deprived groups. It recognizes a pro-active role for Governments at different levels to make this possible.
UNDAF Outcome (1)	By 2012, disparities reduced and opportunities enhanced for disadvantaged groups, especially women and girls, for the achievement of MDG related 11th Plan Goals, through strengthened policy framework and implementation capacity of large scale state and national programmes.
UNDP CPAP Outcome	Improved effectiveness of poverty reduction and livelihood promotion programmes in disadvantaged regions and for inclusion of poor women and men from SC and ST groups, minorities and the displaced
CPAP Output (=project output)	Disadvantaged people (poor women and men from SC and ST groups, minorities and the displaced) in at least four UNDAF states benefit from national poverty programmes and livelihood strategies through enhanced public expenditure, private sector engagement and better delivery mechanisms
Specific project outputs *(2-4 max)*	1. A range of financial products and services piloted to promote livelihoods and reduce vulnerabilities of the poor in at least 4 UN focus states 2. Financial literacy strengthened for the poor on available financial products and services, pricing and terms and conditions in 7 UN focus states 3. Knowledge sharing networks supported/established nationally and across 7 UN focus states between actors of the financial services sector for scaling up
Implementing Partners	National Bank for Agriculture & Rural Development (NABARD)

Brief summary of strategy:

1) Support design and delivery of financial products and services for the poor, particularly disadvantaged groups among them
2) Support district level demonstration pilots to test out new products, delivery channels and models designed for disadvantaged groups and regions
3) Strengthen financial literacy through information provision and protection of the poor
4) Support knowledge sharing at state and national levels to help exchange new ideas and good practices, share experiences and scale up
5) Provide policy advocacy by collaborating Microfinance India Platform and national level committees

Budget: USD 9.5 million	Core: US$ 4.5 million Other resources: US$ 5 million

Executive Summary

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 can help strengthen their livelihoods by building their asset base, supporting income generating activities and expanding the range of choices available to them.

India has a massive network of 69,417 commercial bank branches and an evolved microfinance program, with the SHG Bank Linkage Program and MFIs together reaching out to 50 mn households. The Government of India has set up the Financial Inclusion Fund and Financial Inclusion Technology Fund, with a corpus of Rs. 500 Cr. each. States have been tasked with achieving 100% financial inclusion in at least one district by providing a 'no-frills' account and issuing general purpose credit cards. Banks have been permitted to utilise the services of NGOs, SHGs and MFIs as intermediaries.

Two main challenges that stand out today are those of the ***depth and breadth of financial services***. Depth refers to reaching increasingly poorer and more remote people through financial services. In India, only 22% of all poor households currently receive microfinance services. Broken down by social groups, 49% of farmer households belonging to SCs and OBCs do not have access to credit; the STs are worse off at 64%. In terms of geographic coverage, while the UN focus states are home to 57.3% of India's poor, they account for only 34.3% of commercial bank branches and 20.8% of MFI clients. Breadth refers to ensuring that a range of appropriate products and services are available to everyone. The poor need a variety of financial services that are integrated with livelihood promotion and income protection such as insurance for death and asset protection, pension, remittances, transfers, loans for education, microenterprises and for emergency needs. Presently, the range of such products is limited and there are issues of pricing and cost. Only 10% of the population is served by micro insurance, less than 2% by health insurance; only 6% of livestock are insured.

It is also recognized that supply-side interventions need to be accompanied by ***demand-side efforts*** to strengthen the livelihoods of the poor. The Rangarajan Committee on Financial Inclusion refers to critical gaps, related to access to land, infrastructure, income and productivity enhancement, value addition, market linkages and organizing unorganized producers. Additionally, awareness generation or financial literacy is also important so that the poor understand these products and services and how to access them. Finally, to address the issues outlined above, 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. Project Deliverables

- Innovation support for design and delivery of financial products and services suited to the livelihood needs of the poor
- A range of financial products and services piloted to promote livelihoods and reduce vulnerabilities of the poor in at least 4 UN focus states.
- Financial literacy strengthened for the poor on available financial products and services, pricing and terms and conditions in 7 UN focus states.
- 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.
- Policy environment for financial inclusion strengthened.

3. Project Strategy

Keeping the poor 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, Persons with Disabilities, and involuntarily displaced persons. The project will adopt an integrated approach with the following components:

a. **Supporting design and pilot financial products and services for the poor, particularly disadvantaged groups among them:** The project will provide stakeholders with financial resources, technical support and linkages to reach disadvantaged groups. It will leverage funds from diverse sources including donors, private sector and the government. Innovation in design and delivery of financial products and services will be supported in areas such as agriculture, allied activities, micro-enterprises, basic services, and clusters in sectors like silk, bamboo and textiles. It will catalyze public-private-community-partnerships with clearly defined roles for governments, private sector and organizations of the poor.

b. **Supporting district level demonstration pilots to test out new products, delivery channels and models designed for disadvantaged groups and regions:** The project will support demonstration pilots to increase the depth and breadth of financial services, focusing on both vulnerability reduction and income enhancement. It will work 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 and strengthening their livelihoods. The pilot proponents will work with formal financial institutions and also support experiments with alternative delivery channels. ICTs will be leveraged to reach remote areas and groups, reduce delivery cost and enhance transaction security. Capacities of communities and formal financial institutions will be strengthened especially at district levels, for improved product design and delivery.

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, strengthening the attitudes and functional capacities of bank/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.

d. **Supporting knowledge sharing at state and national levels to help exchange new ideas and good practices, share experiences and scale up:** With UN Solution Exchange for the Microfinance Community as the key partner, the project will support knowledge sharing and platforms to exchange experiences among existing actors in financial inclusion. As new models are tested on the ground, it will support the documentation and sharing of good practices and successful, replicable interventions. The project will also support the annual State of the Sector Report on Microfinance - a repository of information and activities on this sector.

e. **Policy Advocacy:** The project will collaborate with the Microfinance India Platform to support visioning workshops for financial inclusion, and policy retreats where policy makers and sector experts evolve recommendations on specific financial inclusion themes. It will engage with national level committees set up by the Government of India, apex banks such as the RBI, NABARD, SIDBI, and the UN Solution Exchange knowledge community on Microfinance.

