The United Nations
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Lasting solutions to development challenges

Ramesh S. Arunachalam

Scoping Paper on Financial Inclusion

Considerations and Recommendations for UNDP

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India

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UNDP's Poverty Reduction programme (2008-12) works with central and state governments to facilitate the design and implementation of pro-poor and inclusive livelihood promotion strategies. Recognizing that access to financial products and services is a key component of livelihood promotion and vulnerability reduction, UNDP commissioned a scoping paper to inform its future work on promoting financial inclusion.

The paper has been prepared by Mr. Ramesh S. Arunachalam, an independent consultant with over 20 years of experience in financial services, rural finance and livelihoods.

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Table of Contents

1. Background

UNDP's country programme (2008-12) is positioned within the over-arching objective of the India-United Nations Development Assistance Framework (UNDAF): "Promoting social, economic and political inclusion for the most disadvantaged, especially women and girls". This is endorsed by the Government of India and harmonized with the country's the 11th Five Year Plan. **The programme is concentrated in seven states – Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh.**

Within the poverty reduction thematic area, UNDP is working with state governments to facilitate the design and implementation of pro-poor and inclusive livelihood promotion strategies. The focus is on excluded groups such as women, Schedule Castes (SCs), Scheduled Tribes (STs), Minorities, below-the-poverty line and migrant households and involuntarily displaced people. Recognizing that access to financial services is a crucial element of livelihood promotion, financial inclusion is an important component of the programme.

UNDP has commissioned a scoping paper on financial inclusion[1], to help identify its niche in this area and guide its work. A first draft of the paper was shared with sector experts at a consultation on 19 September 2007, and the approach was fine-tuned based on feedback received. A revised version of the scoping paper is what follows below. The paper first covers the context of the economy and poverty in India, and critical challenges including why these necessitate a new financial inclusion paradigm. It goes on to recommend broad themes and generic areas of work for UNDP. The geographic scope of the paper is limited to the seven UN focus states mentioned above, as areas where UNDP will concentrate its activities.

2. The Indian Economy

The Indian economy has been growing at a steady rate of 8.5-9% over the last five years. From an annual average growth rate of 3.5% during the 1950 to 1980 period, the growth rate accelerated to 6% in the 1980s and 1990s. With the average growth rate of Gross Domestic Product (GDP) at 5.8% during the first decade of reforms (1992-2001), India is among the 10 fastest growing economies[2] in the world.

In fact, a testimony to India's progress is the improvement of the country's Human Development Index (HDI) from 0.406 in 1975 to 0.571 in 1999. Legislations enacted in recent years also validate the case that India is a country well on the highway to progress. The 73rd and 74th Constitutional Amendments passed in 1992 have strengthened political participation at the grassroots level and brought more than a million women into public life. The 83rd Constitution Amendment Bill, which recognizes the right to primary education as a fundamental right, has also been passed.

3. Context of Indian Poverty

But these trends, however positive, are accompanied by a paradox – the ever-looming spectre of the 'other' India of urban poverty and rural inequities[3], a spectre which refuses to go away. A shocking 30-35% of India's total population still lives below the poverty line. Poverty, accompanied by low health and nutrition levels, high infant mortality and illiteracy, is now almost uniform in terms of the proportion of population in rural and urban areas. Using the Indian definition based on income needed to acquire food to provide the

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[1] Prepared by Mr. Ramesh S. Arunachalam

[2] India's 11th Five-Year Plan (2007-2012) envisages a new growth paradigm that will be much more broad-based and inclusive, bringing about a faster reduction in poverty. The plan focuses on reviving agriculture, raising investment in infrastructure, and improving skills.

[3] Please refer to Annexures 1 and 5

minimum required calories (2100 for rural and 1800 for urban adults), roughly 260 million people or 26% of the population falls below the poverty line. Using another definition of poverty – those living on less than $1 per day – the number of poor would be much larger at around 400 million, accounting for over 36% of the population. Sixty years after independence, these are disturbing statistics and in many ways an indictment of the effectiveness of our policies and efforts so far.

Even more disturbing is that within these poor are the poorest, who live on an income of less than $0.50 per day. Most of this population lives in the states of Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh – collectively known by the acronym BIMARU. With the carving out of the states of Chhattisgarh, Jharkhand and Uttaranchal from Madhya Pradesh, Bihar and Uttar Pradesh respectively, there are now further additions to the list of 'BIMARU'[4] states.

There are several variations within these states too. For instance, very high poverty rates of 60% exist in southern Bihar, southern Orissa, Madhya Pradesh and southern Uttar Pradesh. These regions are either mainly tribal or rocky and dry, yet densely populated because of their agro-climactic features. The slow pace of poverty reduction in the poorer states is linked to their lower initial levels of rural and human development and large disparities between rural and urban areas.

Be that as it may, it is worth looking at the growth rates of the economies of these states. The poorer states have grown at only around 4.6% over the last decade, compared to the 6.3% clocked by states like Kerala and Tamil Nadu. What also separates these two categories of states is the fertility rate (average live births per woman). For instance, by 1995 fertility rates in the southern states of Kerala and Tamil Nadu had dropped to below 2.1, and other southern states and Maharashtra had fertility levels below 3. However, the seven UN focus states had rates above 4. These focus states also have low per capita incomes averaging below Rs.10,000 per year. In comparison, the top five low fertility states average over Rs.18,000 per year. The disparity in terms of per capita income growth is likely to increase further since population in the backward states is growing at a faster pace.

Even within the seven focus states, poverty is more concentrated in some geographic locations[5] and among specific social groups. Strong population pressure and stagnant agriculture characterizes the rain fed agro-ecological areas (largely in central and eastern India) covering 60% of the net cropped area and supporting about 44% of the population. These factors have damaged the environment and affected livelihoods. A large number of poor survive on the brink of subsistence, depending on uncertain employment and meagre wages. These areas are also home to the deprived social groups, particularly STs and SCs. The real challenge lies in improving their livelihood systems, which has to be achieved in the face of increasing degradation of land, poor agriculture marketing systems, little or no source of water, higher dependence on rainfall, lower productivity etc. Rapid agricultural growth in these rain fed and semi-arid areas holds the key to poverty reduction, and must also be complimented with other measures.

A common set of factors explain why these focus states are so development deficient. Firstly farming, which is the principal means of livelihoods for a majority of the population, is becoming increasingly difficult to sustain. Support systems needed by farmers – research, extension and opportunities for assured and

[4] India's five 'poorest' states, according to the Planning Commission's 1999-2000 figures, were Orissa (47.15% of the population was below the poverty line in 1999-2000), Bihar (42.60%), Madhya Pradesh (37.43%), Sikkim (36.55%), and Assam (36.09%).

[5] The percentage share of backward states such as Bihar, Orissa, Madhya Pradesh, and Uttar Pradesh in the rural poor rose from 53 in 1993-4 to 61 in 1999, whereas the share of agriculturally prosperous north-western states such as Punjab, Haryana and Himachal Pradesh declined from 3.03 to 1.26 per cent and that of southern states from 15.12 to 11.23 %. The urban poor have been increasingly concentrated in Uttar Pradesh, Maharashtra, West Bengal, Madhya Pradesh, and Andhra Pradesh. Their share in all-India urban poverty rose from 56 per cent in 1993-4 to 60% in 1999-2000. It is striking that the share of Orissa increased significantly, both in rural/urban poor.

remunerative marketing – are not in the best of health. As a result, small farmers are forced to borrow from moneylenders at high rates of interest.

Given low productivity and almost negative returns from agriculture, farmers are looking increasingly for alternatives[6]. Unfortunately, they have very few options other than moving to urban slums in small shanty towns or larger cities. Where pursued, such migration holds the potential for a lower quality of life for the poor. The growth of urban slums typically is associated with greater unemployment for the poor, harsh living conditions, enhanced crime, adverse impact on health and other factors like environmental degradation. Therefore, it is likely that if agriculture is not reformed and/or alternative livelihood options made available in the agriculture dependent states, a large majority of the rural poor in these areas are likely to migrate to urban slums and encounter further hardships.

Another characteristic of the poor in these states is their financial exclusion. As Ms. Usha Thorat notes, "on an all India basis, 59% of adult population in the country have bank accounts – in other words 41% of the population is unbanked. In rural areas, the coverage is 39% against 60% in urban areas[7]." Thus a majority are excluded from the payments system, which means not having access to a bank account and formal credit markets, forcing them to approach informal and exploitative financial markets. The financially excluded sections largely comprise marginal farmers, landless labourers, those engaged in self employed and unorganized sector enterprises, urban slum dwellers, migrants, ethnic minorities, socially excluded groups, senior citizens and women.

4. Critical Issues in the Focus States

Thus, while India has recorded impressive growth rates in excess of 7% over the last few years, what has become more apparent is the dualistic nature of the Indian economy. Gaps are indeed widening across various sections of society, especially in the focus states. The manifestation of these gaps and the failure of the economy to readjust and ensure equitable distribution of wealth and profits, especially in relation to the risk borne, can hardly go unnoticed.

In fact, a recent RBI Annual Report (2005-2006) notes, "For the Indian economy, the evolving economic and business environment exhibits a number of encouraging signs that suggest reinforcement of the robust economic growth exhibited in recent years." Yet, the Report clearly exposes the soft underbelly of the country's growth story – slow and often volatile growth in agriculture in recent years. As it further notes, "To be clear, in the last four years, farm growth has averaged a less-than-modest 2% versus the Tenth Plan target of 4%. In the last 25 years, the share of agricultural GDP has surely declined – from a third to a fifth now; yet, the fall in proportion of population dependent on the sector has been small. In other words, a majority of rural population (close to 60% of the total population) is still dependent on agriculture and its livelihood is directly linked to farm prospects."

As **Figure 1** suggests, the percentage of agriculture workers is higher in the development deficient focus states. The extreme dependence of low income groups on agriculture/allied livelihoods in these states is what makes them so vulnerable in the first place. And efforts to shift the poor into non-farm enterprises have not been a success, by and large. Without question, any attempt to reduce the risk and vulnerability of the poor must therefore focus on areas in which they have distinctive competence and survival skills, rather than push them into untried livelihoods (unless there are very good reasons for doing so).

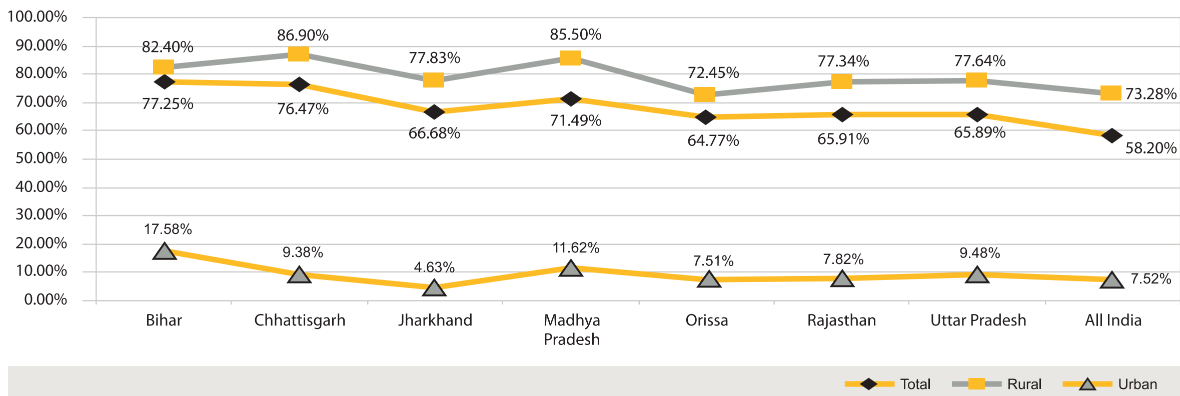
[6] A recent NSSO (National Sample Survey Organization) survey revealed that nearly 40% of farmers would like to quit farming, if they have the option to do so.

[7] Thorat, Usha, 'Financial Inclusion – the Indian Experience', HMT-DFID Financial Inclusion Conference, London 19 June 2007

Thus in the focus states a large majority of the poor have fragile livelihoods, and are also more dependent on agriculture and allied livelihoods, as shown in **Figure 1**.

Apart from limited scope for diversification into the non-farm sector, several other factors like market imperfections, poor infrastructure and lack of access to convenient financial services constrain these low income groups from enhancing their incomes and building sustainable livelihoods. As a result, many of them live in a cycle of inclusion, exclusion, re-inclusion and re-exclusion. In reality, several risks caused by

Figure 1: Percentage of Agriculture and Allied Workers



Box1: Situational Factors Affecting Agriculture and Low Income Groups

"Farming is both a way of life and the principal means of livelihood for most low income people in these states. The average farm size is becoming smaller each year and the cost-risk-return structure of farming is becoming adverse, with the result that farmers are getting increasingly indebted. Marketing infrastructure is generally poor, particularly in perishable commodities. The support systems needed by farmers, like research, extension, input supply and opportunities for assured and remunerative marketing are in various stages of disarray. Small farmers are forced to borrow money from money-lenders at high rates of interest, since less than 60% of the credit requirement of farmers is met by institutional sources." (Dr M S Swaminathan, Chairperson, National Commission on Farmers, 2006).

Thus, market imperfections and related aspects have impacted the livelihoods of the poor in several ways, including:

(1) Increased vulnerability and reduction in livelihood security
(2) Forced movement towards other types of livelihoods including migration to urban areas where they neither have the survival skills not a distinctive competence
(3) Entry into perpetual debt traps, which they cannot come out of even when assisted by well meaning SHGs/MFIs[8], and
(4) At the extreme, in a few cases, bondage and/or suicide.

