Case study

# Innovations in financial inclusion, including microinsurance

## Post-Tsunami Sustainable Livelihoods Programme for the Coastal Communities of Tamil Nadu, India

**2007-2020**

IFAD

Investing in rural people

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# Acknowledgements

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It was informed by the final impact assessment of the PTSLP project, led by IFAD's Research and Impact Assessment Division. The study also benefited from the inputs of Jonathan Agwe, Nadhem Mtimet and Kathy Zissimopoulos from IFAD.

The case study aims to inform development practitioners of the key innovations in financial inclusion piloted in the PTSLP project, and the critical need to invest in institutions and partnerships to ensure the inclusion of rural poor people – in this case small-scale fishers.



Cover photo: Fish caught here in the village of Pazhaverkadu is sold through a fish marketing society and proceeds are credited to the fishers. With the support of the project, the society has provided fishers with ice boxes, weighing scales and other equipment.
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# Glossary of terms

**Cluster resource centre (CRC)** – The basic implementation unit covering a group of panchayats. The programme area is divided into 64 CRCs, each covering 3-4 PLFs. CRC personnel support traditional community institutions (such as SHGs and JLGs) in planning, capacity-building and coordination.

**Fisher marketing society (FMS)** – These formal entities are registered as primary societies by the South Indian Federation of Fishermen Societies. They are composed of smallholder fishers who own small fishing craft. These societies serve as mutual SHGs, offering debt redemption from traders, access to rural credit and support for fish marketing through PTSLP.

**Grass-roots institution** – PTSLP helped to develop suitable institutional mechanisms for the target households, based on their involvement in livelihood activities, and mobilized them into SHGs, JLGs and FMSs. For example, SHGs are federated at the panchayat level and the SHG federation mobilized JLGs from among SHG members for enterprise promotion. Apex-level FMS organizations at the district and regional level were also established to provide continuous support to members.

**Joint liability group (JLG)** – Small groups created within or outside of SHGs to access small business loans as a collective from a financial service provider. These enterprises are held in common among members but undertaken individually.

**Panchayat** – A grass-roots democratic village-governance structure in India (mandated under the country's constitution). Democratically elected leaders manage Panchayats and receive funds to implement government initiatives. Panchayat offices are typically located within villages (or clusters of dwellings) and handle all village-related functions. Typically, one panchayat covers 5,000 households.

**Panchayat-level federation (PLF)** – Created under PTSLP, these institutions coordinate all SHGs at the panchayat level. Registered under the 1975 Tamil Nadu Societies Registration Act, PLFs are managed by apex leaders elected from habitat-level federations (HLFs). They are responsible for managing various funds and sourcing bulk loans from formal financial institutions.

**Self-help group (SHG)** – Informal groups of 12-20 members that facilitate small-group savings, usually through a small contribution each month to build a corpus, use the corpus for inter-loaning and provide group access to institutional credit from banks and microfinance institutions.

**Unit conversions**
1 US$ = INR 74

Seaweed harvested by women can provide a small income for households in Ramanathapuram

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# Context

In 2004, the deadly Indian Ocean earthquake and tsunami, affecting over a dozen countries in the Indo-Pacific region, caused severe damage and loss of life. The state of Tamil Nadu in India was the most severely affected – particularly in the fishing communities within coastal districts. The fisheries sector, an important source of employment, income and food security for coastal communities in Tamil Nadu (figure 1), was particularly impacted. Responding to the need for medium- to long-term rehabilitation coastal communities following the tsunami, the Post-Tsunami Sustainable Livelihood Programme (PTSLP) aimed to build self-reliant coastal communities that are resilient to shocks and able to manage their livelihoods in a sustainable manner. This has been achieved by supporting enterprise development, introducing risk-mitigation instruments and establishing resource-management systems that are owned and operated by poor communities in the target region (see box below) – supported by community organizations and other partners.