The proposed strategy recognizes that financial inclusion is not a panacea for poverty alleviation and is at best a supplementary tool that must accompany other efforts to strengthen the livelihoods of the poor. Therefore, financial inclusion will go hand in hand with social mobilization, micro enterprise development, capacity building and technical support such as business development services. This will be done through linkages with the project on State Level Support to Livelihood Promotion Strategies.

4. Implementation Arrangement

The project will be anchored with NABARD (to be confirmed). NABARD and UNDP together will identify Implementing Partners for the various components of the project and these could be a government agency, NGO, financial institution, private sector etc. 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.

5. Budget

USD 4.5 million

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.
- Report of the Committee on Financial Inclusion, January 2008

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[1]. 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[2].

India has a massive network of 69,417 commercial bank branches[3]. 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[4].

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)[5]. 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[6]. (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[7]:

- 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.

<u>Challenges of Depth and Breadth</u>

a) Challenges of Depth

Depth refers to reaching increasingly poorer and more remote people[8] 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) [9].
- ***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[10]. Only 8 out of 28 Public Sector Banks achieved the Priority Sector Lending targets of 18% for agriculture during 2006-07[11]. As the definition of the priority sector has broadened, banks have migrated towards the "bankable" within the sector rather than the excluded[12]. 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.[13]
- ***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[14]. 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[15]. 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'[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[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[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-poor19, 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[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[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[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.

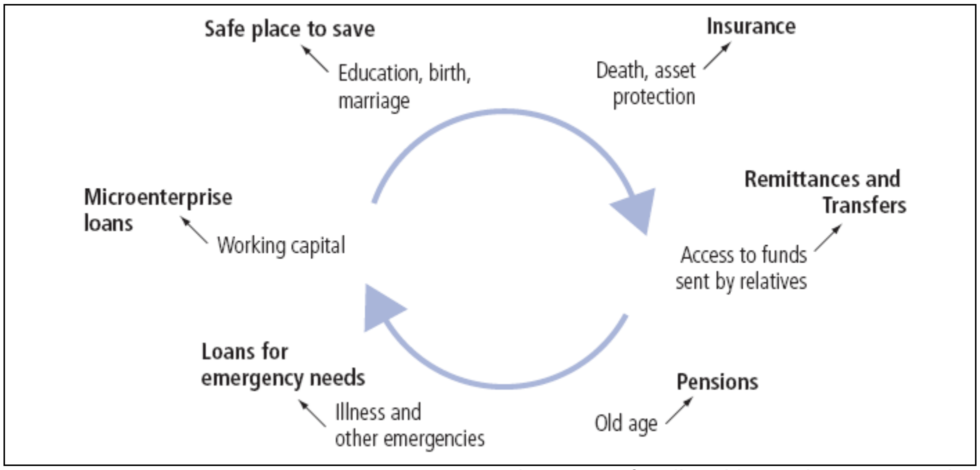
b) Challenges of Breadth

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[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[24].

The poor need a variety of financial services (refer to Figure 1). The most important financial services are vulnerability reducing instruments[25] that are integrated with livelihood promotion and income protection - to truly financially include the poor would require providing a range of such products[26]. 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[27] (refer to Annexure II).

Figure 1: The Poor Need a Variety of Financial Services



Source: Brigit Helms, Access for All: Building Inclusive Financial Systems, CGAP, 2006

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[28]. 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[29]. Remittance services are not yet well tested and demand exceeds availability[30]. 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[31].
- ***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[32]. Less than 0.1% of MFI clients access emergency loans[33]. 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[34] 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[35]. In the case of death, households need quick payouts to cover immediate expenses such as funeral costs, but no insurance product addresses this need[36]. 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[37] - 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[38]. Furthermore, the absence of a veterinary network in an area can delay claims settlement[39]. 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[40].
- ***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[41]. 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[42].

- ***"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[43]. The remote areas in which many disadvantaged groups such as tribals live also act as a deterrent 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*[44].

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[45]. 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, MFIs, 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

Supply Side Constraints

Depth (access *for* the poor)

- Profitability - poor not "bankable": low volume transactions, high cost of servicing; focus on large accounts
- Cannot lend as no verifiable transaction history: poor tend to access informal sources
- Attitude of bank staff: temporary personnel from urban areas,unfamiliar with rural requirements, lack of incentives for/monitoring of inclusion
- Existing delivery channels not suited to spatial spread of disadvantaged groups; poor geographic coverage
- Rigidity: Informal system perceived to have quicker delivery, less bureaucratic

Breadth (range of products/services *offered*)

- Lack of understanding of vulnerabilities of the poor: risks, livelihoods, cash flows etc.
- Product range limited largely to credit and savings
- Available products largely not suited to livelihood needs of the poor/excluded groups