[8] Even in places where SHGs and MFIs have come to serve people and access to finance has generally increased, the imperfections in the market for raw materials, intermediate products and final products and other growth impeding factors still exist and this is what robs them of a decent livelihood. This coupled with other local oppressive factors pushes them to the brink..

imperfect raw material/intermediate produce/final product markets and lack of infrastructure need to be tackled together to build sustainable livelihoods. *The key question is whether access to financial services – financial inclusion*[9] *– can help reverse this paradigm of inequitable development. And if so, how is this to be operationalized?*

5. Financial Inclusion: Is a New Paradigm Needed?

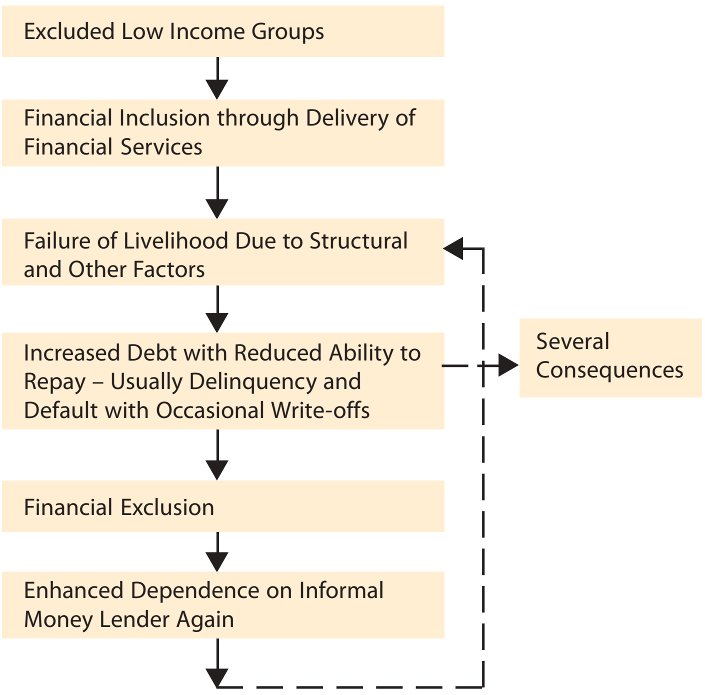
Typically, financial inclusion[10] in India is characterized by the following:

1. Lower outreach by financial institutions/MFIs/SHG Bank Linkage Programme in comparison to below poverty line (BPL) and low income population.
2. Priority Sector Lending norm of 18% advances to agriculture is *not* met in many states. Also, agriculture's share in Priority Sector Lending has been declining in some states.
3. Financial inclusion is characterized primarily as either general access to loans (mostly consumption or consumer loans rather than livelihood loans) or access to savings accounts. Very few risk management and vulnerability reducing products are available to small holder producers.
4. Access to finance is primarily a bridging resource for many low income groups.

Given the above context, to truly financially include the poor would require creating a variety of risk/vulnerability management mechanisms and ensuring that they are *consistently* and *simultaneously* available. Unless major *risks* are simultaneously covered, the likelihood of one risk wiping out an entire livelihood is a very high possibility, and people who have been temporarily included would be excluded again.

Take the example of low income groups engaged in agriculture. As renowned journalist P. Sainath often argues, bankers/MFIs are not going to give out fresh loans after they have overdues. 'They know that small marginal farmers, who could not pay back Rs.10,000 earlier, cannot repay Rs.20,000 now… And the more the (formal) banking system denies the farmer aid, the more he must go to the *sahukar*[11]'. In the current situation, the poor (especially in agriculture/allied areas) are forced into a cycle of inclusion and exclusion as shown in **Figure 2**.

Figure 2: Cycle of Inclusion and Exclusion…



Thus, **financially including low income groups without addressing structural causes that result in the failure of livelihoods simply cannot help**. Without this, financial inclusion will ultimately result in greater exclusion, especially in agriculture/allied activities.

Further, financial inclusion cannot be restricted merely to opening savings accounts and/or providing credit for consumption/consumer spending. It needs to focus more on enhancing the staying power of the poor. It needs to devise

[9] Along with other strategies and approaches
[10] Please see Annexures 2, 3 and 4 for further details.
[11] P. Sainath, 'An Indian Farmer About to Commit Suicide Writes a Note of Clarification', Counterpunch, August 14 2006

and deliver financial products that can help in risk and vulnerability management for the poor in the context of their fragile livelihoods and the vicious cycle of poverty, often caused by structural weaknesses and other factors.

To summarize, in the focus states of Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh, a majority of the poor are engaged in agriculture and allied activities. Market imperfections[12] and other factors (like poor infrastructure and production practices) severely constrain them in their efforts to build sustainable livelihoods, and they often fall into a cycle of being financially included and excluded at various times. A key issue here is that while small holder producers[13] bear a major portion of the risk, they are also primarily 'takers' of prices[14] handed down by somewhat imperfect markets – in other words, they are not getting profits commensurate with the value they create, risks they bear and efforts they put in[15].

For financial inclusion to reverse this paradigm of inequitable development, it must create appropriate risk and vulnerability management mechanisms that enhance the staying power of the poor[16]. Financial inclusion should be about going beyond savings bank accounts and consumption credit, to devise/deliver financial products that can help in overcoming market imperfections and facilitate risk/vulnerability management by (and for) the poor. For example, a simple well-run Warehouse Receipt (WR) product would enable a small and marginal farmer to decide on when and whom to sell the product to, as his/her immediate liquidity needs are taken care of by the warehouse receipt while the product is also safely stored for future sale[17].

Hence, a **new paradigm of financial inclusion is required**, at least in the context of these focus states, where financial products are used to:

- Reduce risk/vulnerability[18] in the existing livelihoods of the poor, arising from various market imperfections
- Help create strong safety and security nets[19] for the poor
- Enable the poor to pursue diversified/migratory livelihoods
- Facilitate re-inclusion of the poor (who were once included but subsequently excluded) and
- Create risk management mechanisms[20] to ensure that they continue to stay financially included, in the context of their fragile livelihoods.

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[12] Imperfections exist in raw material, intermediate product, final product, labour/skill and financial markets
[13] These include low income groups engaged in producing goods and services in various sectors
[14] As a recent study by FAO/UNTRS (2007) suggests, small scale marine fishers despite being primary risk bearers, are forced to take prices handed down by imperfect markets, domestic and international. In fact, they appear to be funding the working capital needs of exporters/processors, as can be gauged from the high level and slow turnover of accounts receivable of trader merchants with fishermen's societies/CBOs. The same phenomenon exists right through the entire value chain up to the exporter/processor.
[15] Examples are available in agriculture/allied activities, fisheries, handicrafts, leather, silk and several sectors.
[16] While there are several factors that contribute to risks and vulnerability in the livelihoods of the poor, financial inclusion can perhaps help in better management of these factors. For example, *ceterus paribus*, appropriate post harvest loans, warehouse receipts and contract farming arrangements can indeed enhance the bargaining and negotiating power of the poor.
[17] In China, urban vendors have found leased storages useful as they do not have to sell the product at the end of the day for a paltry sum. The Afghan Shuras have similarly provided access to storage mechanisms for very poor producers, through financial products.
[18] Weather and crop insurance are gaining ground. Contract farming schemes exist but are not producer oriented
[19] Some innovations exist here for health as well as life coverage but much work is necessary on the nature of product design as well as distribution. Micro-pension schemes are also available.
[20] Post harvest loans in fisheries/agriculture and warehouse receipts are examples of such products.

All of this mandates that **the financial inclusion[21] paradigm become an integral part of the overall livelihoods framework**, and this is the approach emphasized here. Such a philosophy also represents a close fit with UNDP's current strategy and work in the area of livelihoods, which includes several stakeholders such as State Livelihood Missions, governments, producer groups, Civil Society Organisations, financial institutions, the private sector and others. When viewed in this manner, "inclusion" requires working at every level of the value chain and not just credit/loan finance. In other words, it calls for the delivery of bundled financial services integrated with the overall livelihoods framework.

And as Vijay Mahajan, chairperson of BASIX, concurs, 'microcredit pales into insignificance as a "solution" for poverty alleviation and promotion of livelihoods'[22]. This is because poverty alleviation and sustained increases in income-generating capabilities have to do with accumulation of assets – physical, financial or human. And microcredit is simply far too small and far too narrow (in terms of the risks it seeks to mitigate) to aid significantly in that process. What is required is 'livelihood finance' that will aid in the process of asset accumulation, in which provision of financial services (broadly defined) including insurance is an integral part. All this is to say that in the context of generating employment, sustainable livelihoods and the fight against poverty, microcredit is a palliative and not a panacea that multilateral agencies, international development NGOs and donor governments would make it seem. For sustained growth and poverty alleviation, the answers are still old fashioned – asset accumulation and employment generation. Even mainstream development finance is slowly coming to grips with this relative ineffectiveness of microcredit-led strategies, and to that extent microcredit is yesterday's story.[23]

6. Recommended Financial Inclusion Strategy for UNDP

Given the above context, it is suggested that UNDP be guided by the following themes as part of its overall financial inclusion strategy in the focus states:

Theme # 1: Broadening Financial Inclusion – A financial inclusion paradigm which goes beyond "mere access", to the affordable delivery of a range of financial products and services which reduce the vulnerability of the poor and provide new opportunities to diversify their livelihoods. Products and services would be situated in the livelihood-related needs of the poor, and integrated with the overall livelihoods framework.

An analysis of why people are excluded makes it clear that there are several reasons including physical, psychological and other factors. "Inclusion" thus has to go beyond financial inclusion and encompass livelihoods, economic and social inclusion[24]. Thus, a dynamic definition of "financial inclusion" is required, as adopted in Table 1:

[21] For example, the priority sector lending targets to Agriculture are either unmet (like in Jharkhand at about 10%) or PSL achievements are on a decline (Chhattisgarh). NSSO, AIDIS and NCAER data also seem to suggest that even in the PSL bracket, around 60% of the people served could be larger farmers/producers. The current outreach by Financial Institutions/MFIs/SHGBLP in comparison to BPL data and overall population in these focus states is also quite limited, although it has increased in the last few years, according to RBI, NABARD and Sa-Dhan data.

[22] Vijay Mahajan, 'From Microcredit to Livelihood Finance', Economic and Political Weekly, October 8, 2005

[23] From his speeches at various fora

[24] Given UNDP's existing work with state livelihood missions and linkages with government, it could enhance the quality of investment in such activities.

Table 1: Paradigm of Financial Inclusion[25]

Aspect	What Financial Inclusion Means	When Financial Exclusion Could Occur
Product	• Range of products and services: – Access to sound, pragmatic and transparent advice on financial services – Access to bank accounts and savings mechanisms – Access to affordable and flexible credit for consumption purposes – Access to affordable and flexible livelihood financing – Access to risk mitigation services like health, weather, asset and life insurance etc. – Access to vulnerability reducing and economic capacity enhancing financial services like Warehouse Receipt financing, Value Chain financing etc. – Access to other financial services like micro-pensions • Flexible and customized products with high quality services • Access to products helps develop secured livelihoods	• Exclusion could occur when products are not convenient, inflexible, not customized and of low quality
Price	• Affordable and competitive products and mechanisms • Effective cost of product is neither usurious nor perceived as very high • Inefficiencies are not passed on	• Exclusion could occur when products are unaffordable
Awareness	• The product needs to be proactively promoted • All terms and conditions must be explained in detail and transparently • Focus on customer service, education and protection	• Exclusion could occur when clients are not aware
Delivery	• Simple and convenient process of delivery • Accessible in remote areas • Lower transaction cost for clients • Documentation and other requirements are minimal	• Exclusion could occur when clients cannot be reached easily and at low transaction cost
People and Attitudes	• Staff care for the client's welfare always • Staff deal with clients in a timely, patient and concerned manner • Staff are specially trained to deal with the poor	• Exclusion could occur when staff delivering services are not well-suited to their role

[25] Source: Extracted and Used from Arunachalam, Ramesh S (2007), "Revisiting the Financial Inclusion Paradigm: A Review and Operationalization", MCG Working Paper, Chennai.

Theme # 2: Addressing Challenge of Breadth – While not undermining the importance and role of microfinance and microfinance institutions, there is a tremendous opportunity for the formal financial institutions to address the challenge of **"breadth"**. This would require not only upscaling best practices in microfinance *but expanding their portfolio to include a range of financial services and products that can help the poor strengthen their livelihoods, reduce their risks*[26] *and vulnerability, diversify their income sources and enhance their overall well being.* With its network spread to remote parts of a district, the challenge of "breadth" can be met only by the formal financial institutions and with a diverse portfolio of services and products.

Theme # 3: Tackling Issues of Depth – The issue of **"depth"** has been an area of concern in India and other developing countries, and the concept of financial inclusion has gained importance particularly to address this. Here, it is important to understand the multiple vulnerabilities (due to structural inequities) faced by the poor while designing financial products and services for them. A key question that needs to be asked is: *Does this product or service or process reduce the vulnerability of the poor*? Linked to this is the need to look not just at the individual but rather at the entire household, as poor households often try and pursue a number of livelihoods to reduce the risks that they face.

Theme # 4: Removing Structural Barriers – The vulnerabilities of the poor are not just linked to their extremely weak asset base but also rooted in the **social, economic and political barriers** that they face. This is particularly true for the socially excluded groups among the poor such as tribals, dalits, minorities and women who are more vulnerable. Inclusion is thus not just reaching out to the poor in a technical sense but also means *removing the barriers and structural inequities they face*.