FIGURE 1: **Fisheries-sector profile of Tamil Nadu, 2020**

**13 coastal districts** **608 fishing villages**

**104,800 marine fishers** **5,806 mechanized boats**

**41,652 traditional fishing craft**

**500,000 tonnes of marine fish production**

*Source:* Policy Note-Fisheries 2020-2021, Government of Tamil Nadu.

**PTSLP target area and target groups**

The 12 coastal districts of Tamil Nadu are home to 248,455 households (1 million household members with nearly 75 per cent women beneficiaries). The target groups include: (i) coastal fishers using beach-launched craft (catamarans and *vallams*); (ii) wage labourers employed in the fisheries and agricultural sectors (including animal husbandry); (iii) small-scale women fish vendors and processors; (iv) smallholder farmers (including those affected by salinity); and (v) other marginalized livelihood groups (e.g. seashell workers).

Entering into force in 2007 and completed in 2020, the programme was financed by IFAD (US$52.4 million), the Tamil Nadu government (US$6.3 million), beneficiaries (US$14.6 million) and bank credit (US$39.9 million).

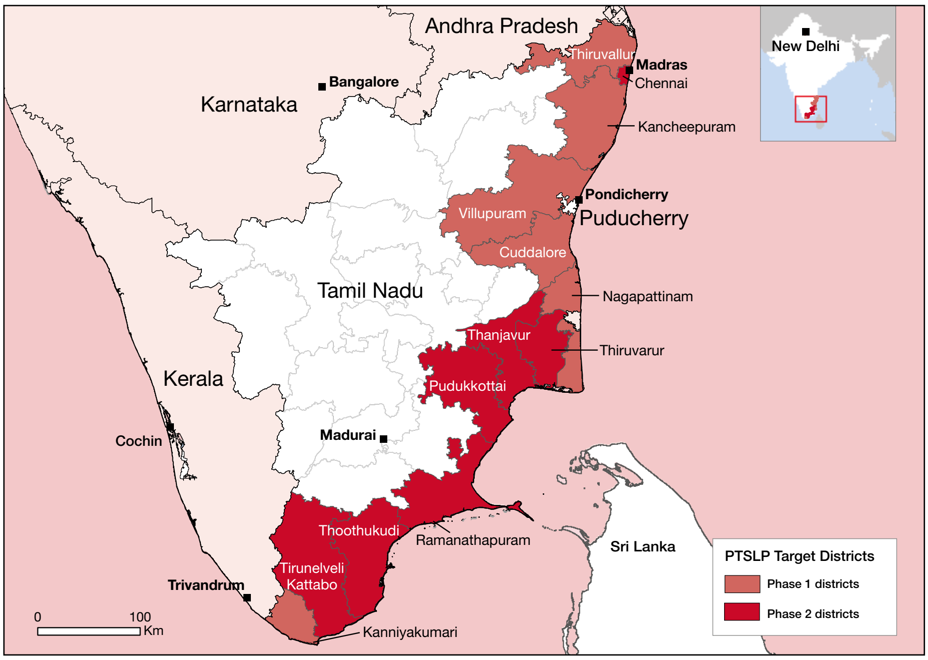
The programme was **implemented in two phases,** with **phase 1** covering six districts during 2007-2020 and **phase 2** (with additional financing) covering another six districts and limited activities during 2017-2020.

PTSLP invested in strengthening community institutions and linking them to sources of credit along with the development of community-level infrastructure. In addition, the project provided support for: livelihood and enterprise development through innovative financing, and inshore fishers and women fish traders to promote livelihoods. With a significant focus on risk-reduction strategies, the programme's key interventions included:

- Establishing and strengthening grass-roots institutions such as self-help groups (SHGs), joint liability groups (JLGs) and fisher marketing societies (FMSs), along with capacity-building on coastal resource planning, management and coordination;
- Supporting small community infrastructure development based on community led micro-plan development; and
- Providing technical support and building partnerships with public and private agencies to deliver credit, enterprise development and innovative risk-mitigation instruments.