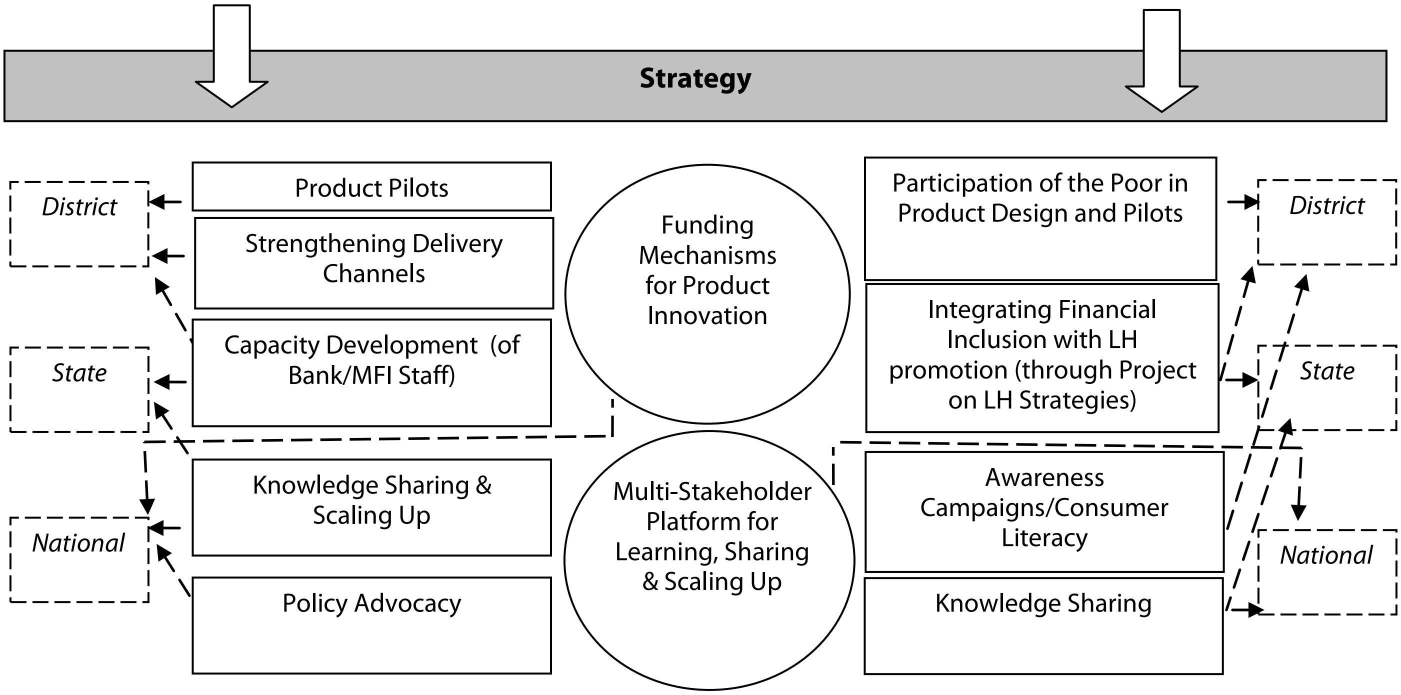
Demand Side Constraints

Depth (access *by* the poor)

- Vulnerable livelihoods and low incomes: affects eligibility, affordability and repayment; little incentive to approach formal financial system
- Remoteness: physical distance from services means high transaction cost (transportation + wage loss)
- Lack of ID proof and collateral
- Lack of awareness of products/services available and how to access them; illiteracy
- Self exclusion: complex procedures, perceptions about bank staff, 'bad' experiences, social exclusion

Breadth (range of products/services *available*)

- Absence of a range of well-suited products
- Problems in design (e.g. conditions[1] associated with products)
- Low capacity to articulate demand for types of products needed
- Lack of participation of the poor in design and delivery



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.
- Specialized enterprises and clusters[46] in sectors like silk, leather goods, brassware, metal, bamboo and cane, garments and textiles etc.
- 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[47].

Given the exclusion of disadvantaged groups, the product pilots will envision them an 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[48].

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 with existing technology service providers[49].

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 oral 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[50]

Piloting Financial Products/Services for the Poor	
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[51]. 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 finances[52].

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 attitudes[53]. 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 management[54]. 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 analysis[55] 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 disadvantages 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 vulnerablegroups 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				
Intended Outputs *(as outlined in CPD/CPAP)*	**Output Targets for (years)**	**Indicative Activities** *(deliverables)*	**Responsible parties**	**Inputs**
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.	*Innovation support in financial products and services suited to the livelihood needs of the poor* (2009)	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 2011 - Discussion on long-term legal agreements for	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.	Core resources : USD 4.5 mn

		sustainability beyond project support initiated <u>2012</u> - Exit strategy implemented		
	A range of financial products and services piloted to promote livelihoods and reduce vulnerabilities of the poor in UN focus states(2012)	<u>2009</u> – Linkage established with the project on livelihood strategies to indentify financial products and services which address needs of the poor in UN focus states - 4 innovative financial products designed by pilot proponents <u>2010</u> – 4 identified financial products piloted - 6 more innovative financial products designed by pilot proponents <u>2011</u> – 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. <u>2012</u> – Selected product pilots scaled up in partnership with private sector/financial institutions.		
	Financial literacy strengthened for the poor on available financial products and services, pricing and terms and conditions in 7 UN focus states(2012)	<u>2008</u> - 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 disadvantaged groups <u>2009</u> – 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 <u>2010</u> – 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 <u>2011</u> - Awareness campaigns designed and launched on successful piloted products and services. <u>2012</u> – 10,000 poor households informed of available financial products and services, pricing and terms and conditions in selected UNDAF states		
	Knowledge sharing network s supported/establish	<u>2008</u> - 1 knowledge sharing network, namely Microfinance Community of Practice, Solution Exchange, United Nations		

	ed 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 (2012)	supported 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.		
	Policy environment	2008		

	for financial inclusion strengthened (2012)	- 1 national level microfinance policy platform supported <u>2009</u> - State level consultation/policy retreat supported and held to identify policy issues with regard to financial inclusion. <u>2010</u> - 1 State level consultations/policy retreat supported and held to identify policy issues with regard to financial inclusion. <u>2011</u> - 1 national consultation/policy retreat supported and held to inform the formulation of the Twelfth Five Year Plan <u>2012</u> - 1 national consultation/policy retreat supported and held to inform the formulation of the Twelfth Five Year Plan		

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)

<u>Potential Implementing Partner:</u> 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.