Theme # 5: Ensuring Financial Counselling and Literacy – As products and services are designed to meet the needs of the poor with respect to their livelihoods, income protection and well being, there is a greater need to **increase financial literacy** among the poor. This includes greater awareness of products and services available, their use/relevance in meeting needs and their contribution to risk management strategies. Financial literacy of the poor is also very critical to building a vibrant and competitive low income financial services sector that facilitates *affordable and need based access to financial services rather than mere access alone.*

Theme # 6: Enabling a People Driven, Participative, Value Generating and Truly Inclusive Process – Besides the above, a focus on the following critical aspects is suggested so as to make the process more participative, people driven, value driven and inclusive for the poor:

- Building/enabling/capacitating institutions of the poor (as opposed to institutions *for* the poor)
- Focusing on human capital development
- Fair (and risk commensurate) value linkages for low income producers with markets/private sector where effective business partnerships are built with a variety of stakeholders through community organizations[27]
- Livelihood programs as *the* foundation for financial inclusion
- Targeting and inclusion of the poorest/vulnerable
- Sustainability of institutions, assets and capabilities at the grassroots level, and
- Medium to long term engagement

[26] Insurance is a critical tool in reducing the vulnerability of the poor to risks. Especially, health insurance requires attention and needs to be piloted and replicated in a sustainable manner.
[27] Community-based institutions are required to address gaps in the market, as the producer often gets the lowest value and is often forced to make a "distress sale".

7. Four Generic Areas of Work

Based on the above and gaps identified, UNDP could work in the following generic areas to promote financial inclusion in the context of the seven UN focus states:

1. **Recommendation 1:** Financial Inclusion Centres for Information Provision and Protection of Low Income Clients
2. **Recommendation 2:** Livelihood Finance for Reducing Vulnerability and Addressing Structural Issues of Poverty
3. **Recommendation 3:** Financial Deepening of Products and Processes
4. **Recommendation 4:** Platform for Learning/Sharing

Suggestions on how to operationalize each of the above recommendations follow below.

8. Implementing the Strategy

8.1 Recommendation 1: Financial Inclusion Centres for Information Provision and Protection of Low Income Clients[28]

Suggestion 1: *Creation of FINCLUCENT[29] Network in the Focus States with 100 Financial Inclusion Centres*

UNDP may consider the establishment of at least 100 Financial Inclusion Centres (FINCLUCENT Network) in the focus states, akin to STD booths, which are locally present in a cluster of villages. These will facilitate access by the poor to a range of services. Some examples include advice and counseling on financial service providers and products, application forms, grievance mechanisms etc. well as assistance in meeting Know Your Customer (KYC) norms. These village based centers/depositaries will have a computer and access to the internet – much in the way of e-choupals. **Bringing the financial inclusion centre into operation will be a separate exercise that will focus on:** (1) what services it will have; (2) who will staff it; (3) how it will work; (4) whom it will serve; (5) how much it will cost to set up and run; and (6) several other aspects. All of these aspects need to be operationalized[30].

Box 2: Consumer Protection

The key elements of consumer protection according to extant literature are:

- **Transparency in pricing of financial products:** Ensuring that clients have complete and comprehendible information about the total costs they are incurring for loans, transactions, insurance and other financial services, how much interest they are receiving for savings, and similar information on claims management in insurance.
- **Over-indebtedness:** Ensuring that institutions do not indiscriminately lend to a client – i.e., more than the client can afford to repay or his/her loan absorption capacity.
- **Privacy:** Ensuring that institutions protect private client information from those who are not legally authorized to view it.

This apart, consumer protection typically includes training/capacity building on financial and functional literacy, awareness creation on several issues including financial/livelihood entitlements and rights, full and complete disclosure of information on financial products and procedures etc.

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[28] Extracted and Used from Arunachalam, Ramesh S (2007), "Revisiting the Financial Inclusion Paradigm: A Review and Operationalization", MCG Working Paper, Chennai.
[29] Name taken from Arunachalam Ramesh S (2007), "Revisiting the Financial Inclusion Paradigm: A Review and Operationalization", MCG Working Paper, Chennai.
[30] Basic details on operationalization can be found in Arunachalam, Ramesh S (2007), "Revisiting the Financial Inclusion Paradigm: A Review and Operationalization", MCG Working Paper, Chennai.

In addition, UNDP could facilitate the following, in partnership with state governments:

- Establishment of a neutral client redressal and grievance mechanism (with regard to financial services) at the state level involving various stakeholders in each of the focus states.
- Conduct of social audits/rating with a focus on client protection.
- Capacity building of banks, Micro Finance Institutions (MFIs), Financial Institutions (FIs), producer organizations, insurance companies and others with regard to client protection.

UNDP could also work with governments and test alternative models of information provision including: a) Sensitization of community based intermediaries and awareness creation of clients through them; b) Sensitization of clients through government and livelihood missions; c) Mandatory provision of information by financial service providers in an easily understandable form to low income clients; d) Use of mass media for client sensitization; and e) Third party sensitization of low income clients.

All of these *could especially be tried in the 100% financial inclusion districts designated by the RBI in each of the focus states.*

8.2 Recommendation 2: Livelihood Finance for Vulnerability Reduction and Addressing Structural Issues of Poverty

Suggestion 2: *Establish[31] a Livelihoods Vulnerability Reduction Challenge Fund for Rollout of Large Projects Addressing Structural Weaknesses in Livelihoods*

As part of UNDP's livelihood promotion work in the UNDAF states, a Livelihoods Vulnerability Reduction Challenge Fund (LVRCF) could be established as a mechanism for various stakeholders – including State Livelihood Missions, MFIs, producer organizations, commercial banks, Regional Rural Banks (RRBs), Development Finance Institutions (DFIs), financial institutions, wholesalers, NGOs, the private sector, Governments and others – to *experiment[32], innovate and upscale* financial products/processes, specially tailored to enhancing the staying power of the poor and reducing the livelihood risks/vulnerabilities. The focus would be on disadvantaged groups such as tribals, SCs, minorities (e.g. Muslims), women and migrant/ BPL households, in several sub-sectors and contexts in the seven focus states.

Three major thematic areas could be targeted:

- Agriculture, allied activities (fisheries, animal husbandry, apiculture etc), forestry (including MFP collection and sale, agro/social forestry), rural tourism etc.
- Urban livelihoods including urban micro-enterprises (vendors/hawkers), urban basic services, urban waste collectors, rag pickers etc.
- Specialized enterprises and clusters[33] in sectors like silk, leather goods, brassware, metal, bamboo and cane, garments and textiles etc.

The Challenge Fund will catalyse the various stakeholders to engage in Public-Private-Community Partnerships (PPCPs). PPCPs can innovate and find sustainable ways of piloting and upscaling special financial products/processes that reduce the risk and vulnerability of poor clients and enhance their negotiating

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[31] A special design exercise is recommended although several suggested features are elaborated in this paper. Please see Annexures 6 and 7.

[32] Lessons from the FDCF, BLCF and other Funds indicate that the Challenge Fund Format is an appropriate way of testing untried ideas and facilitating experimentation. Challenge funds have leveraged significant private sector and civil society resources and also brought in a high level of competitiveness into the whole process – both of which have enabled scaling up of products and models in different contexts.

[33] 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

power. In generic terms, several types of innovative, vulnerability reducing financial products/ approaches could result from this fund and these are highlighted in Box 3.

8.3 Recommendation 3: Financial Deepening of Products and Processes

Suggestion 3: *Support Demonstration Pilots on Financial Deepening*

UNDP could support demonstration pilots to test out new models, methodologies and products like social protection insurance, various risk mitigation products, micro-pensions, alternative savings products, technology based delivery systems (including SMS banking and use of e-money), special products for women, flexible versus fixed repayment, individual lending models, cash flow based financing, discerning the impact of financial inclusion etc.

Box 3: Vulnerability Reducing Financial Products (An Indicative List)

Innovative products and processes that enhance the staying power of low income groups include:

- *Value chain financing* with one major caveat – profit sharing to be in tune with risk borne, value created and effort put in by small producers. Islamic finance has some excellent financial products where profit is shared based on risk, value and effort and this could be tried in the context of low income clients. Leasing is another option.

- *Client Sensitive Contract Farming*[34], sensitive to needs of low income/small holder producers, is very essential. The example of sugarcane as well as other products exposes the weaknesses of contract farming for the poor, as currently practiced in India. Client sensitive contract farming involving producer groups can be tried in different contexts. Client sensitive contract finance and marketing could also be experimented with.

- *Warehouse receipt financing*, with adaptable products tailored to different contexts and needs of the poor, could be tried for facilitating reduction in risk/vulnerability of those engaged in agriculture. Other post harvest financing products in the value chain could also be innovated.

- *Combination loans*[35] for multiple livelihood activities so as to diversify the risk of livelihood failure, as has been carried out successfully in countries such as Vietnam. Here, f*amily 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 – traditional microfinance approaches do not necessarily apply to agriculture and specialized areas like fisheries. There is indeed a great window of opportunity for MFIs/banks to get into "Livelihood Financing", in partnership with bankers/corporates and other(s) through PPCPs. MFIs/ Banks could play an important role in several sub-sectors with products, tailored to the needs of low income clients.

- All the above could be done with an important role for producer organisations, governments, MFIs, commercial banks, RRBs, cooperative banks, DFIs, wholesalers, civil society, rating agencies, industry associations, service providers and private sector. It is very crucial to build people oriented PPCPs because traditional Public Private Partnerships (PPPs), where the private sector alone has a dominant role, have been found to be of less value to the poor. The Andhra Pradesh, Punjab and other experiences clearly demonstrate this and hence, a wider and larger role for other stakeholders, including producer organizations and governments, is envisaged.

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[34] The DFID Financial Deepening Challenge Fund (FDCF) experience in Jangareddy Gudam (AP) is an example of this. Here, a commercial bank set up an exclusive branch in a remote tribal area, worked along with sugar factories and used technology to reduce transactions cost and make contract farming more sensitive to the needs of small and marginal farmers

[35] Examples of this include: a) Vietnam (pig sty, pond and garden); b) China (rice and aquaculture) and other south-east Asian countries; and c) India (Godavari Basin in Andhra Pradesh), where agriculture, fisheries/aquaculture and lace crochet are financed simultaneously to reduce risks

A few examples of pilots that could be experimented with are:

- **Debt swap products:** The poor suffer fragile livelihoods and tend to be seriously indebted to local informal sector money lenders, from whom they are most often not able to extricate themselves. A very useful financial inclusion product would be a debt swap that replaces existing high cost debt of low income groups with lower cost formal debt. Such a product could serve to save some of the higher interest paid and thereby enhance the incomes of the poor.

- **Design and distribution of risk management products tailored to the needs of low income clients by community based intermediaries:** Action research pilots would help to throw light on the feasibility of this approach especially for low income clients. The focus would be on community based micro-insurance intermediaries and their capacity to influence design, development and distribution of insurance products and their ability to sustain themselves in the difficult terrain of the focus states. Mutual health insurance is an area that needs urgent attention here.

- **Financing the most vulnerable:** Among the most vulnerable low income groups are oral lessees, share croppers and landless labourers – it would be worth experimenting on how to lend to them and also financially include them by providing access to other services. Similarly, in small scale fisheries (Orissa), the coolies or crew need to be financially included. Here again, pilots with producer organizations could be very useful.

- **Understanding the impact of financial inclusion:** There are many cases where low income clients have had access to institutional/MFI/semi-formal finance but have not had any serious reduction in their risk and vulnerability. As a result, they continue to have fragile livelihoods and go through cycles of *(financial) inclusion and exclusion*. Several factors are crucial to reducing risk/vulnerability including competitive markets for raw materials/produce/products, marketing-oriented production, better skills, appropriate technology, good production practices etc. It would be useful to have action research pilots that discern contributing factors that enable financial inclusion strategies to have a longer/stronger lasting impact. Here, it would be useful to test/rollout financial products with the presence of these value adding factors.

- **Agricultural micro-finance:** Banks and other financial institutions are less comfortable while lending to the farm sector, and traditional microfinance terms are perhaps not suitable for such (seasonal agricultural) loans. Hence, farmers largely continue to depend on informal sources[36] for their farming operations. In Bangladesh, International Fund for Agricultural Development (IFAD) is experimenting with an innovative project – microfinance for marginal farmers and small farmers – where seasonal agricultural loans are offered with flexible options for repayment. Similar projects could be tried in the context of upland/remote areas in the focus states, especially using farmer clubs.

- **Reducing transactions cost for retailing:** There is a strong need for a low cost retail model for delivering financial services to low income clients, especially in remote areas. The use of a range of technology (SMS Banking, Mobile ATMs etc.) needs to be explored by investing in PPCPs involving a variety of stakeholders. The objective would be to develop scaleable retail models that are efficient, effective and adaptive from the perspective of low income clients in the context of the focus states.

- **Segmentation of claims settlement in insurance:** This again has tremendous applicability in the context of the seven states which are remote and distant, resulting in significant delay and associated dissatisfaction in terms of claims settlement. Here, insurers and producer organizations could have action

[36] NSSO Publications, All India Debt and Investment Survey and The World Bank NCAER Study suggest this and it is also corroborated by GoI statements, including those by the Planning Commission, NABARD and others.

pilots to test whether segmenting[37] and outsourcing the claims settlement function will result in an optimal situation for all.

8.4 *Recommendation 4: Platform for Learning/Sharing*

Suggestion 4: *Multi-Stakeholder Platform for Learning/Sharing*

In broad terms, financial inclusion strategies have to undergo a necessary revolution of being more responsive to the livelihoods of the poor. This requires a change in the nature of products being offered and the institutions that deliver them. The key is to move beyond providing "standard credit" and other basic financial services (some savings and insurance) to offering a wide range of tailor-made financial services, that can really empower low income groups by enhancing their bargaining power and reducing their vulnerability.

Several stakeholders (producer organizations, state livelihood missions, governments, MFIs, banks, corporates, postal/commercial banks, insurance companies, pension funds, telecom companies etc.) are keen to enter the market and/or scale up. They need to be given incentives to deliver client responsive and livelihood oriented financial services to the poor in a sustainable and scalable manner.