The programme supported 1,000 community infrastructure development initiatives along with artificial reefs to conserve fish stocks. It also supported the formation of 121 FMSs and strengthened 8,532 SHGs and 247 apex organizations by building the capacity of 123,067 SHG members, 40,578 JLG members and 7,061 fisher members of FMSs. SHGs cumulatively mobilized US$6.2 million in loans from banks, while JLGs and FMSs have taken US$2.7 million in loans to establish fisheries enterprises. In addition, the programme supported the establishment of 26,433 enterprises with loans and patient capital from NABARD Financial Services Limited (NABFINS), and trained over 40,000 people, including youth.

MAP: **Tsunami hit area in Tamil Nadu**



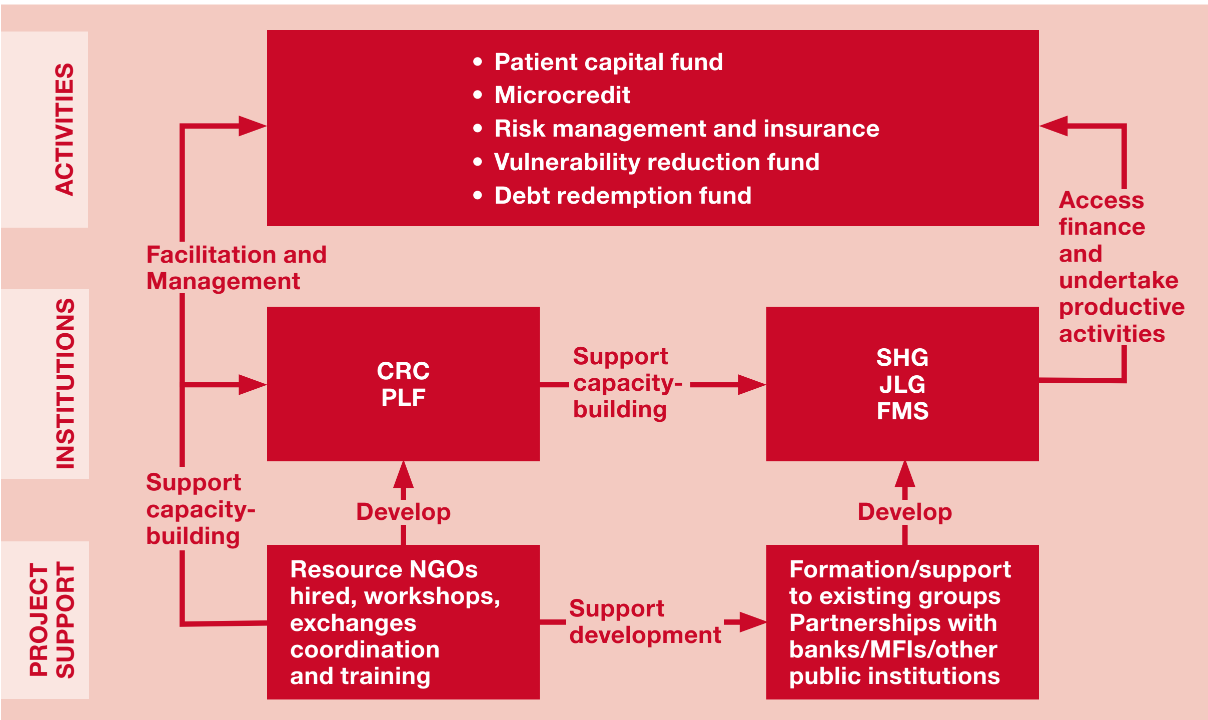
# Interventions in rural finance and risk-transfer instruments

Access to finance and enhancing risk management were identified at the design stage as critical components for building coastal communities' resilience and sustainable income generation. Grass-roots institutions including FMSs, SHGs and JLGs were both recipients of programme support and facilitators for programme outreach and activities.

The following interlinked activities[1] were delivered through the establishment and strengthening of grass-roots institutions (figure 2):

- Establishment of a **patient capital** mechanism to support investments in larger enterprises linked to microenterprises comprised of SHG and JLG members;
- **Credit** for SHG income-generating activities;
- **Credit linkages** for fishers through FMSs and a debt redemption fund;
- Investments in risk management such as **insurance products** for coastal communities; and
- **A vulnerability reduction fund.**

FIGURE 2: **Delivery of financial inclusion activities**




1 Although most of these activities were not extended to phase 2 districts, due to time and implementation capacity limitations, they were developed with an exit strategy and scale-up plan in mind.