<u>Responsible Parties:</u> 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.

Upto1% 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

Proj ID	Expected Outputs	Key Activities and Deliverables	Budget Description	
			Budget Description	Amount (USD)
X	CPAP 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.	***Activity 1: Supporting design and delivery of financial products and services suited to the livelihood needs of the poor***		**1,214,952**
		Set up a sub-group for advisory services and identify areas of technical support to FIF and FITF.	Contract Services - Studies and Research Services: 72125 Assessment: 74120 (identify partners)	248,942
		Commission action research, process documentation and compilation of good practices	Contract Services - Local Consultants: 71300	65,000
		Support design of financial products/services for the poor/disadvantaged groups	Contract Services - Studies and Research Services: 72125 Local consultants - Technical: 71305	370,000
		Support pilot initiatives in the field including process documentation	Local consultants - Technical: 71305	531,010
		Activity 2: Informing poor households of available financial products and services, pricing and terms and conditions in selected UN focus states		**950,000**
		Support awareness campaigns at state/national levels	Contract Services - Training and Education Services: 72145	250,000
		Support training programs for clients and service providers including systems for collection and dissemination of information at village/district levels	Contract Services - Training and Education Services: 72145	400,000
		Test communication effectiveness of financial literacy efforts	Contract Services - Studies and Research Services: 72125	300,000
		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		**923,000**
		Knowledge building and sharing through practitioner networks	Contract Services - Local Consultants:. Technical: 71305	240,000
		Supporting state of sector reports	Contract Services – (72000)	83,000
		Support workshops for experience sharing among clients, product development and scaling up	Contract Services - Training and Education Services: 72145	120,000
		Test client satisfaction to identify "successful pilots"	Contract Services - Studies and Research Services: 72125	300,000
		Facilitate partnerships for scaling up	Contract Services - Training and Education Services: 72145	180,000

Proj ID	Expected Outputs	Key Activities and Deliverables	Budget Description	
			Budget Description	Amount (USD)
		Activity 4: Strengthening policy environment for financial inclusion		**224,048**
		Consultations/policy retreats	Contract Services – (72000)	99,577
		Support to national level microfinance policy platforms	Contract Services – (72000)	124,471
		Activity 5: Providing effective support to project implementation and management		**813,089**
		Recruitment and orientation of Project Management Team	Contract Services - Local Consultants: 71300	572,633
		Technical support to project and partners	Contract Services - Local Consultants:. Technical: 71305	61,973
		Project monitoring, evaluations, studies and assessment	Contract Services - Studies and Research Services: 72125	66,931
		Documentation and communication	Contract Services - Communication Services: 72135	37,184
		Office equipment and other office support	Office Equipment: 72200 Rental and Maintenance - Premises: 73100	37,184
		Administrative expenses and sundries	Office Equipment: 72200 Miscellaneous Expenses - Sundry: 74525	37,184
		Activity 6: Project Monitoring, Evaluation & Capacity Development		**374,911**
		Technical consultancy support	Contract Services - Local Consultants:. Technical: 71305	45,000
		UNDP State Coordinators	Contract Services - Local Consultants: 71300	108,000
		Project quality assurance	Travel: 71600	37,911
		Midterm and terminal evaluation	Contract Services - Studies and Research Services: 72125 Travel: 71600	49,000
		Annual and terminal audits	Audit: 74110	28,000
		Meetings, consultations and workshops	Miscellaneous Expenses - Sundry: 74525	23,000
		Documentation and communication (1%)	Communications and Audio Visual Equipments: 72400	27,000
		Implementation Support Services (ISS)	ISS: 75100	30,000
		Sundries	Miscellaneous Expenses - Sundry: 74525	27,000
			Total (USD)	**4,500,000**

Annexure I: List of SLBC-Designated 100% Financial Inclusion Districts
(where the target has been achieved)

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

Source: Compiled from Official RBI Documents by Ramesh S. Arunachalam, 2008

Annexure II: Dimensions of Exclusion & Inclusion

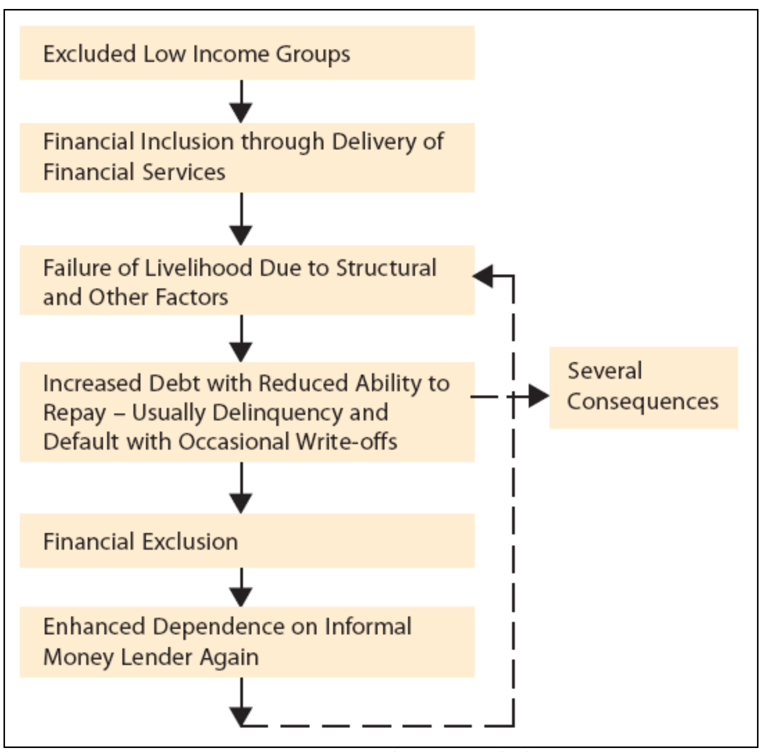
Dimensions of Financial Exclusion

A range of factors may explain why financial exclusion takes place[1]:

- 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, p.9

Cycle of Inclusion & Exclusion



Source: Ramesh S. Arunachalam, Scoping Paper on Financial Inclusion, UNDP, 2008

Annexure III: Coverage and Limitations of Current Insurance Products

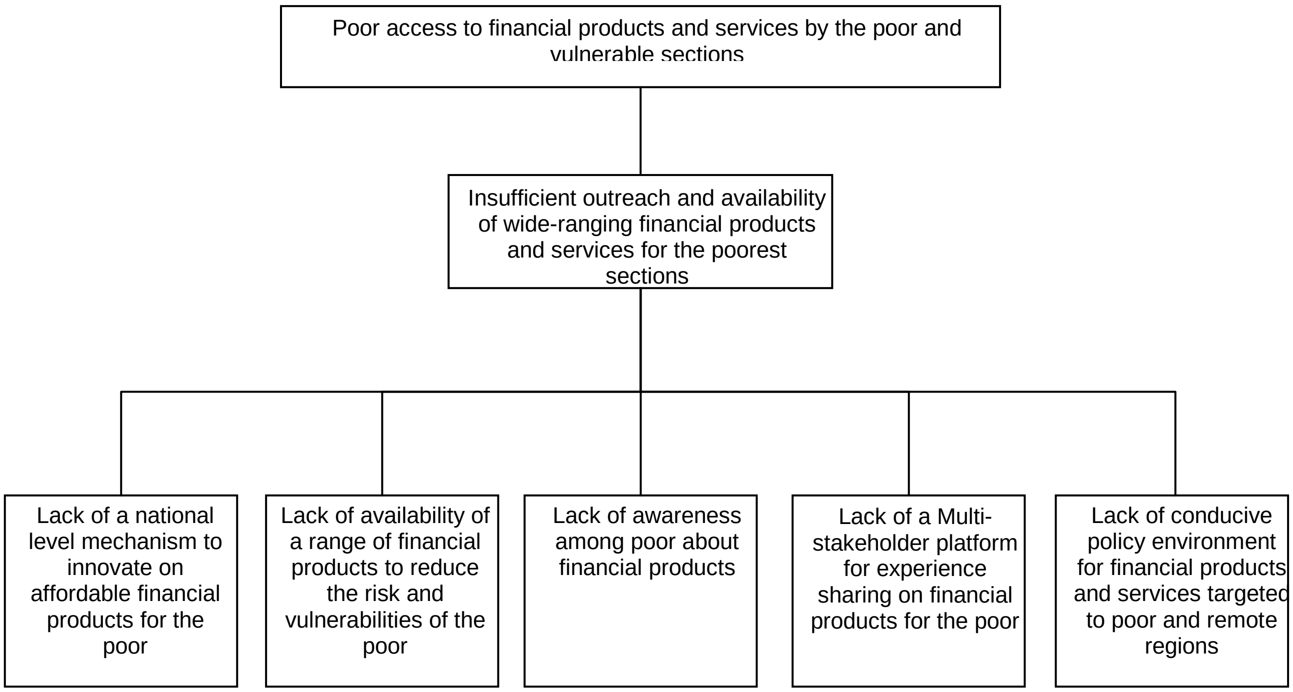
Coverage and Limitations of Current Products

Particulars	Life	Health	Livestock / Other assets	Crop	Disaster
Current products	Life – group and individual, endowment, credit shield	Mediclaim, PA, PTD, UHIS for poor families	Livestock, hut insurance	NAIS, rainfall insurance, farm income Insurance Scheme (FIIS)[84]	Property insurance covers losses due to earthquake, floods, etc.
Covered losses	Accidental and natural death	Hospitalization, loss of earning due to disability, critical illnesses	Loss of property due to fire, theft, burglary and riots, death of livestock	Yield loss, farm income loss	Loss of property and life
Design limitations	Lengthy terms and high premium make the product unattractive	Does not cover OPD or chronic illnesses[85] No coverage for transportation expenses, livelihood loss	Does not cover loss due to illness of livestock Hut insurance available only when institutional credit sources were used and coverage for household assets limited to Rs1,000 Lack of data makes it difficult to assess losses	Coverage not available for several crops due to unavailable data. Crops excluded include vegetables and horticulture No distinction in sum insured to irrigation according or topography	Many natural disasters, such as heavy downpour, remain uncovered
Claim servicing	Documentation required is complicated and time consuming	Claim settlement is delayed since loss assessment process is lengthy and costly[86]	Claim settlement is delayed since loss assessment process is lengthy and costly	Crop insurance claims often are delayed	Often delayed and cease to have the relief effect
	Prolonged transfer time in the absence of bank accounts	TPAs not active in rural areas	Absence of veterinary network in an area delays claim settlement	Payout based on district averages resulting in high base risk	