As newer models are tested on the ground, there is a need to exchange ideas/good practices, share experiences and interpret the results. A multi-stakeholder platform is a first step towards building a broad based forum for such an exchange, where the poor and excluded groups are also represented. The forum could build on the work of UN Solution Exchange and its Poverty Communities, and have wider representation to include several stakeholders including: producer organizations, regulators, governments, state livelihood missions, MFIs, commercial banks, RRBs, cooperative banks, DFIs, wholesalers, civil society, rating agencies, industry associations, service providers and private sector stakeholders.

9. Suggested Fund Allocation for Recommendations

A suggested allocation of UNDP funds, across recommendations is given below:

Table 2: Suggested Allocation of UNDP Funds

Recommendations	Amount	% of UNDP Funds Allocated	Issues	Outputs/Type of Activity
Recommendation 1 • Creation of FINCLUCENT[38] Network in the Focus States with 100 Financial Inclusion Centres. • Test and facilitate large scale rolling out of alternative financial information provision approaches.	USD 1.5 million	30%	• Dovetailed into existing work of state livelihood missions	• Establishment of FINCLUCENT network in the focus states with 100 Financial Inclusion Centres for demonstration and replication • Test out alternative consumer information provision mechanisms, approaches and strategies

[37] At the least, powers to settle simple and small value claims could be decentralized to the intermediary or local third parties so as to enhance the speed and effectiveness of settlement. Alternatively, one could experiment with the use of an imprest fund, with regulatory sanction.
[38] Name taken from Arunachalam Ramesh S (2007), "Revisiting the Financial Inclusion Paradigm: A Review and Operationalization", MCG Working Paper, Chennai.

Recommendations	Amount	% of UNDP Funds Allocated	Issues	Outputs/Type of Activity
Recommendation 2 • Create a Challenge Fund mechanism to pilot, upscale and rollout large integrated projects related to livelihood finance. • UNDP to help leverage other funds that are/may become available – nationally and internationally. Seek support of donors and other stakeholders including state governments, private sector and actively encourage them to contribute to the fund. • The total size of the projects supported by the fund should ideally be in the order of USD 10 million, which implies a leverage amount of USD 8 million, a factor of 4 times the initial outlay of USD 2 million. This kind of leverage is what challenge funds like Financial Deepening Challenge Fund (FDCF) have achieved. • The Challenge Fund could support 3 or more bidding rounds and select at least 7 consortium based livelihood finance projects. These can continue to scale up beyond the challenge fund period, and be rolled out in a large measure in the 7 states. *(These are not mere pilot projects).* • If not a Challenge Fund, this could at least be designed as a focused RFP for livelihoods vulnerability reduction and livelihoods finance.	USD 2.0 million	40%	• Leverage of 4 times at least • Neutral mechanism by which projects providing utmost value for low income people would be chosen	• Pilot and rollout at least 7 large projects in 7 states with a focus on products and processes that will include very vulnerable and poor people • Objective is inclusion, to enhance ability of poor people to reduce their vulnerability
Recommendation 3 • Establish financial deepening demonstration pilots to enable replication in several locations in the seven focus states.	USD 1 million	20%	• Leverage of 2 times at least • Dovetailed into existing work of state livelihood missions	• At least 10 small action pilots for demonstration and replication

Recommendations	Amount	% of UNDP Funds Allocated	Issues	Outputs/Type of Activity
Recommendation 4 • Create a multi stakeholder platform for learning and sharing.	USD 0.5 million	10%	• In cooperation with the poverty communities • Dovetailed in to existing work of state livelihood missions	• Physical/virtual knowledge sharing building on the microfinance community platform

10. UNDP's Distinctive Competence

UNDP is well positioned to carry these suggestions forward for the variety of reasons cited below.

As a multilateral institution, UNDP has a high level of acceptability amongst all stakeholders including civil society, governments and the private sector. Its strong poverty focus and experience in building sustainable livelihoods for the poor and marginalized lend UNDP credibility with these stakeholders. It can also leverage the expertise of other specialized UN agencies and bilateral donors where necessary.

It has the ability to forge partnerships between diverse actors, crucial for the success of PPCPs, especially ensuring that these reflect the priorities of excluded and disadvantaged groups. UNDP's long standing partnerships with the Central and various State governments enable it to wield a strong policy and coordination influence at both levels of government and this is a very important aspect for facilitating changes with regard to the financial inclusion paradigm.

This apart, its very rich cross country learning emerging from projects in Asia, Africa and Latin America, could provide strategic and operational clarity with regard to implementation.

Annexures

Annexure 1:
Structural Aspects and Crisis in Rural Livelihoods

Several structural aspects appear to have caused the serious crisis in agriculture and related rural livelihoods in the UN focus states and these are highlighted below:

1. Significant market imperfections that ensure lower prices and remuneration for agricultural produce, value added products, and agricultural and other rural labour. Ironically, these imperfections have a sustained impact on successive lowering of returns to poor/small marginal farmers, and consistently retard wages to agricultural/rural wage labourers.

2. Best (productivity enhancing) practices, while available, have tended to stay in laboratories rather than being transferred to land/farmers/rural poor engaged in agriculture and allied occupations.

3. Productivity of key assets – land, buffaloes, poultry or related enterprises – has been significantly eroded by highly unsustainable and external dependent practices. Use of chemical fertilizers and pesticides and inappropriate feed coupled with diseases and pests have all robbed the rural/agricultural poor of higher productivity and outputs, by ensuring diminishing returns over the medium term.

4. Minimum support prices offered for agricultural produce are much below the cost of production, with the latter steadily increasing and the former steeply falling[39], with no end in sight.

Also, the farmer, low income producer or entrepreneur tends to be the price taker and primary risk bearer. While genuine attempts at redressing this have been made through PPPs, serious problems persist:

1. The farmer/producer does not get value commensurate with risk he/she bears, and/or effort put in.

2. The division of profit is also not commensurate with the level of risk borne and effort placed (traditional risk return models do not seem to apply here).

3. The business model of the other stakeholders in PPPs seems to be skewed towards profit maximisation and creation of shareholder wealth alone rather than value oriented profit sharing commensurate with risk and effort borne. However, value oriented profit sharing alone can help promote livelihood security for low income groups engaged in agriculture and allied activities.

Apart from problems with agriculture, there are also huge imperfections in the markets for other products produced by the poor. Here again, profit sharing commensurate with risk borne and producers' effort needs to take place. Thus, bereft of access to basic services like equitable markets, finance etc., the poor in the 7 states are left with very few choices.

[39] A recent report (March 27th, 2006) submitted by Tata Institute of Social Sciences to the Hon. High Court of Maharashtra suggests that the livelihoods of the poor engaged in agriculture and related activities are getting riskier and less viable. While the costs of production have gone up considerably, the minimum support prices for agricultural produce have weakened and hence, viability has been affected. For most of the products produced by the rural poor, imperfect markets result in significant erosion of livelihood security through enhanced indebtedness. The report argues that the weakening of livelihoods of poor farmers, cultivators and others involved in agricultural livelihoods is caused by several factors. These include lack of value addition to the products made by the poor, in turn caused by significant imperfections in these markets. These aspects are highly relevant in the 7 focus states where the poor are more agriculture dependent.

Box 1.1: Urbanization and Associated Problems

Proliferation of Urban Slums: The second important situational aspect is the rapid urbanization and consequent creation of slums and settlements, taking place in towns/cities in the focus states (see Table 5.10, Annexure 5[40]). Urbanization in turn implies greater growth of urban slums, which hold a lower quality of life for the poor, many of whom have migrated from rural areas in search of a livelihood. As is well documented, this growth of urban slums typically is associated with greater unemployment for the poor living there, harsh living conditions, enhanced crime, greater negative impact on health and environmental degradation. In fact, as the data suggests, almost 50% of the country's population and a large majority of the poor are likely to reside in urban slums in India by 2020.

Noted environmentalist Chandrasekar summarizes the issues with rapid urbanisation, "Although on paper all cities have some kind of development plan, the actual development follows no particular pattern except that dictated by expediency, patronage and privilege. As a result, every city in India is the epitome of urban chaos - lacking in adequate water and sanitation, affordable housing, all weather roads, decent public transport and clean air. Cities generate wealth but increasingly Indian cities have become home to the urban poor. Every city is marked by the informal settlements where the poor are forced to live without access to basic services like water and sanitation. City administrations are unable to check the flow of poor people into the city and have failed to build affordable housing where the poor can live. As a result, for instance, half the population lives in slums. Indeed, the slum has now become an inescapable part of the Indian urbanscape[41]".

If the above situations[42] necessitate urgent action on the livelihoods front, the new growth economy creates opportunities as well. The burgeoning growth of urban essential services[43] where the poor have a natural advantage is something that needs to be taken advantage of in building sustainable livelihoods for the poor. Likewise, there are other high growth areas[44] that represent great opportunities for the poor, who may have a natural flair for many of these activities/services or have been engaged in them for several years/decades.

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[40] INDIA has always been considered a country that lives in its villages. But increasingly rural India is moving towards the town and the City. The 2001 Census established that almost one- third of India's population, an estimated 285 million people, lived in urban areas. By 2020, half the country's population is expected to be city-based.

[41] The Hindu, September 2006

[42] Several stakeholders concur that the significant imperfections in the market are not just for agricultural produce, but also exist for other products/services offered by the poor. The increased vulnerability of the poor is due to imperfect markets, the rising cost of rural/agriculture production coupled with inappropriately low minimum support prices and the forced migration of the poor to livelihoods where they do not have the distinctive competence and hence, cannot survive in the long run.

[43] Examples include plumbing, electric work, washing and several other such services like tele-marketing, mall sales etc.

[44] These include bio-diesel, urban waste conversion, bio-floriculture, bio-horticulture, organic medicinal and aromatic plants etc.

Annexure 2:
Financial Inclusion in India and the Focus States

While in India, Microfinance programs and MFIs have grown at a burgeoning pace over the last few years, their outreach in the 7 states is rather limited. As data indicate[45], MFIs and Microfinance programs have enhanced their outreach over the period 2001-2007 in India. This growth is visible not just in terms of the number of active borrowers but also gross loan portfolio and total assets. Not to be left behind, DFIs and commercial banks[46] have also tried to enhance their outreach. While performance in terms of outreach has indeed been spectacular, financial performance[47] of Microfinance programs, MFIs and environmental banks has been equally phenomenal.

However, three factors require attention here:

1. There is still a paucity of accurate data[48] with regard to the absolute number of clients and poor women served.

2. While institutions have done well in terms of extending access to financial services to low income women clients, the focus has largely been in terms of delivery of credit. And within credit, at least over the last few years, the emphasis has been on consumption or consumer loans and very small production loans. In reality, several critical financial needs are yet to be satisfied. *Hence, the gap[49] in terms of access to other financial services like formal/flexible voluntary savings (the most basic insurance product), health, asset, accident and life insurance, larger production and livelihood credit etc. remains to be addressed for a large majority of clients[50].*

3. Low income clients everywhere have a range of evolving needs as mapped in **Figure 2.1**. This is more true for those living in the 7 focus states, as they are more vulnerable and face a large number of risks. Without question, these clients need continued access to the wide range of financial services mentioned here, to especially counter the vulnerabilities that they and their families face in their daily struggle for survival.

Indeed, there is a great business opportunity and social obligation in facilitating ongoing delivery of these risk mitigating financial services for low income clients at the required scale. Thus, access to a wide range of risk mitigating financial services (at affordable cost) is very critical especially as it enlarges livelihood opportunities and empowers the poor to take charge of their lives.

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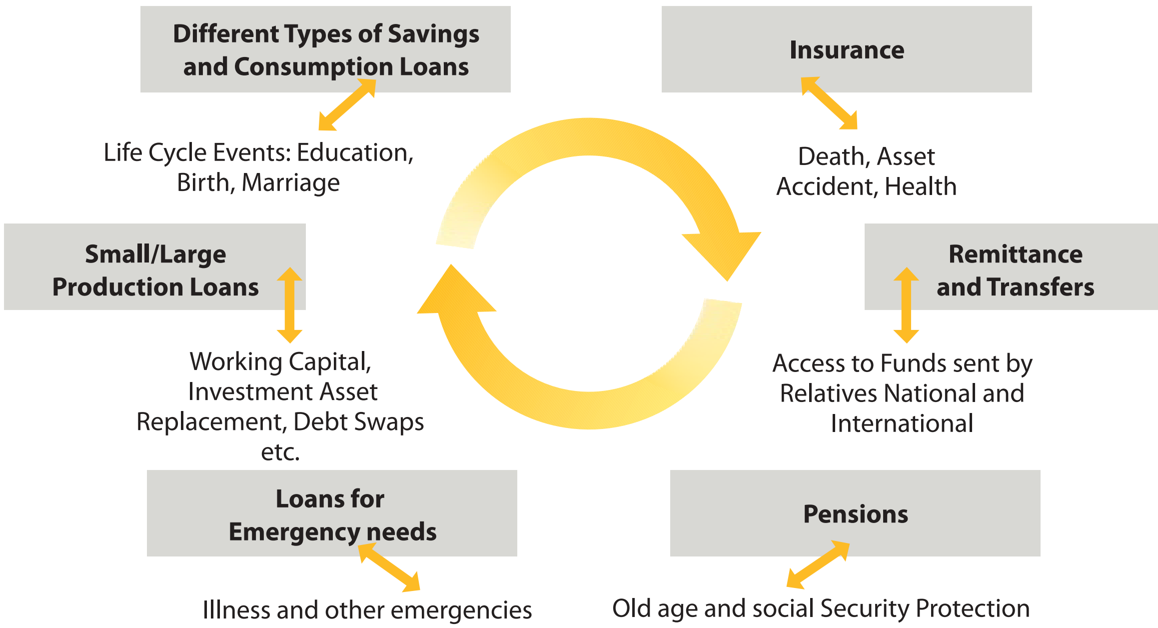
[45] Please see **Annexure 2** for details of coverage of financial services in 7 focus states
[46] If DFIs and commercial banks helped really expand the sector, today equity investors (individual/institutional) are providing the impetus today
[47] In terms of parameters like operational sustainability, portfolio at risk and return on assets
[48] Notwithstanding these data limitations, it can still be argued that Microfinance has indeed enhanced outreach over the last few years and also that its largest client 'segment' is 'women'.
[49] Thus, while the microfinance industry has likewise played an important and crucial role in enhancing access of financial some basic financial services, it is perhaps still not enough.
[50] While innovative MFIs/Microfinance programs have delivered the same to select clients, the larger and wider penetration of these services is still quite minimal.

