

From pilot to policy: How the PEFI project changed India's approach to financial inclusion



MSC has been running the Pathways to Enhancing Financial Inclusion (PEFI) project with funding from the Bill & Melinda Gates Foundation. Under PEFI, MSC has been working with the Indian government's think tank, NITI Aayog as its development partner for the Indian government's flagship Aspirational District Programme (ADP) since July, 2018.

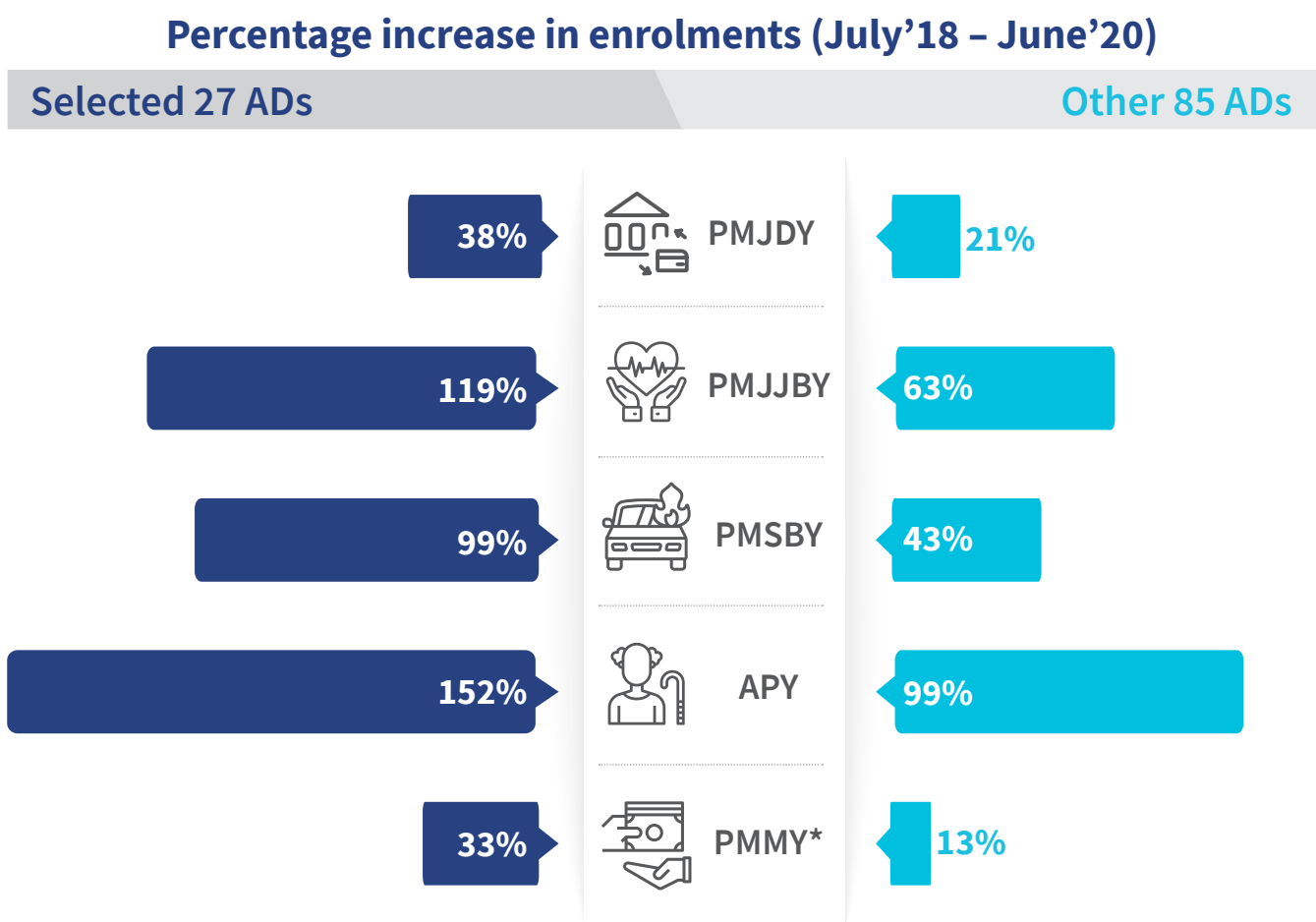


MSC has been providing strategic as well as tactical inputs to enhance the status of financial inclusion¹ in the aspirational districts (ADs) of the country through PEFI. As part of PEFI, we have identified key challenges that the financial inclusion ecosystem in the country faces. MSC designed tailored solutions that can work at the level of the districts, blocks, and villages².

In PEFI, MSC deployed dedicated District Financial Inclusion Coordinators (DFICs) across selected 27 ADs. The DFICs facilitate the work at the district and identify key insights to share with NITI-Aayog and Department of Financial Services (DFS) of the Ministry of Finance (DFS) for corrective action. Besides streamlining and accelerating FI activities in the district, this model enabled real-time, ground-up evidence that informed NITI Aayog’s strategic direction to digital financial services. The ground-up evidence included specific suggestions to accelerate financial inclusion for women.

This model has yielded significantly positive results. The numbers from the 27 ADs where MSC was engaged in terms of financial inclusion stand out when compared to the progress in other ADs where MSC did not work directly. (see Figure 1)

Figure 1



* Implies the increase in quantum of disbursements in a FY from March'19 to March'20

1. Financial Inclusion as a part of the ADP is defined as the status of enrollment in six key indicators focused on account ownership, life insurance, accident insurance, pension, collateral-free credit, and seeding of bank accounts with an individual's *Aadhaar* number—an individual's unique ID issued by the Government of India

2. Please see Background information 1 and 2

The positive outcomes achieved at the district level, coupled with the detailed policy-level insights and recommendations identified through PEFI encouraged NITI Aayog to scale up the program across all 112 ADs. The think tank asked MSC to draw up a plan to transfer the lessons from the 27 ADs to the remaining ADs. The DFS implemented this larger program. This has taken the shape of a dedicated government mission, the Targeted Financial Inclusion Intervention Programme (TFIIP), which has been launched across all 112 ADs in a phased manner over 18 months.