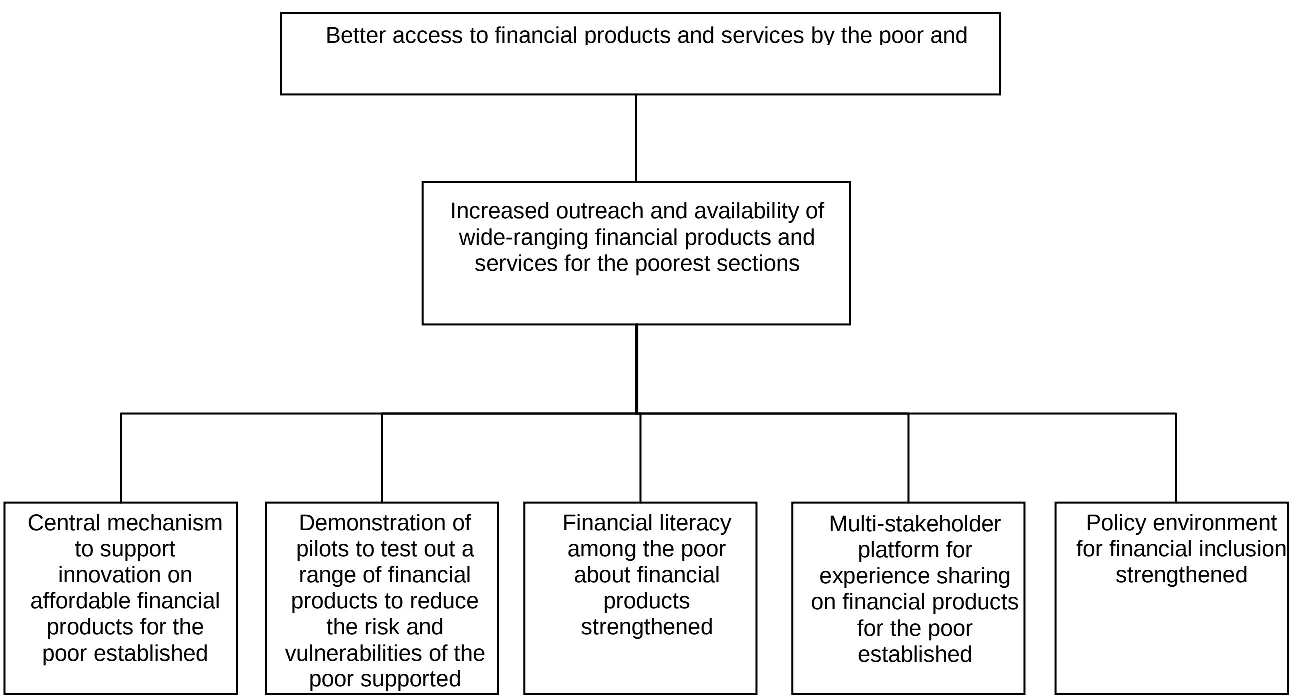
Source: Building Security for the Poor-Potential and Prospects for Microinsurance in India, UNDP Regional Centre in Colombo, 2007

Annexure IV: Problem and Results Tree for the Project

Problem Tree



Results Tree



Annexure V: List of Possible “Responsible Parties” at National and State Levels

Category	Possible Responsible Parties
National Level	
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 (IIRD), 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) • Centre for Microfinance (Rajasthan)

Category	Possible Responsible Parties
	• Bankers Institute of Rural Development (BIRD) • Pradan • BAIF • Myrada • SIFFS (Orissa) • Indian Institute of Technology-Chennai
Funding agencies and venture capital funds	• Friends of Women's World Banking (FWWB) • Intellecash • Bellwether • Lok Capital • Aavishkaar • Unitus • IFMR Trust • MicroVentures
Public Sector Banks (with a strong microfinance focus in the states)	• State Bank of India • UCO Bank • Bank of India • Andhra Bank • Punjab National Bank • Vijaya Bank • Indian Bank
Private Commercial Banks	• HDFC Bank • Axis Bank • ICICI Bank • ABN Amro
Cooperative Credit Banks	• Chhattisgarh Rajya Sahakari Bank Maryadit
Community based organizations	• Mashuta (Pradan-promoted producer company for tasar in Jharkhand) • Lohardaga Grameen Poultry Cooperative Society (Pradan-promoted poultry cooperative, Jharkhand) • Sundarpahari Adivasi Sahakari Samiti (Pradan-promoted NTFP cooperative, Jharkhand) • Agri-horti cooperatives in Khunti and Gumla districts (Jharkhand) • Dairy cooperatives in Lohardaga district (Jharkhand) • vikasbazaar.net (Jharkhand) • SHG clusters (promoted by KSRA in Khunti, Jharkhand) • Ama Sangathan (federation of SHGs, Orissa)
Insurance companies/intermediaries	• Life Insurance Corporation • Agricultural Insurance Company of India • Aviva • Bajaj Allianz • Tata-AIG • Birla Sun Life • Megatop (ITC)
Pension Funds	• run by UTI AMC • run by SBI

Category	Possible Responsible Parties
	• run by LIC
Technology Service Providers and telecom companies	• Financial Information Network and Operations (FINO) • Airtel
State level networks	• VANI (Voluntary Action Network India) (Orissa) • AMFA (Access Microfinance Alliance) (Orissa)
Partners for Financial Literacy	• FWWB • Citi Bank • Access Development Services • CII • FICCI

Endnotes

[1] Report of the Government of India Committee on Financial Inclusion, January 2008
[2] Draft Eleventh Five Year Plan, p. 273
[3] Data for 2006 extracted from the Report on Tend 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
[8] Brigit Helms, Access for All: Building Inclusive Financial Systems, CGAP, 2006, p. 5
[9] Prabhu Ghate, Microfinance in India: A State of the Sector Report, 2007, p. 11
[10] NSSO Survey 59th Round as cited in Report of the Committee on Financial Inclusion, January 2008
[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.
[17] Estimated from Ramesh S. Arunachalam, Scoping Paper on Financial Inclusion, UNDP, 2008 and GOI Press Information Bureau, Poverty Estimates for 2004-05, based on URP consumption
[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
[20] N Srinivasan, Policy Issues and Role of Banking System in Financial Inclusion, Economic & Political Weekly, July 28, 2007, pp 3091-3095.
[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
[23] Report of the Committee on Financial Inclusion, January 2008, p.1
[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
[27] Scoping Paper on Financial Inclusion, January 2008
[28] Sai Gunaranjan, Microfinance in India: A State of the Sector Report, 2007, p. 123; 2002-03 data
[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
32 Building Inclusive Financial Sectors for Development (Blue Book), United Nations, 2006, p. 37
33 Frances Sinha, Microfinance in India: A State of the Sector Report, 2007, p.110; based on a survey of 12 leading MFIs.
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.
[44] UNDP Strategic Plan (2008-11): Accelerating Global Progress on Human Development, Issued on 17 Jan 2008, pt. 74
[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
[47] 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.