Figure 2.1: Evolving Needs for Low Income Clients



Source: *Adapted from "Access for All: Building Inclusive Financial Systems" by Brigit Helms (2006), World Bank*

Annexure 3:
Current Penetration of Financial Services in UN Focus States

3.1 Access to Finance Through SHGBLP and MFIs for Low Income People in Focus States[51]

While several models to promote financial access exist, there are three major ones: the SHG Bank Linkage Programme (SHGBLP) and its variants supported by NABARD and Public Sector Commercial Banks; the Institutional MFI Model of SIDBI, commercial banks and other stakeholders; and the Partnership Model of ICICI and other private commercial banks.

3.2 SHG and SHGBLP Model

In India, Self Help Group (SHGs), represent a unique approach to financial intermediation. The approach combines access to low cost financial services with a process of self management and development for the women who are SHG members. SHGs are informal associations of up to 20 women who meet regularly, at least once a month, to save small amounts. They are formed and supported usually by NGOs or government agencies. SHGs are seen to confer many benefits, both economic and social. They enable women to grow their savings and to access credit, which would otherwise not be easily accessible to them. SHGs can also be community platforms from which women become active in village affairs, stand for local election or take action to address social or community issues (abuse of women, alcohol, dowry system, schools, water supply etc). As the group consolidates and matures over time, the banks step in to lend money to the SHG through the SHGBLP. The present outreach of the SHGBLP in the focus states is given below:

Table 3.1: Cumulative Growth in SHG Bank Linkage in Focus States (Shaded) (as on 31st March)

State	2002	2003	2004	2005	2006	2007	Growth (2006-2007)	Growth (2006-2007) %
Bihar	3957	8161	16246	28015	46221	72339	26118	56.51%
Chhattisgarh	3763	6763	9796	18569	31291	41703	10412	33.27%
Jharkhand	4198	7765	12647	21531	30819	37317	6498	21.08%
Madhya Pradesh	7981	15271	27095	45105	57125	70912	13787	24.13%
Orissa	20553	42272	77588	123256	180896	234451	53555	29.61%
Rajasthan	12564	22742	33846	60006	98171	137837	39666	40.41%
Uttar Pradesh	33114	53696	79210	119648	161911	198587	36676	22.65%
Total Focus States	**86130**	**156670**	**256428**	**416130**	**606434**	**793146**	**186712**	**30.79%**
All India	**461000**	**717000**	**1079000**	**1618000**	**2238000**	**2925000**	**687000**	**30.70%**

Source: *Compiled from NABARD Annual Reports 2006-07*

[51] Extracted and Adapted from Arunachalam, Ramesh S (2007) et al, "India Country Scan for Financial Services Design/Delivery to Low Income People", MicroNed and Arunachalam, Ramesh S (2007), "Revisiting the Financial Inclusion Paradigm: A Review and Operationalization", MCG Working Paper, Chennai.

3.3 MFI Model

The MFI model has its origins in the work of SIDBI/SFMC in 1997, which pioneered term lending to MFIs with many banks following suit. The growth story of the MFI model has been greatly facilitated by the sharp increase in bank credit to MFIs. Apart from SIDBI, a larger number of private sector banks are now financing the sector, with the private sector banks lending mostly to the MFIs while the public sector banks and RRBs of rural branches financing the SHGs through their wide network. While the initial lending to the MFIs by the private sector banks was mostly to meet the central bank requirement of PSL, of late the banks have also recognized MFIs as good credit risk – a compelling business reason to look at this sector. Under the MFI model, the MFIs borrow money from banks and then on-lend to their end customers. Even under the MFI model, most MFIs ask the borrowers to form groups of 5-10 members and lending is done to the individual member with group guarantee (Joint Liability Group – JLG). While the MFI tracks individual loans, the JLG ensures that the group dynamics and peer pressure from group members result in regular and timely repayment of loan amounts by all members. As of March 2007, there are an estimated 900 MFIs of various sizes operating all over India with over 10 million borrowers with a loan book size in excess of Rs. 3000 crores. Outreach data from Sa-Dhan (for its member MFIs) provides a list of MFIs operating in the focus states (Table 3.2).

While the MFIs do generally target to advance loans to women who are BPL, a large-scale survey of MFI borrowers (EDA 2005) found that on an average, only 43% of the borrowers of a sample of 20 MFIs were below the poverty line. Also, based on sample studies of several MFI borrowers, some level of overlap between the borrowers does seem to exist under the two models in terms of outreach. Therefore, the cumulative outreach data have to be interpreted cautiously. The growth of the microfinance sector in India has been possible only due to the coexistence of both models.

Table 3.2: MFI Outreach Data Statewise

State	No. of MFIs	No. of Clients			Borrowings		
		2007	2006	2005	2007	2006	2005
Bihar	3 + 5 (multi state MFIs)	295,906	151,914	72,529	5,429,255,468	401,330,997	145,397,299
Chhattisgarh	4 (multi state MFIs)	278,880	180,818	80,388	848,011,151	613,406,942	230,166,896
Jharkhand	5 + 7 (multi state MFIs)	184,953	84,562	32,671	5,192,235,752	192,295,228	78,489,911
Madhya Pradesh	3 + 5 (multi state MFIs)	218,472	158,230	70,689	5,406,208,633	613,271,068	251,996,972
Orissa	30 + 4 (multi state MFIs)	387,029	199,441	94,052	1,061,528,779	494,880,571	90,870,736
Rajasthan	2 + 5 (multi state MFIs)	83,716	39,520	18,342	5,276,354,687	290,224,261	169,525,383
Uttar Pradesh	7 + 2 (multi state MFIs)	269,617	148,383	91,072	1,807,454,359	840,080,357	544,376,856
Total Focus States	50	1,718,573	962,868	459,742	25,021,048,830	3,445,489,424	1,510,824,054
All over India	129	8,262,128	5,150,952	2,624,997	75,815,696,390	15,545,845,739	6,478,316,489

Source: *Data collected and compiled from Sa-Dhan Quick Report and other sources*

3.4 Bank Based/Driven Models Using Correspondent Banking

In 2004, the RBI appointed an internal group to examine ways of increasing financial inclusion and came out with a report in July 2005 (Khan Committee Report). Pursuant to its recommendations, the RBI issued a circular in January 2006 providing for the use of specified agencies including MFIs, as intermediaries in the provision of banking and financial services. The intermediaries were to be of two kinds, Business Facilitators and Business Correspondents[52]. The above development has led to private sector banks increasing their exposure to this sector, using business correspondents. ICICI has been a leader in this initiative but its partnership model with MFIs as partners, is now not functional.

Since banks face substantial priority sector targets and microfinance is beginning to be recognized as a good business opportunity for institutions, a variety of models have been tested between banks and MFIs. All types of banks – international, domestic, national and regional – have become involved at the forefront of some of the following innovations:

- Lending wholesale loan funds directly and based on guarantees.
- Assessing and buying out microfinance debt (securitisation).
- Testing and rolling out specific products such as the Kisan Credit Card.
- Engaging microfinance institutions as agents, which are paid for loan origination and recovery, with loans being held on the books of banks.
- Equity investments into newly emerging MFIs.
- Banks and NGOs jointly promoting MFIs.
- Adopting new technological solutions to enable speedy and cost efficient delivery of services – Biometric ATMs, computerization of book keeping activities of MFIs/SHGs etc.

With the initial success of these pilots, more banks are now keen to explore this area. However given that only a handful of MFIs have achieved scale and reach, competition is increasing amongst banks reaching out to same set of MFIs. This could lead to over exposure and its resultant fall outs. In fact, much of the happenings in Andhra Pradesh are attributed to this sudden growth, enthusiasm and over exposure of commercial banks to MFIs. Also, since January 2007, the partnership model has been stopped due to RBI guidelines on compensation of correspondents as well as those related to outsourcing arrangements. Since 9th Jan 2007, the original version of the partnership model has been stopped and the RBI Business Correspondent/Business Facilitator model has also not grown because of outsourcing and related issues. This has resulted in removing/choking Rs.700 Crores of cash for low income groups from the financial system, with defaults and delinquencies becoming more common. A related question here is whether indeed the greening of loans, as practiced in the erstwhile IRDP, was also used to build so-called good portfolios in microfinance.

[52] http://rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=2718. Please refer to Tankha, Ajay (2007) for a description of key issues and challenges pertaining to the Banking Correspondent regulations.

Annexure 4:
Tentative Financial Access for Vulnerable/Below Poverty Line (BPL) Clients in Focus States

Table 4.1

	Public Sector Banks	Private Sector Banks	Regional Rural Banks (RRBs)	Cooperative Banks	MFIs	SHGs/ SHGBLP	Insurance Companies	Producer Organisations and Others	% of All Relevant Service Providers Providing Service[53]
Simple Consumption/ Production Credit	✓✓	✓	✓	✓	✓✓	✓✓✓	X	✓	< 10%
Voluntary Savings	X	X	X	X	X	X	X	X	0-1%
Recurring Deposits	X	X	X	X	X	X	X	X	0-1%
Emergency Loans	X	X	X	X	✓	✓	X	✓	< 2%
Warehousing Receipt Financing	X	X	X	X	X	X	X	X	0-1%
Weather Insurance	X	X	X	X	✓	X	✓	✓	< 2%
Health Insurance	X	X	X	X	✓	X	✓	✓	< 2%
Life Insurance	X	X	X	X	✓	X	✓✓	✓	< 7%
Micro-Pensions	X	X	X	X	X	X	X	X	0-1%
Individual Lending for Livelihoods	X	X	X	X	X	X	X	X	0%
Cash Flow based Lending for Livelihoods (Working Capital)	X	X	X	X	X	X	X	X	0%
Larger Term Loans	X	X	X	X	X	X	X	X	0-1%
Bundled Financial Services (Contract Farming)	X	X	X	X	X	X	X	X	0-1%
Asset Insurance	X	X	X	X	✓	X	✓✓	✓	< 7%
Animal Husbandry	X	X	X	X	✓	X	✓✓	✓	< 9%
Debt Swap	X	X	X	X	✓	✓✓	X	✓	< 3 %
All Products	✓✓	✓	✓	✓	✓✓✓	✓✓✓	✓✓	✓	3–4%

Key	Descriptions
✓✓✓✓✓	Easily Available
✓✓✓	Available
✓	Nascent but Growing Presence
X	Very Negligible/Marginal Presence

[53] A rough approximate % based on experience rather than estimated in a statistical sense. Nonetheless, it reflects reality to a great extent.

Basically, public sector, private sector, RRBs and cooperative banks lend to satisfy their own statutory requirement of priority sector lending. The same is the issue with insurance companies. It is sector based for banks and NSSO data suggests that < 40% of farmers covered under Priority Sector Lending (PSL) are small/marginal farmers.

MFIs and SHGBLP have a very nascent presence in the focus states, but they are growing. All other services are very negligible. In all cases, the quality of services is poor, choice of available services is rather limited and coverage of the BPL population is very low. The various service providers are listed below:

Table 4.2: Service Providers in Focus States

Features	Bihar	Chhattisgarh	Jharkhand	Madhya Pradesh	Orissa	Rajasthan	Uttar Pradesh
No. of Regional Rural Banks (RRBs)	5	3	2	11	8	6	17
No. of MFIs	3 + 5 (multi state MFIs)	4 (multi state MFIs)	5 + 7 (multi state MFIs)	3 + 5 (multi state MFIs)	30 + 4 (multi state MFIs)	2 + 5 (multi state MFIs)	7 + 2 multi state MFIs)
No. of SHGs	72339	41703	37317	70912	234451	137837	198587
No. of Co-operative banks	14	-	-	22	-	13	29
No. of Commercial Banks	30	34	30	38	4	43	43

Annexure 5:
Key Statistical Data on 7 Focus States

Table 5.1: Summary of Rankings from Recent India Today Survey on Economy and Development in India

State Name	Overall	Law and Order	Agriculture	Primary Education	Primary Health	Infrastructure	Consumer Market	Investment Environment	Budget and Prosperity
Punjab	1	13	1	6	5	1	1	6	1
Kerala	2	1	13	2	2	3	5	16	7
Himachal Pradesh	3	6	16	1	1	2	2	2	2
Tamil Nadu	4	2	3	4	3	5	7	8	10
Haryana	5	11	2	11	16	6	3	3	3
Maharashtra	6	9	10	5	6	4	4	4	5
Gujarat	7	7	4	13	9	9	6	1	4
Karnataka	8	4	6	7	4	7	9	7	11
Uttaranchal	9	15	12	3	8	8	10	5	8
Andhra Pradesh	10	8	5	9	10	10	11	10	9
Jammu & Kashmir	11	17	15	10	7	11	8	12	6
Rajasthan	**12**	**5**	**9**	**17**	**14**	**13**	**12**	**11**	**12**
West Bengal	13	14	7	12	11	14	13	18	13
Madhya Pradesh	**14**	**3**	**11**	**16**	**12**	**12**	**14**	**15**	**15**
Chhattisgarh	**15**	**10**	**18**	**15**	**15**	**15**	**17**	**9**	**14**
Assam	**16**	**16**	**20**	**8**	**13**	**17**	**15**	**17**	**17**
Uttar Pradesh	**17**	**19**	**8**	**18**	**18**	**18**	**16**	**14**	**16**
Orissa	**18**	**12**	**17**	**14**	**17**	**16**	**19**	**19**	**18**
Jharkhand	**19**	**18**	**18**	**19**	**19**	**19**	**18**	**13**	**19**
Bihar	**20**	**20**	**14**	**20**	**20**	**20**	**20**	**20**	**20**