PEFI is the only model, piloted as a part of the Aspirational District Programme, that has been transferred to the line ministry (Ministry of Finance) for scale-up. The game plan of BMGF to play a catalytic role in 27 ADs—by providing concerted support through MSC, instead of providing intensive and direct support to all 112 aspirational districts—has paid off. TFIIP is now anchored by DFS and is monitored by NITI Aayog and the Prime Minister’s Office. MSC has been officially declared as the technical partner for DFS and will be supporting the scale-up across the 112 ADs. However, the overall responsibility of scale-up now rests with DFS, which must persuade banks to deploy human resources and invest in infrastructure.



TFIIP provides MSC with an ideal platform to share lessons from PEFI and make specific policy recommendations across all the 112 ADs. It also allows PEFI to transition seamlessly to the line ministry and banks. Eventually, TFIIP will transform into PMJDY 2.0 as all structural changes will be adopted into the larger financial inclusion program of the Indian government.

DFS has already launched TFIIP and is currently in its first phase of implementation during which it will be rolled out in 40 ADs across 15 states. Specific objectives of TFIIP include:

- 1** Enhancing the status of financial inclusion in the districts by ensuring that all beneficiaries own a bank account, are aware of voluntary and contributory social protection schemes³, and enroll in them. TFIIP will also make beneficiaries aware of the low-cost, collateral-free credit scheme⁴ and ensure they can access it. TFIIP will also ensure that at least one bank account of an individual is seeded with their *Aadhaar* number.
- 2** Covering underbanked and unbanked areas by ensuring last-mile penetration of financial access points, such as CICO agents, branches, and ATMs into each village.
- 3** Expanding financial product offerings to low- and middle-income households through the CICO agent channel. MSC has designed and shared three new product concepts that specifically target women. These concepts found acceptance among all public sector banks in a meeting organized by DFS and will be subsequently piloted by public sector banks in India through TFIIP. Besides the 112 ADs, these products will be piloted in the Sevapuri block of Varanasi, the Prime Minister's constituency.
- 4** Strengthening the existing Grievance Resolution System for banks as per RBI guidelines to cater to the needs of PMJDY account holders.