# Enterprise development

## Patient capital fund

Many women beneficiaries were first-time entrepreneurs. The inability of some of them to sustain their businesses for long periods and overcome cash-flow issues often led to failure. There was an overdependence on bank loans, which were structured to ensure repayments in the shortest possible timeframe. With this in mind, a patient capital instrument[2] was developed with a focus on promoting microenterprises. The programme collaborated with NABFINS, a subsidiary of the National Bank for Agriculture and Rural Development (NABARD)[3] – a non-deposit-taking non-banking financial company (NBFC) in India – to extend and manage credit to programme beneficiaries to set up their own microenterprises. In coordination with the cluster staff of PTSLP and panchayat-level federations (PLFs), NABFINS identified prospective beneficiaries from among JLGs for the provision of financial assistance. The patient capital mechanism was designed as a soft loan, enabling women to stabilize their businesses.

A US$675,000 (INR 50 million) patient capital fund was established with NABFINS during phase 1 of PTSLP. While NABFINS rates as an NBFC were much higher than those of commercial banks, the patient capital helped to subsidize beneficiaries' interest rates. The model adopted for extending credit for enterprise development involved: 70 per cent as loan funded by NABFINS at an interest rate between 14-16.8 per cent per year; 25 per cent of the loan funded from the patient capital at 4 per cent per year by PTSLP; and the remaining 5 per cent as margin equity by the borrowers. Beneficiary repayments were recycled in order to provide financial support to microenterprises through project completion in 2020 (eight years). With this mechanism, women entrepreneurs in JLGs received loans at approximately 11.5 per cent weighted average interest, which were comparable to and sometimes lower than those of commercial banks. Table 1 below describes the interest rates and other charges included in the patient capital mechanism.

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2 At the project design stage, a venture capital fund was envisaged instead of patient capital. The fund was to be professionally managed by an independent financial institution, and would invest in larger enterprises, providing backward and forward linkages to other enterprises. However, it took almost five years to establish the partnership with NABFINS. The venture capital equity fund was modified into a patient capital loan fund since experience with microenterprise development in India showed that equity investment in small enterprises was not feasible while the core competence of NABFINS was in lending.

3 NABARD is the nodal agency for agriculture and enterprise credit in India. Read more at www.nabard.org.

TABLE 1: **Interest rates on loan provided through patient capital – phase 1 districts**

| Borrower category | Loan amount | Interest rate (%) | Processing fees | Good and services tax | Penalty charges for prepayment | Credit insurance |
|---|---|---|---|---|---|---|
| **JLGs/SHGs formed by IFAD** | For loans up to US$2,700[4] | 14% | 1% of sanctioned amount | 18% of processing fee | 0 | US$4 cents per US$14 |
| | For loans between US$2,700-US$6,756 | 15.5% | | | | |
| | For loans above US$6,756 | 16.75% | | | | |
| **Loans from patient capital** | 25% | 4% | – | – | – | US$4 cents per US$14 |