Source: *India Today Survey, Special Issue, Summary of the Survey on September 11th 2006*

Table 5.2: Key Census Data on 7 Focus States Ranking on Rural Agriculture Workers

State	Total Workers	Agriculture and Allied Workers	Percentage of Agriculture and Allied Workers	All India Ranking of State in Terms of Highest Proportion of Agriculture Workers
Chhattisgarh	8,377,674	7,280,358	86.90%	1
Madhya Pradesh	20,900,226	17,869,907	85.50%	2
Bihar	25,752,569	21,220,743	82.40%	4
Jharkhand	8,569,591	6,669,459	77.83%	6
Uttar Pradesh	44,675,952	34,686,116	77.64%	7
Rajasthan	19,856,423	15,357,940	77.34%	9
Orissa	12,586,969	9,119,837	72.45%	10
All States of India	316,200,722	230,490,797	72.89%	

Source: *Census Data 2001*

Table 5.3: Human and Social Development Indices for Focus States in India
Six Component Indices and Aggregate Index as obtained by range equalisation method for Rural Areas during 2001 for Large States

State	Demography	Healthcare	Basic Amenities	Education	Unemployment and Poverty	Social Deprivation	Aggregate Index	Ranking
Kerala	97.13	100	59.65	87.87	14.53	53.2	68.73	1
Himachal Pradesh	60.44	26	71.24	86.54	60.26	76.83	63.55	2
Punjab	53.57	53.48	84.69	53.3	51	49.51	57.59	3
Jammu and Kashmir	32.82	39.58	54.47	55.84	80.88	49.97	52.26	4
Haryana	39.74	34.67	63.82	49.64	39.92	41.28	44.85	5
Tamil Nadu	49.54	63.83	54.53	56.58	6.53	33.49	44.08	6
Uttaranchal	29.2	22.62	67	51.84	31.42	52.82	42.48	7
Karnataka	45.37	31.8	52.65	49.92	32.25	35.83	41.3	8
Andhra Pradesh	48.46	40.62	49.81	36.75	28.13	37.56	40.22	9
Maharashtra	51.25	22.29	46.28	62.46	18.03	40.56	40.16	10
Gujarat	37.85	25.25	55.85	43.77	35.29	40.1	39.68	11
Assam	26.03	32.75	33.52	46.59	33.66	60.42	38.83	12
Rajasthan	**13.91**	**11.78**	**42.71**	**30.53**	**57.1**	**53.52**	**34.93**	**13**
West Bengal	51.43	20.94	37.03	35.42	18.52	39.59	33.82	14
Chhattisgarh	**27.32**	**1.61**	**27.85**	**33.59**	**30.59**	**52.29**	**28.87**	**15**
Orissa	**32.94**	**11.05**	**21.85**	**39.89**	**18.39**	**39.63**	**27.29**	**16**
Madhya Pradesh	**15.96**	**4.63**	**37.17**	**34.37**	**30.59**	**36.63**	**26.56**	**17**
Uttar Pradesh	**1.38**	**8.12**	**41.41**	**23.87**	**31.42**	**35.73**	**23.65**	**18**
Jharkhand	**19.31**	**2.19**	**9.45**	**6.16**	**30.99**	**29.23**	**16.22**	**19**
Bihar	**3.49**	**7.28**	**32.61**	**0**	**30.99**	**22.4**	**16.13**	**20**

Source: *Social Development Report 2006*

Table 5.4: Six Component Indices and the Aggregate Index as Obtained by Range Equalisation Method for Urban Areas During 2001 for Large States

Large States	Demography	Healthcare	Basic Amenities	Education	Unemployment and Poverty	Social Deprivation	Aggregate Index	Ranking
Himachal Pradesh	67.26	54.11	85.07	93.83	73.81	48.13	70.37	1
Punjab	54.93	67.78	94.61	55.57	83.1	30.97	64.49	2
Kerala	88.01	87.71	56.97	90.35	24.01	30.6	62.94	3
Karnataka	55.71	47.04	72.43	55.94	45.85	52.45	54.9	4
Assam	46	47.52	47.13	70.78	47.2	62.33	53.49	5
Andhra Pradesh	50.03	59.19	73.02	38.06	39.4	54.51	52.37	6
West Bengal	71.63	55.67	71.49	32.89	32.22	49.96	52.31	7
Gujarat	39.81	40.44	85.26	40.31	70.97	32.6	51.56	8
Uttaranchal	47	19.7	89.87	49.83	38.49	52.63	49.59	9
Haryana	39.48	31.68	82.83	49.41	75.51	15.03	48.33	10
Tamil Nadu	50.73	62.64	59.22	57.72	14.55	41.26	47.68	11
Maharashtra	41.72	44.26	68.52	51.69	27.47	45.24	46.48	12
Rajasthan	**17.92**	**18.3**	**81.03**	**37.36**	**68.5**	**53.46**	**46.09**	**13**
Madhya Pradesh	**26.92**	**20.54**	**63.5**	**51.14**	**38.77**	**48.93**	**41.63**	**14**
Orissa	**32.56**	**24.03**	**34.59**	**35.18**	**38.56**	**59.27**	**37.37**	**15**
Chhattisgarh	**38.45**	**0**	**41.71**	**41.42**	**38.77**	**57.74**	**36.35**	**16**
Jharkhand	**9.67**	**17.91**	**44.79**	**16.28**	**51.42**	**63.68**	**33.96**	**17**
Uttar Pradesh	**5.62**	**12.82**	**73.32**	**23**	**38.49**	**50.36**	**33.94**	**18**
Bihar	**4.4**	**11.85**	**45.95**	**3.07**	**31.26**	**66.05**	**27.1**	**19**

Source: *Social Development Report 2006*

Table 5.5: Cumulative Growth in SHG Bank Linkage in Focus States

(as on 31st March)

State	2002	2003	2004	2005	2006	2007	Growth (2006-2007)	Growth (2006-2007) %
Assam	1024	3477	10706	31234	56449	81454	25005	44.30%
Bihar	**3957**	**8161**	**16246**	**28015**	**46221**	**72339**	**26118**	56.51%
Chhattisgarh	**3763**	**6763**	**9796**	**18569**	**31291**	**41703**	**10412**	33.27%
Gujarat	9496	13875	15974	24712	34160	43572	9412	27.55%
Himachal Pradesh	5069	8875	13228	17798	22920	27799	4879	21.29%
Jharkhand	**4198**	**7765**	**12647**	**21531**	**30819**	**37317**	**6498**	21.08%
Maharashtra	19619	28065	38535	71146	131470	225856	94386	71.79%
Madhya Pradesh	**7981**	**15271**	**27095**	**45105**	**57125**	**70912**	**13787**	24.13%
Orissa	**20553**	**42272**	**77588**	**123256**	**180896**	**234451**	**53555**	29.61%
Rajasthan	**12564**	**22742**	**33846**	**60006**	**98171**	**137837**	**39666**	40.41%
Uttar Pradesh	**33114**	**53696**	**79210**	**119648**	**161911**	**198587**	**36676**	22.65%
Uttaranchal	3323	5853	10908	14043	17588	21527	3939	22.40%
West Bengal	17143	32647	51682	92698	136251	181563	45312	33.26%
Total Priority States	**141804**	**249462**	**397464**	**667761**	**1005272**	**1374917**	**369645**	**36.77%**
All India	**461000**	**717000**	**1079000**	**1618000**	**2238000**	**2925000**	**687000**	**30.70%**

***Source**: Compiled from NABARD Annual Report 2005-06*

Table 5.6: MFI Outreach Data Statewise

State Names	No. of MFIs	No. of Clients			Borrowings		
		2007	2006	2005	2007	2006	2005
Andhra Pradesh	20 + 1 (multi state MFIs)	2,291,070	1,624,278	829,468	8,448,587,808	4,743,078,856	2,217,388,053
Assam	4 + 1 (multi state MFIs)	153,600	88,819	56,379	349,229,982	93,947,660	34,214,439
Arunachal Pradesh	1 (multi state MFIs)	1,732	281	78	8,313,750	1,113,750	451,250
Bihar	**3 + 5 (multi state MFIs)**	**295,906**	**151,914**	**72,529**	**5,429,255,468**	**401,330,997**	**145,397,299**
Chhattisgarh	**4 (multi state MFIs)**	**278,880**	**180,818**	**80,388**	**848,011,151**	**613,406,942**	**230,166,896**
Delhi	1 + 3 (multi state MFIs)	36,171	2,994	2,474	918,071,143	365,400,719	264,982,043
Gujarat	2 + 1 (multi state MFIs)	316,357	295,539	280,504	329,798,344	164,085,737	83,562,273
Haryana	1 (multi state MFIs)	5,741	507	464	169,252,467	68,512,635	49,684,133
Jharkhand	**5 + 7 (multi state MFIs)**	**184,953**	**84,562**	**32,671**	**5,192,235,752**	**192,295,228**	**78,489,911**
Karnataka	11 + 6 (multi state MFIs)	958,660	632,147	303,523	4,504,679,886	2,197,634,132	958,219,921
Kerala	4 + 2 (multi state MFIs)	147,110	72,949	41,315	340,403,524	81,058,201	82,499,988
Madhya Pradesh	**3 + 5 (multi state MFIs)**	**218,472**	**158,230**	**70,689**	**5,406,208,633**	**613,271,068**	**251,996,972**
Maharashtra	6 + 4 (multi state MFIs)	234,756	163,608	84,407	882,086,607	583,241,410	285,140,770
Manipur	1	3,114	2,014	1,566	3,375,000	1,312,500	1,000,000
Orissa	**30 + 4 (multi state MFIs)**	**387,029**	**199,441**	**94,052**	**1,061,528,779**	**494,880,571**	**90,870,736**
Pondicherry	3 (multi state MFIs)	74,146	47,093	29,531	4,811,820,041	114,612,750	20,070,833
Punjab	1 (multi state MFIs)	5,741	507	464	169,252,467	68,512,635	49,684,133
Rajasthan	**2 + 5 (multi state MFIs)**	**83,716**	**39,520**	**18,342**	**5,276,354,687**	**290,224,261**	**169,525,383**
Tripura	1	1,141,226	595,092	361,794	27,130,487,215	2,378,075,401	623,774,621
Tamil Nadu	14 + 11 (multi state MFIs)	19,314	-	-	30,555,552	-	-
Uttar Pradesh	**7 + 2 (multi state MFIs)**	**269,617**	**148,383**	**91,072**	**1,807,454,359**	**840,080,357**	**544,376,856**
Uttranchal	1	570	-	-	2,000,000	-	-
West Bengal	14 + 4 (multi state MFIs)	1,154,250	662,257	173,289	2,696,733,774	1,239,769,931	296,819,979
All Over India	**129**	**8,262,128**	**5,150,952**	**2,624,997**	**75,815,696,390**	**15,545,845,739**	**6,478,316,489**

Source: *Data collected and compiled from Sa-Dhan and other sources*

Table 5.7: Distribution of Commercial Bank Branches – Region/State/Union Territory

Region/State/ Union Territory	Number of Branches as on June 30				Number of branches opened during				Average Population (in '000) per bank branch as at end-June	
	2005		2006		Jul-04 to Jun-05	*of which:* at unbanked centres	Jul-05 to Jun-06	*of which:* at unbanked centres	2005	2006
1	2	3	4	5	6	7	8	9	10	11
ALL INDIA	**68,549**	**100%**	**69,417**	**100.00%**	**1,250**	**15**	**933**	**2**	**16**	**16**
Chandigarh	199	0.29%	212	0.31%	5	–	13	–	5	5
Delhi	1,662	2.42%	1,739	2.51%	98	–	83	–	9	9
Haryana	1,690	2.47%	1,759	2.53%	63	–	67	–	13	13
Himachal Pradesh	806	1.18%	820	1.18%	14	–	14	–	8	8
Jammu and Kashmir	867	1.26%	872	1.26%	18	1	8	–	13	13
Punjab	2,722	3.97%	2,787	4.01%	56	1	67	–	9	9
Rajasthan	3,413	4.98%	3,445	4.96%	56	–	34	–	18	18
Arunachal Pradesh	67	0.10%	69	0.10%	–	–	2	–	17	17
Assam	1,235	1.80%	1,243	1.79%	12	–	10	–	23	23
Manipur	77	0.11%	77	0.11%	1	–	–	–	33	33
Meghalaya	185	0.27%	189	0.27%	1	–	4	–	13	13
Mizoram	79	0.12%	79	0.11%	–	–	–	–	12	12
Nagaland	73	0.11%	74	0.11%	–	–	1	–	29	29
Tripura	181	0.26%	182	0.26%	–	–	1	–	19	19
Andaman and Nicobar Islands	33	0.05%	34	0.05%	1	–	1	–	12	12
Bihar	3,580	5.22%	3,591	5.17%	20	1	12	–	25	25
Jharkhand	1,494	2.18%	1,502	2.16%	16	–	9	–	19	20
Orissa	2,286	3.33%	2,310	3.33%	33	–	24	–	17	17
Sikkim	56	0.08%	56	0.08%	7	–	–	–	10	10
West Bengal	4,535	6.62%	4,581	6.60%	62	–	48	–	19	19
Chhattisgarh	1,042	1.52%	1,045	1.51%	10	–	7	–	22	22
Madhya Pradesh	3,494	5.10%	3,505	5.05%	35	–	22	–	19	19
Uttar Pradesh	8,339	12.17%	8,418	12.13%	97	–	87	–	22	22
Uttaranchal	890	1.30%	911	1.31%	21	–	22	–	10	10
Dadra and Nagar Haveli	12	0.02%	13	0.02%	–	–	1	–	20	19
Daman and Diu	16	0.02%	16	0.02%	–	–	–	–	11	11
Goa	342	0.50%	349	0.50%	7	–	7	–	4	4
Gujarat	3,733	5.45%	3,771	5.43%	66	1	46	–	15	15
Maharashtra	6,503	9.49%	6,589	9.49%	159	1	91	–	16	16
Andhra Pradesh	5,437	7.93%	5,494	7.91%	118	1	58	–	15	15
Karnataka	4,985	7.27%	5,061	7.29%	107	5	80	–	11	11
Kerala	3,533	5.15%	3,588	5.17%	65	3	57	2	9	9
Lakshadweep	10	0.01%	10	0.01%	1	–	–	–	7	7
Pondicherry	90	0.13%	90	0.13%	6	–	–	–	11	12
Tamil Nadu	4,883	7.12%	4,936	7.11%	95	1	57	–	13	13