3. The Jan Suraksha schemes (namely PMJJBY, PMSBY, APY)

4. The Pradhan Mantri MUDRA Yojna

The governance structure of TFIIIP includes committees at the district, state, and central levels, which convene at least once a month to monitor progress. Each of these committees has a representative from DFS, specific lead banks, as well as MSC. Throughout TFIIIP, MSC will provide technical support to each district virtually by drawing lessons from PEFI.

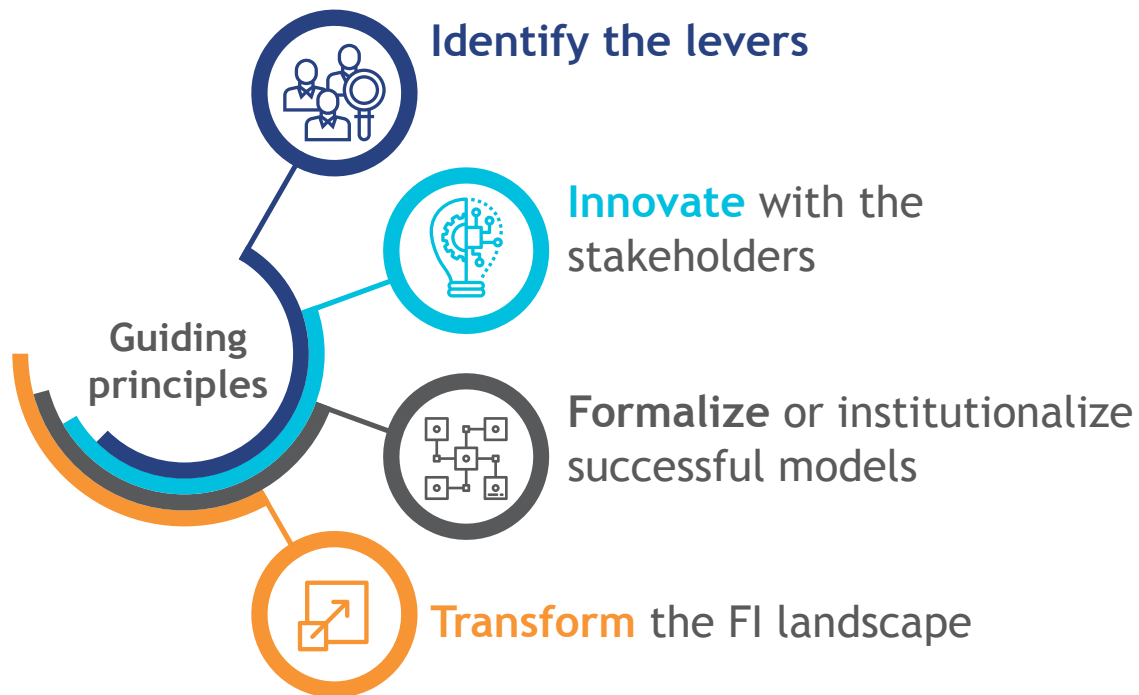
To facilitate seamless sharing of insights gathered and models developed, MSC has been developing two documents. One provides a more immediate “approach to TFIIIP” for districts to help them achieve the targets set out by TFIIIP. The other provides a more detailed “learning document” on specific processes and protocols that each district should adopt to enhance the status of financial inclusion. We will share these documents with DFS, banks as well as with the district administration in the ADs.

We believe that the adoption of structured processes as suggested in TFIIIP will deliver two key benefits for the districts. First, the districts will be better placed to enhance the status of financial inclusion. Second, last-mile residents in these districts will be able to access consistent and holistic financial services and a wider and more relevant boutique of products. In the next 18 months, we expect PEFI (through TFIIIP) to have a positive impact on the financial lives of 161 million-plus beneficiaries, including more than at least 80 million women.