[48] 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
[49] Some examples of organizations already working in this area are FINO, Airtel, A Little World and Ekgaon.
[50] This draws on the process followed by Karuna Trust in the pilot CHI initiative supported by GoI-UNDP
[51] Draft Eleventh Five Year Plan, p. 273
[52] 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.
[53] Report of the Committee on Financial Inclusion, p.50
[54] Ministry of Finance, Expert Group on Agricultural Indebtedness, Chaired by R. Radhakrishna, July 2007, p.2
[55] 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

Standard annex to project documents for use in countries which are not parties to the Standard Basic Assistance Agreement (SBAA)

Standard Text: Supplemental Provisions to the Project Document: The Legal Context

General responsibilities of the Government, UNDP and the executing agency

1. All phases and aspects of UNDP assistance to this project shall be governed by and carried out in accordance with the relevant and applicable resolutions and decisions of the competent United Nations organs and in accordance with UNDP's policies and procedures for such projects, and subject to the requirements of the UNDP Monitoring, Evaluation and Reporting System.

2. The Government shall remain responsible for this UNDP-assisted development project and the realization of its objectives as described in this Project Document.

3. Assistance under this Project Document being provided for the benefit of the Government and the people of (the particular country or territory), the Government shall bear all risks of operations in respect of this project.

4. The Government shall provide to the project the national counterpart personnel, training facilities, land, buildings, equipment and other required services and facilities. It shall designate the Government Co-operating Agency named in the cover page of this document (hereinafter referred to as the "Co-operating Agency"), which shall be directly responsible for the implementation of the Government contribution to the project.

5. The UNDP undertakes to complement and supplement the Government participation and will provide through the Executing Agency the required expert services, training, equipment and other services within the funds available to the project.

6. Upon commencement of the project the Executing Agency shall assume primary responsibility for project execution and shall have the status of an independent contractor for this purpose. However, that primary responsibility shall be exercised in consultation with UNDP and in agreement with the Co-operating Agency. Arrangements to this effect shall be stipulated in the Project Document as well as for the transfer of this responsibility to the Government or to an entity designated by the Government during the execution of the project.

7. Part of the Government's participation may take the form of a cash contribution to UNDP. In such cases, the Executing Agency will provide the related services and facilities and will account annually to the UNDP and to the Government for the expenditure incurred.

(a) <u>Participation of the Government</u>

1. The Government shall provide to the project the services, equipment and facilities in the quantities and at the time specified in the Project Document. Budgetary provision, either in kind or in cash, for the Government's participation so specified shall be set forth in the Project Budgets.

2. The Co-operating Agency shall, as appropriate and in consultation with the Executing Agency, assign a director for the project on a full-time basis. He shall carry out such responsibilities in the project as are assigned to him by the Co-operating Agency.

3. The estimated cost of items included in the Government contribution, as detailed in the Project Budget, shall be based on the best information available at the time of drafting the project proposal. It is understood that price fluctuations during the period of execution of the project may necessitate an adjustment of said contribution in monetary terms; the latter shall at all times be determined by the value of the services, equipment and facilities required for the proper execution of the project.

4. Within the given number of man-months of personnel services described in the Project Document, minor adjustments of individual assignments of project personnel provided by the Government may be made by the Government in consultation with the Executing Agency, if this is found to be in the best interest of the project. UNDP shall be so informed in all instances where such minor adjustments involve financial implications.

5. The Government shall continue to pay the local salaries and appropriate allowances of national counterpart personnel during the period of their absence from the project while on UNDP fellowships.

6. The Government shall defray any customs duties and other charges related to the clearance of project equipment, its transportation, handling, storage and related expenses within the country. It shall be responsible for its installation and maintenance, insurance, and replacement, if necessary, after delivery to the project site.

7. The Government shall make available to the project - subject to existing security provisions - any published and unpublished reports, maps, records and other data which are considered necessary to the implementation of the project.

8. Patent rights, copyright rights and other similar rights to any discoveries or work resulting from UNDP assistance in respect of this project shall belong to the UNDP. Unless otherwise agreed by the Parties in each case, however, the Government shall have the right to use any such discoveries or work within the country free of royalty and any charge of similar nature.

9. The Government shall assist all project personnel in finding suitable housing accommodation at reasonable rents.

10. The services and facilities specified in the Project Document which are to be provided to the project by the Government by means of a contribution in cash shall be set forth in the Project Budget. Payment of this amount shall be made to the UNDP in accordance with the Schedule of Payments by the Government.

11. Payment of the above-mentioned contribution to the UNDP on or before the dates specified in the Schedule of Payments by the Government is a prerequisite to commencement or continuation of project operations.

(b) Participation of the UNDP and the executing agency

1. The UNDP shall provide to the project through the Executing Agency the services, equipment and facilities described in the Project Document. Budgetary provision for the UNDP contribution as specified shall be set forth in the Project Budget.

2. The Executing Agency shall consult with the Government and UNDP on the candidature of the Project Manager a/ who, under the direction of the Executing Agency, will be responsible in the country for the Executing Agency's participation in the project. The Project Manager shall supervise the experts and other agency personnel assigned to the project, and the on-the-job training of national counterpart personnel. He shall be responsible for the management and efficient utilization of all UNDP-financed inputs, including equipment provided to the project.

3. The Executing Agency, in consultation with the Government and UNDP, shall assign international staff and other personnel to the project as specified in the Project Document, select candidates for fellowships and determine standards for the training of national counterpart personnel.