Source: *Report on Trend and Progress of Banking in India, RBI Publication*

Table 5.8: Number and Percentage of Population Below Poverty Line by States - 2004-05
(Based on URP-Consumption)

S. No.	States/U.T.s	Rural		Urban		Combined	
		%age of Persons	No. of Persons (Lakhs)	%age of Persons	No. of Persons (Lakhs)	%age of Persons	No. of Persons (Lakhs)
1.	Andhra Pradesh	11.2	64.70	28.0	61.40	15.8	126.10
2.	Arunachal Pradesh	22.3	1.94	3.3	0.09	17.6	2.03
3.	Assam	22.3	54.50	3.3	1.28	19.7	55.77
4.	**Bihar**	**42.1**	**336.72**	**34.6**	**32.42**	**41.4**	**369.15**
5.	**Chhattisgarh**	**40.8**	**71.50**	**41.2**	**19.47**	**40.9**	**90.96**
6.	Delhi	6.9	0.63	15.2	22.30	14.7	22.93
7.	Goa	5.4	0.36	21.3	1.64	13.8	2.01
8.	Gujarat	19.1	63.49	13.0	27.19	16.8	90.69
9.	Haryana	13.6	21.49	15.1	10.60	14.0	32.10
10.	Himachal Pradesh	10.7	6.14	3.4	0.22	10.0	6.36
11.	Jammu & Kashmir	4.6	3.66	7.9	2.19	5.4	5.85
12.	**Jharkhand**	**46.3**	**103.19**	**20.2**	**13.20**	**40.3**	**116.39**
13.	Karnataka	20.8	75.05	32.6	63.83	25.0	138.89
14.	Kerala	13.2	32.43	20.2	17.17	15.0	49.60
15.	**Madhya Pradesh**	**36.9**	**175.65**	**42.1**	**74.03**	**38.3**	**249.68**
16.	Maharashtra	29.6	171.13	32.2	146.25	30.7	317.38
17.	Manipur	22.3	3.76	3.3	0.20	17.3	3.95
18.	Meghalaya	22.3	4.36	3.3	0.16	18.5	4.52
19.	Mizoram	22.3	1.02	3.3	0.16	12.6	1.18
20.	Nagaland	22.3	3.87	3.3	0.12	19.0	3.99
21.	**Orissa**	**46.8**	**151.75**	**44.3**	**26.74**	**46.4**	**178.49**
22.	Punjab	9.1	15.12	7.1	6.50	8.4	21.63
23.	**Rajasthan**	**18.7**	**87.38**	**32.9**	**47.51**	**22.1**	**134.89**
24.	Sikkim	22.3	1.12	3.3	0.02	20.1	1.14
25.	Tamil Nadu	22.8	76.50	22.2	69.13	22.5	145.62
26.	Tripura	22.3	6.18	3.3	0.20	18.9	6.38
27.	**Uttar Pradesh**	**33.4**	**473.00**	**30.6**	**117.03**	**32.8**	**590.03**
28.	Uttarakhand	40.8	27.11	36.5	8.85	39.6	35.96
29.	West Bengal	28.6	173.22	14.8	35.14	24.7	208.36
30.	A & N Islands	22.9	0.60	22.2	0.32	22.6	0.92
31.	Chandigarh	7.1	0.08	7.1	0.67	7.1	0.74
32.	Dadra & N. Haveli	39.8	0.68	19.1	0.15	33.2	0.84
33.	Daman & Diu	5.4	0.07	21.2	0.14	10.5	0.21
34.	Lakshadweep	13.3	0.06	20.2	0.06	16.0	0.11
35.	Pondicherry	22.9	0.78	22.2	1.59	22.4	2.37
	All-India	**28.3**	**2209.24**	**25.7**	**807.96**	**27.5**	**3017.20**

Source: *Government of India Press Information Bureau "Poverty Estimates for 2004-05" on March 2007*
URP consumption = Uniform Recall Period consumption in which the consumer expenditure data for all the items are collected from 30-day recall period.
Notes:
1 Poverty Ratio of Assam is used for Sikkim, Arunachal Pradesh, Meghalaya, Mizoram, Manipur, Nagaland and Tripura.
2 Poverty Line of Maharashtra and expenditure distribution of Goa is used to estimate poverty ratio of Goa.
3 Poverty Ratio of Tamil Nadu is used for Pondicherry and A & N Island.
4 Urban Poverty Ratio of Punjab used for both rural and urban poverty of Chandigarh.
5 Poverty Line of Maharashtra and expenditure distribution of Dadra & Nagar Haveli is used to estimate poverty ratio of Dadra & Nagar Haveli.
6 Poverty Ratio of Goa is used for Daman & Diu.
7 Poverty Ratio of Kerala is used for Lakshadweep.

Table 5.9: Number and Percentage of Population Below Poverty Line by States – 2004-05 (Based on MRP-Consumption)

S. No.	States/U.Ts	Rural		Urban		Combined	
		%age of Persons	No. of Persons (Lakhs)	%age of Persons	No. of Persons (Lakhs)	%age of Persons	No. of Persons (Lakhs)
1.	Andhra Pradesh	7.5	43.21	20.7	45.50	11.1	88.71
2.	Arunachal Pradesh	17.0	1.47	2.4	0.07	13.4	1.54
3.	Assam	17.0	41.46	2.4	0.93	15.0	42.39
4.	**Bihar**	**32.9**	**262.92**	**28.9**	**27.09**	**32.5**	**290.01**
5.	**Chhattisgarh**	**31.2**	**54.72**	**34.7**	**16.39**	**32.0**	**71.11**
6.	Delhi	0.1	0.01	10.8	15.83	10.2	15.83
7.	Goa	1.9	0.13	20.9	1.62	12.0	1.74
8.	Gujarat	13.9	46.25	10.1	21.18	12.5	67.43
9.	Haryana	9.2	14.57	11.3	7.99	9.9	22.56
10.	Himachal Pradesh	7.2	4.10	2.6	0.17	6.7	4.27
11.	Jammu & Kashmir	2.7	2.20	8.5	2.34	4.2	4.54
12.	**Jharkhand**	**40.2**	**89.76**	**16.3**	**10.63**	**34.8**	**100.39**
13.	Karnataka	12.0	43.33	27.2	53.28	17.4	96.60
14.	Kerala	9.6	23.59	16.4	13.92	11.4	37.51
15.	**Madhya Pradesh**	**29.8**	**141.99**	**39.3**	**68.97**	**32.4**	**210.97**
16.	Maharashtra	22.2	128.43	29.0	131.40	25.2	259.83
17.	Manipur	17.0	2.86	2.4	0.14	13.2	3.00
18.	Meghalaya	17.0	3.32	2.4	0.12	14.1	3.43
19.	Mizoram	17.0	0.78	2.4	0.11	9.5	0.89
20.	Nagaland	17.0	2.94	2.4	0.09	14.5	3.03
21.	**Orissa**	**39.8**	**129.29**	**40.3**	**24.30**	**39.9**	**153.59**
22.	Punjab	5.9	9.78	3.8	3.52	5.2	13.30
23.	**Rajasthan**	**14.3**	**66.69**	**28.1**	**40.50**	**17.5**	**107.18**
24.	Sikkim	17.0	0.85	2.4	0.02	15.2	0.87
25.	Tamil Nadu	16.9	56.51	18.8	58.59	17.8	115.10
26.	Tripura	17.0	4.70	2.4	0.14	14.4	4.85
27.	**Uttar Pradesh**	**25.3**	**357.68**	**26.3**	**100.47**	**25.5**	**458.15**
28.	Uttarakhand	31.7	21.11	32.0	7.75	31.8	28.86
29.	West Bengal	24.2	146.59	11.2	26.64	20.6	173.23
30.	A & N Islands	16.9	0.44	18.8	0.27	17.6	0.71
31.	Chandigarh	3.8	0.04	3.8	0.36	3.8	0.40
32.	Dadra & N. Haveli	36.0	0.62	19.2	0.16	30.6	0.77
33.	Daman & Diu	1.9	0.03	20.8	0.14	8.0	0.16
34.	Lakshadweep	9.6	0.04	16.4	0.05	12.3	0.09
35.	Pondicherry	16.9	0.58	18.8	1.34	18.2	1.92
	All-India	**21.8**	**1702.99**	**21.7**	**682.00**	**21.8**	**2384.99**

MRP consumption = Mixed Recall Period consumption in which the consumer expenditure data for five non-food items, namely, clothing, footwear, durable goods, education and institutional medical expenses are collected from 365-day recall period and the consumption data for the remaining items are collected from 30-day recall period.

Table 5.10: % of Slum Population in Cities and Metros, 2001 Census

Cities	Persons%	Males%	Females%
Greater Mumbai	48.88%	50.04%	47.44%
Faridabad	46.55%	47.09%	45.89%
Meerut	43.87%	44.09%	43.63%
Nagpur	35.42%	35.20%	35.66%
Thane	33.32%	34.28%	32.21%
Kolkata	32.55%	32.93%	32.08%
Ludhiana	22.56%	22.63%	22.47%
Pune	20.92%	20.83%	21.01%
All India Total for Cities	**22.69%**	**23.20%**	**22.09%**

Table 5.11: Summary Data for UN Focus States

Features	Bihar	Chhattisgarh	Jharkhand	Madhya Pradesh	Orissa	Rajasthan	Uttar Pradesh
General Characteristics							
No. of Districts	38	6716	22	48	30	32	70
Density of population (Persons Per Sq. Km)	880	154	338	196	236	165	689
Forest Area (In Sq. Kms)	6220	59000	23340	85800	58135	32490	10700
Workers and Population							
Total Agriculture Workers	21611365	7402489	6740803	18438576	9246765	35568473	15663785
Total Workers	27974606	9679871	10109030	25793519	14276488	53983824	23766655
Primary Livelihood Sector	Agriculture	Agriculture	Agriculture	Agriculture	Agriculture	Agriculture	Agriculture
Total Agriculture Workers (Cultivators + Workers)/ Total Workers	77.25%	76.47%	66.68%	71.49%	64.77%	65.89%	65.91%
Total Household and Other Workers /Total Workers	22.75%	23.53%	33.32%	28.51%	35.23%	34.11%	34.09%
Rural Population (in Million)	74.19	16.65	20.9	44.38	31.21	43.29	131.57
Urban Population (in Million)	8.68	4.18	5.9	15.97	5.60	13.21	34.61
BPL Population Data (In Lakh)	336.72	71.50	103.19	175.65	151.75	87.38	473.00
Total Population (in Million)	82.87	20.83	26.9	60.35	36.81	56.50	166.18
BPL/Total Population	40.57%	34.32%	38.30%	29.11%	41.23%	15.46%	28.46%
Coverage by MFIs/SHGs							
SHGBLP Coverage (No. of SHGs)	72339	41703	37317	70912	234451	137837	198587
SHGBLP Coverage (No. of Clients@15 per SHG)	1085085	625545	559755	1063680	3516765	2067555	2978805
No. of MFIs	3 + 5 (multi state MFIs)	4 (multi state MFIs)	5 + 7 (multi state MFIs)	3 + 5 (multi state MFIs)	30 + 4 (multi state MFIs)	2 + 5 (multi state MFIs)	7 + 2 (multi state MFIs)
MFI Clients Coverage	295,906	278,880	184,953	218,472	387,029	83,716	269,617
Total Coverage (In Million) by SHGs and MFIs	1.38	0.90	0.74	1.28	3.90	2.15	3.25
No. of NGOs[54] involved in Micro-Finance/Allied Areas	Many Small NGOs	Many Small NGOs	Many Small NGOs	Many Small NGOs	Many Small NGOs	Many Small NGOs	Many Small NGOs

[54] There are an estimated 900 small NGOs involved in facilitating delivery of financial services in India but there is no state-wise break down.