Background information 1

MSC's conceptual approach for PEFI is the iLIFT framework



We have identified levers that will accelerate financial inclusion in the aspirational districts.

We have then:

- Picked up specific activities to push these levers,
- Tested them and
- Are formalizing them at the appropriate level (districts/center) to enable mass transformation



As a part of iLIFT, we have identified eight key levers that can move the needle on financial inclusion

01



Identification of the target or vulnerable segment of the population (both women and men)

02



Targeted and effective awareness-building initiatives for women and men

03



Improved agent management, ensuring provision of high-quality services by BC agents

04



Increased access to relevant products by vulnerable beneficiaries (both women and men)

05



Enhanced customer trust for product uptake

06



Evidence-based decision making, disaggregated by gender, on financial inclusion at the district, state, and central level

07



Enhanced private sector participation and unlocking CSR funding

08

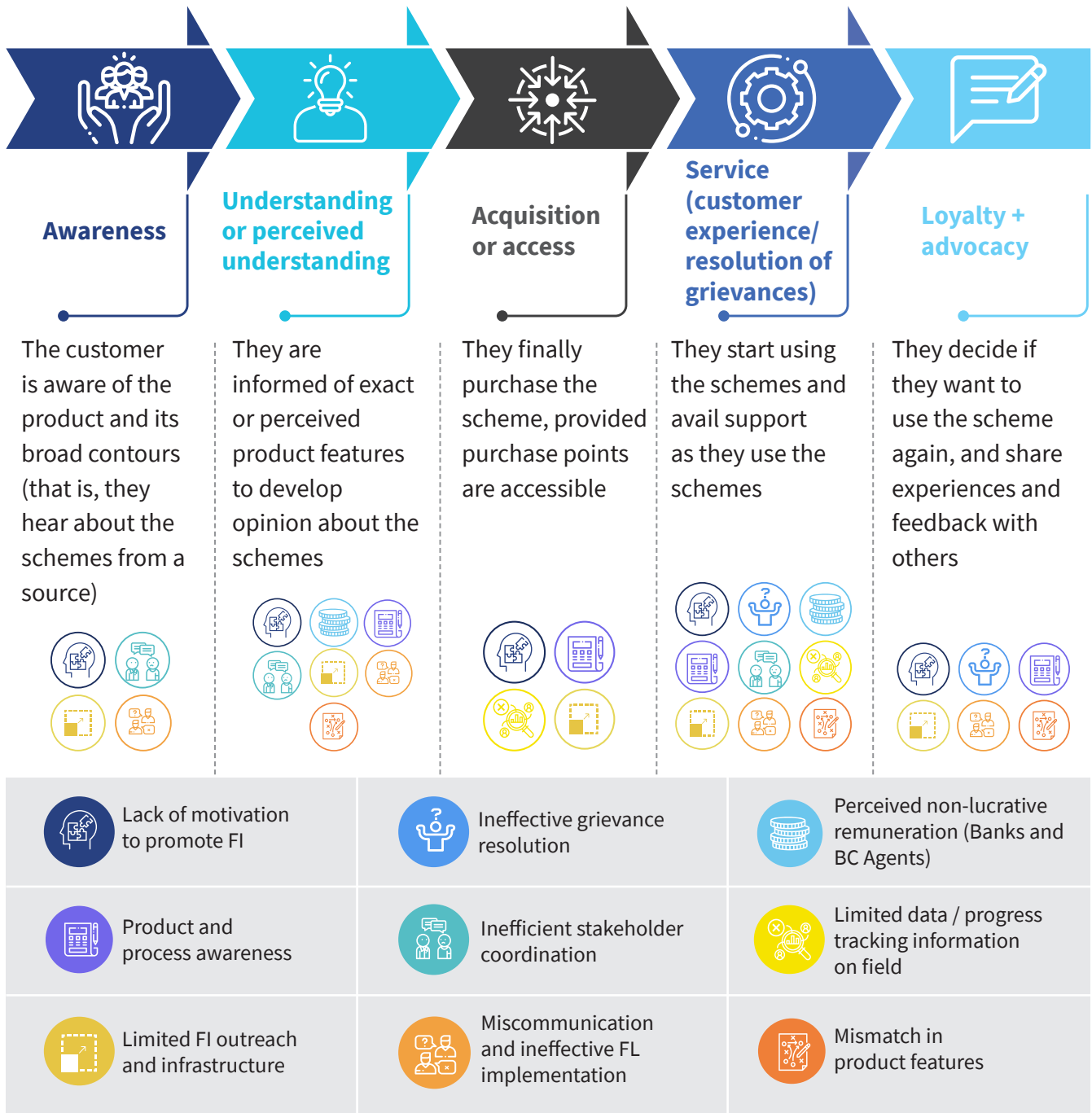


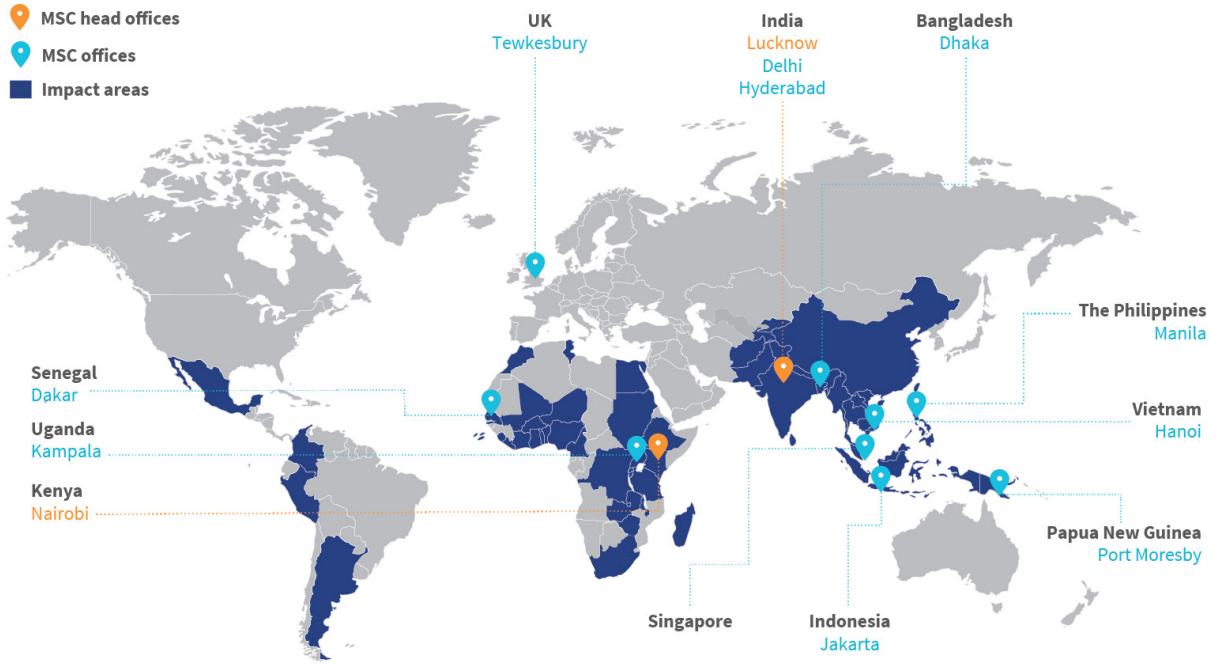
Enhanced motivation, holistic participation and ownership of supply-side players and the admin in financial inclusion

Background information 2

While following the iLIFT approach, MSC identified several challenges that affected the supply side (the financial service providers in this context), the demand side (the end beneficiaries in this context), and the government administration. The image below maps each of these challenges across the stages of a customer's journey.

Customer journey points and challenges associated with it





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