4. Fellowships shall be administered in accordance with the fellowships regulations of the Executing Agency.

a/ May also be designated Project Co-ordinator or Chief Technical Adviser, as appropriate.

5. The Executing Agency may, in agreement with the Government and UNDP, execute part or all of the project by subcontract. The selection of subcontractors shall be made, after consultation with the Government and UNDP, in accordance with the Executing Agency's procedures.

6. All material, equipment and supplies which are purchased from UNDP resources will be used exclusively for the execution of the project, and will remain the property of the UNDP in whose name it will be held by the Executing Agency. Equipment supplied by the UNDP shall be marked with the insignia of the UNDP and of the Executing Agency.

7. Arrangements may be made, if necessary, for a temporary transfer of custody of equipment to local authorities during the life of the project, without prejudice to the final transfer.

8. Prior to completion of UNDP assistance to the project, the Government, the UNDP and the Executing Agency shall consult as to the disposition of all project equipment provided by the UNDP. Title to such equipment shall normally be transferred to the Government, or to an entity nominated by the Government, when it is required for continued operation of the project or for activities following directly therefrom. The UNDP may, however, at its discretion, retain title to part or all of such equipment.

9. At an agreed time after the completion of UNDP assistance to the project, the Government and the UNDP, and if necessary the Executing Agency, shall review the activities continuing from or consequent upon the project with a view to evaluating its results.

10. UNDP may release information relating to any investment oriented project to potential investors, unless and until the Government has requested the UNDP in writing to restrict the release of information relating to such project.

Rights, Facilities, Privileges and Immunities

1. In accordance with the Agreement concluded by the United Nations (UNDP) and the Government concerning the provision of assistance by UNDP, the personnel of UNDP and other United Nations organizations associated with the project shall be accorded rights, facilities, privileges and immunities specified in said Agreement.

2. The Government shall grant UN volunteers, if such services are requested by the Government, the same rights, facilities, privileges and immunities as are granted to the personnel of UNDP.

3. The Executing Agency's contractors and their personnel (except nationals of the host country employed locally) shall:

(a) Be immune from legal process in respect of all acts performed by them in their official capacity in the execution of the project;

(b) Be immune from national service obligations;

(c) Be immune together with their spouses and relatives dependent on them from immigration restrictions;

(d) Be accorded the privileges of bringing into the country reasonable amounts of foreign currency for the purposes of the project or for personal use of such personnel, and of withdrawing any such amounts brought into the country, or in accordance with the relevant foreign exchange regulations, such amounts as may be earned therein by such personnel in the execution of the project;

(e) Be accorded together with their spouses and relatives dependent on them the same repatriation facilities in the event of international crisis as diplomatic envoys.

4. All personnel of the Executing Agency's contractors shall enjoy inviolability for all papers and documents relating to the project.

5. The Government shall either exempt from or bear the cost of any taxes, duties, fees or levies which it may impose on any firm or organization which may be retained by the Executing Agency and on the personnel of any such firm or organization, except for nationals of the host country employed locally, in respect of:

(a) The salaries or wages earned by such personnel in the execution of the project;

(b) Any equipment, materials and supplies brought into the country for the purposes of the project or which, after having been brought into the country, may be subsequently withdrawn therefrom;

(c) Any substantial quantities of equipment, materials and supplies obtained locally for the execution of the project, such as, for example, petrol and spare parts for the operation and maintenance of equipment mentioned under (b), above, with the provision that the types and approximate quantities to be exempted and relevant procedures to be followed shall be agreed upon with the Government and, as appropriate, recorded in the Project Document; and

(d) As in the case of concessions currently granted to UNDP and Executing Agency's personnel, any property brought, including one privately owned automobile per employee, by the firm or organization or its personnel for their personal use or consumption or which after having been brought into the country, may subsequently be withdrawn therefrom upon departure of such personnel.

6. The Government shall ensure:

(a) prompt clearance of experts and other persons performing services in respect of this project; and

(b) the prompt release from customs of:

(i) equipment, materials and supplies required in connection with this project; and

(ii) property belonging to and intended for the personal use or consumption of the personnel of the UNDP, its Executing Agencies, or other persons performing services on their behalf in respect of this project, except for locally recruited personnel.

7. The privileges and immunities referred to in the paragraphs above, to which such firm or organization and its personnel may be entitled, may be waived by the Executing Agency where, in its opinion or in the opinion of the UNDP, the immunity would impede the course of justice and can be waived without prejudice to the successful completion of the project or to the interest of the UNDP or the Executing Agency.

8. The Executing Agency shall provide the Government through the resident representative with the list of personnel to whom the privileges and immunities enumerated above shall apply.

9. Nothing in this Project Document or Annex shall be construed to limit the rights, facilities, privileges or immunities conferred in any other instrument upon any person, natural or juridical, referred to hereunder.

Suspension or termination of assistance

1. The UNDP may by written notice to the Government and to the Executing Agency concerned suspend its assistance to any project if in the judgement of the UNDP any circumstance arises which interferes with or threatens to interfere with the successful completion of the project or the accomplishment of its purposes. The UNDP may, in the same or a subsequent written notice, indicate the conditions under which it is prepared to resume its assistance to the project. Any such suspension shall continue until such time as such conditions are accepted by the Government and as the UNDP shall give written notice to the Government and the Executing Agency that it is prepared to resume its assistance.

2. If any situation referred to in paragraph 1, above, shall continue for a period of fourteen days after notice thereof and of suspension shall have been given by the UNDP to the Government and the Executing Agency, then at any time thereafter during the continuance thereof, the UNDP may by written notice to the Government and the Executing Agency terminate the project.

3. The provisions of this paragraph shall be without prejudice to any other rights or remedies the UNDP may have in the circumstances, whether under general principles of law or otherwise.