Features	Bihar	Chhattisgarh	Jharkhand	Madhya Pradesh	Orissa	Rajasthan	Uttar Pradesh
Banking Branches for Priority Sector Lending							
Commercial Banks (CBs)	2059	613	1131	2436	1,447	2394	5,375
Regional Rural Banks (RRBs)	1475	429	388	1034	835	1014	2851
District Central Cooperative Banks (DCCBs)	-	198 (DCCBs/SCB)	142	834	316	390	1266
Other State Cooperative Banks (OSCBs)	-	-	-	-	8	-	-
Land Development Bank (LDB)	-	-	42	-	-	-	-
Primary Cooperative Agriculture and Rural Development Banks (PCARDBs)	-	83 (PCARDBs/ SCARDBs)	-	-	-	131	-
State Cooperative Bank (SCB)	-	-	-	22	-	13	29
State Cooperative Agriculture and Rural Development Bank (SCARDB)	-	-	-	7	-	8	318
Primary Urban Cooperative Banks (PUCBs)	-	-	-	-	-	142	-
Urban Cooperative Banks (UCBs)	279	11	-	-	-	-	-
Other State Cooperative Agriculture and Rural Development Banks (OSCARDBs)	-	-	-	-	5	-	-
District Cooperative Agriculture and Rural Development Banks (DCARDBs)	-	-	-	371	-	-	-
Total	**3813**	**1053**	**1703**	**4704**	**2611**	**4092**	**9839**

Annexure 6:
Use of Challenge Fund Methodology – Rationale and Justification

There are several reasons why the challenge fund approach is recommended here for UNDP[55]:

- Challenge funds help identify and support the best projects due to the competitive bidding approach. The perceived objectivity of the challenge fund mechanism leaves lesser scope for dissatisfaction among unsuccessful bidders – those selected rationalize that the better projects were perhaps chosen. As past experiences indicate, several unsuccessful bidders of earlier rounds have come back and applied for newer/revised projects in subsequent rounds and some of them have even been selected.

- The level of ownership required to compete in a challenge fund process is quite high and this manifests itself in terms of getting the best possible contribution from the bidders. It is human psychology to win and from this perspective, no serious bidder applies a low level of effort. In many ways, this raises the bar of projects submitted.

- Challenge funds, as past experience indicates, are said to be more cost effective than traditional donor mechanisms especially in relation to outputs, impact and ownership in project implementation. The level of leverage created in terms of bringing in outside resources into project implementation is also said to be high. One challenge fund experience reported a leverage of almost 4 times the size of grants committed.

- Challenge funds are said to provide a forum for involving the private sector in the task of development and facilitate its direct investment in the development project.

- Such funds mitigate the risk of potentially high risk and innovative projects and thereby make the business model viable and attractive to the private sector.

- Challenge funds encourage public private partnerships, which are crucial for the long term sustainability and commercial viability of development projects.

Table 6.1 lists the experiences of several challenge (type) funds that have been operational over the last few years.

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[55] Challenge funds, as a mechanism to route money for social and economic development projects have attracted increasing attention over the last few years. DFID, which pioneered the design of challenge funds, through the Financial Deepening Challenge Fund (FDCF), Business Linkages Challenge Fund, Civil Society Challenge Fund and other such Challenge Funds, has used this approach to support development projects in a competitive manner. Several others have also used the challenge fund approach for making competitive awards in microfinance including CGAP, World Bank, USAID and Ford Foundation.

Table 6.1: Comparison of Challenge Fund Experiences and Design Features[56]

Fund	Challenge Fund (CF) 1	CF 2	CF 3	CF 4	CF 5	CF 6
Fund's Operational Term in Years	Open-ended	7 years	Open-ended	6 years	Open-ended	Open-ended
Fund Size	Unlimited and growing fund, large in size	Capped (in the beginning) and large fund and no fund flows after initial corpus	Capped and somewhat small fund	Capped in the beginning and no fund flows after initial corpus, reasonably large fund	Capped in the beginning and fund flows allowed after initial corpus, quite a large fund	Unlimited and growing fund, very large in size
Process	Multiple Bidding Rounds	Multiple Bidding Rounds	Pre-Defined Bidding Rounds	Multiple Bidding Rounds	Multiple Bidding Rounds	Multiple Bidding Rounds
Scope of Operations	Global	Select Countries	One/two Countries	Multiple Countries	Select Country	Global
Potential Bidders	Not-for-profit organisations	Private Sector and Public Organisations, bidding as a consortium	Mainly Not-for-profits and for-profits allowed in a specific round	Open	Not-for-profit organisations	Open
Products	Grant	Grant	Grant for not-for-profit and loan/equity available for others	Grant	Grant	Grant
Matching Contribution	Not required	>=1:1	Not required	>=1:1	>=1:1	Not required
Time from Bidding to Actual Award	3 months	6 months	Not available	6 months	Flexible and open, on a rolling basis	7 months
Awards Mechanism	Competitive and by Staff Committee	Multiple Panels with Outsiders and Fund Manager playing facilitation role	Committee of externals plus Fund Manager	International panel	External Consultants	External assessment supported by fund management
Release of Funds	One tranche	In quarterly tranches	Multiple tranches	In quarterly tranches	In quarterly tranches	Multiple tranches
Monitoring and Reporting	Semester	Quarterly	Not Available	Quarterly	Annual	Linked to disbursement and tranches
Intellectual Property Rights	Not Applicable	Fund has access to proprietary technology and also part IPR	Not Applicable	Fund has access to proprietary technology and also part IPR	No Claim	No claim; Only access to info to disseminate lessons
Leverage	Data not Available	>1:4	Data not Available	Data not Available	Data not Available	Data not Available

[56] Names of Challenge Funds withheld as per request from source evaluation and related documents.

Annexure 7:
Fund Operationalization

7.1 Bidding Rounds

Challenge funds, as they are normally designed, are based on a bidding process. The fund invites bids and the assessing agency, on appraisal of the bids – technical and financial, makes the awards, on a drawdown basis. There is typically no limit to the amount being sanctioned, which could be quite high in terms of a percentage of the total funds. If there is some balance left after the first bid, bids are invited in the second round and then third and so on. An alternative approach is to earmark specific percentage amounts for each bidding round.

It is proposed that the LVRCF will use such a structured mechanism, with multiple bidding rounds and specific (a priori) percentage allocations for each proposed bidding round. This affords the LVRCF to take advantage of new and upcoming ideas as well as respond to changing market conditions in the Indian economy. It also should facilitate the LVRCF to make on-course corrections with regard to focus on specific sub-sectors as also address regional and geographic area imbalances, if required. In short, such a strategy is tantamount to traditional wisdom of *'not putting all eggs in one basket and at the same time'* and can therefore be viewed as a risk hedging mechanism.

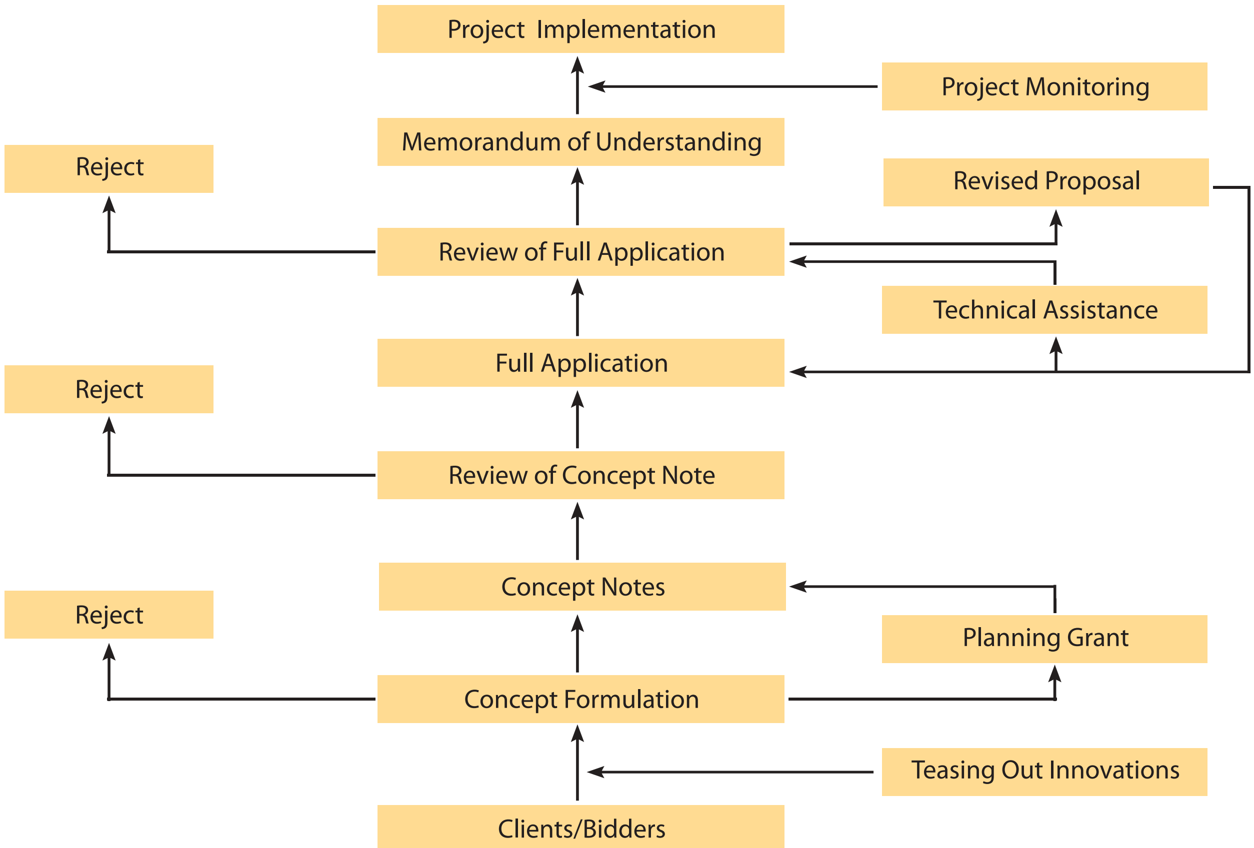
7.2 Technical Assistance and Planning Grants

- A mechanism to provide technical assistance at various stages in the LVRCF has been incorporated based on the suggestions of various stakeholders.
- Commensurate planning grants (at concept note stage) will also be available to serious bidders, if required.
- For this, the LVRCF must also help orient and establish a network of accredited technical assistance service providers who would work with the bidders through the entire process – from concept to implementation.
- The corresponding process for technical assistance is outlined in **Table 7.1** and **Figure 7.1**, which also explains the overall process for the fund.

Table 7.1: Technical Assistance and Support in LVRCF

Stage	Type of Assistance	Who should do it?	How often?
Pre Concept Note Stage	• Teasing out livelihood deepening innovation with a pro-poor focus	• Fund Managers • Nodal Agencies in operational Areas	• At least 2/3 meetings
Concept Note and Full Application Stage	• Operationalizing innovation • Packaging it as a proposal including financial projections • Helping provide answers to queries and doubts • Identifying risks and mitigation mechanisms	• Specialists with significant domain knowledge of innovation and also geographic context • Familiarly with the FUND process	• As often as required but a close level of interaction is likely and also suggested
Actual Implementation Stage	• Advisory role in solving bottle necks, suggesting on-course corrections etc.	• Specialists with implementation experience in similar innovations and/ or substantive areas • No micro-management of innovation by the technical assistance service providers but some incidental monitoring may result	• Once a quarter. In effect, this would be an advisory role without any scope for micro-management

Figure 7.1: Suggested Fund Implementation



7.3 Summary Comments on LVRCF Design

Thus, overall, the LVRCF is akin to a social venture capital fund and must be operationalized as such. Once a basic idea is approved, this calls for the following:

- Flexibility in the entire process.
- Greater transparency including scope for larger interaction between applicant, fund manager and reviewers.
- Proactive support by the fund manager and team. Challenge funds like the LVRCF can indeed be an efficient mechanism provided they are well implemented and managed by the right kind of people with the requisite experience, domain knowledge, motivation and skills.
- A definitive chance for the applicant to present the concept – who better than the applicant to present the case.
- Queries to be raised at every stage and applicants provided a fair opportunity to answer these. If need be, they can be even contacted through an internet chat or e mail. If there is no scope to clear doubts, it is unfair to the applicant who puts in a lot of hard work.
- Proper orientation of the fund manager to the fund operationalization, which is indeed crucial.
- Key design elements for the LVRCF are given in Table 7.2.

Table 7.2: LVRCF Summary Features

Aspect	LVRCF Proposed Design
Fund's Operational Term in Years	7 years
Fund Size	Uncapped fund with provision for fund flows after initial corpus of USD 2 million
Process	3 Bidding Rounds with all bidding coming to a close by end of year 3
Scope of Operations	7 UNDF focus states Uttar Pradesh, Madhya Pradesh, Rajasthan, Bihar, Orissa, Jharkhand and Chhattisgarh
Potential Bidders	Private Sector, MFIs, NGOs, Public Organisations and others who could bid as a consortium
Products	Outright grant, risk fund capital, soft loan and equity
Matching Contribution	At least >=1:1 always
Time from Bidding to Actual Award	6 months on average
Awards Mechanism	Assessment Panel with experts and Fund Manager playing facilitation role. Personal appearance by bidders and there would be a concept note and full application stage
Release of Funds	In quarterly tranches and on draw down basis with provision for an advance in the beginning
Monitoring and Reporting	Quarterly
Intellectual Property Rights	Fund to have access to proprietary technology and also part IPR
Leverage	> 2 at least and higher for soft loans

Annexure 8:
Reasons for Higher Financial Exclusion Vis-à-vis 7 Focus States

1. Precursor programmes with a strong microfinance component do not exist
2. Difficult terrain to cover
3. Microfinance methodology is unsuitable
4. Inappropriate microfinance products
5. Strong government support is not available
6. Remoteness is high
7. Illiteracy is a problem
8. Poor infrastructure
9. Poor social infrastructure
10. Fewer bank branches
11. Greater average distance from branch
12. Unsuitable branch timings
13. Cumbersome documentation
14. Difficult procedures
15. Strong dependence on agriculture livelihoods
16. Lack of diversified livelihoods and non-farm work
17. Irregular branch timings
18. Large number of excluded groups
19. Large number of poor
20. Self exclusion from SHGs/MFIs for various reasons

Poverty Reduction

UNDP supports national and state governments to implement inclusive poverty reduction programmes, with a focus on human development.

UNDP supports programmes, policies and partnerships that promote income opportunities for poor people, and helps them access financial products to protect these gains.

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