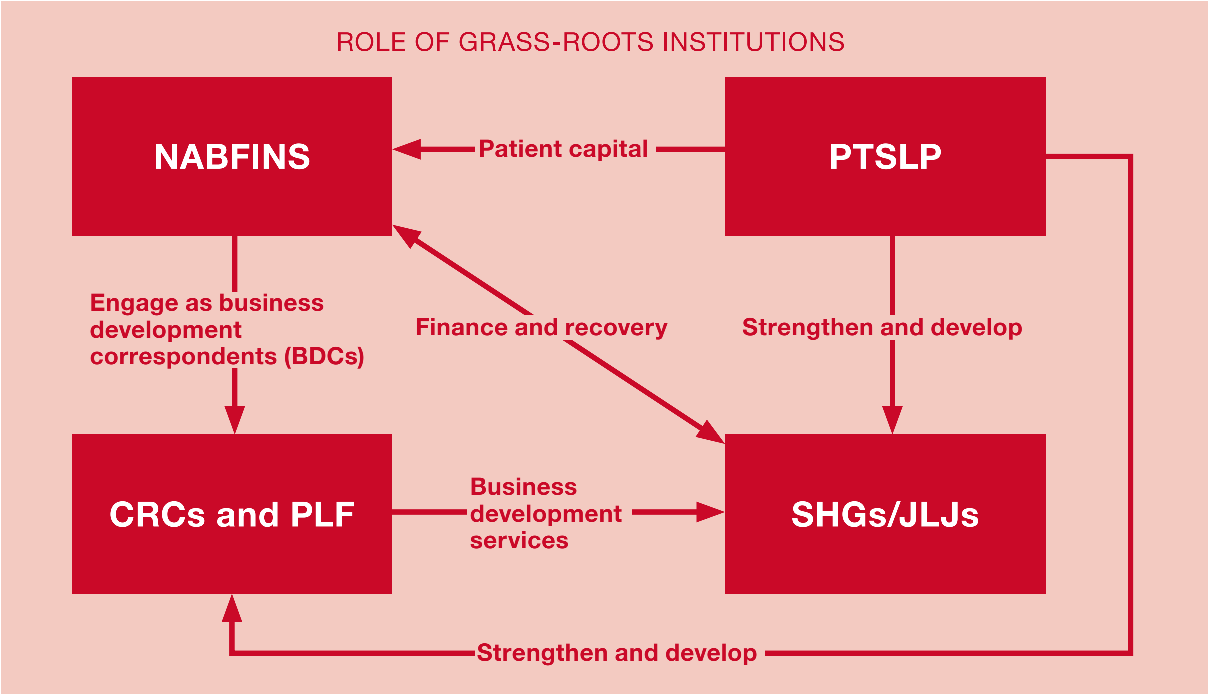
Source: NABFINS.

The physical achievement of JLGs linked with NABFINS was 83 per cent of the target and the financial achievement was 97 per cent of the target. PTSLP has achieved a significant mobilization of poor coastal communities by linking them with NABFINS for microenterprise development. The average loan size varied from approximately US$2,000 to US$3,800 for microenterprise activities. While patient capital is needed more in capital-intensive enterprises, experience gained in programme implementation has shown that some financed enterprises were particularly working-capital intensive, as in the case of dry fish processing and sales. NABFINS, the PTSLP team and women beneficiaries gradually became more comfortable promoting traditional trades. Financing for non-farm enterprises was relatively rare: more intensive business development services are needed for the promotion of non-farm enterprises.

Loans from NABFINS using patient capital proved to be highly suitable for financing microenterprises since unlike grants, where targeting is an issue, entrepreneurs take repayment of loans seriously. Although the uptake of patient capital in the initial six project districts was very high, the response from phase 2 project districts (from 2017) was far below expected. This is mainly because other commercial banks, including Pallavan Grama Bank (from 2016 onwards) and Indian Bank (from 2017 onwards) also started providing loans to women entrepreneurs. The patient capital model is therefore innovative, paving the way for successful JLG financing with other mainstream commercial banks. The state is now considering either converting the remaining patient capital to perpetual equity for the government of Tamil Nadu, which will receive a dividend on this investment, or signing a memorandum of understanding with NABFINS to ringfence the patient capital for use as regular loans only in the PTSLP programme area.

4 The rates were revised by NABFINS in 2018 and negotiated by the programme team for phase 2 districts at 16.85 per cent.

FIGURE 3: **Partnership with NABFINS**




Through cluster resource centres (CRCs), the programme collated and digitized all data related to SHGs. JLGs were formed by enterprising SHG members to access credit. Rural finance consultants supported the preparation and validation of business plans for the JLGs and microenterprises, and established financial links with NABFINS. They also reviewed processes, carried out client awareness-raising, led training and regular meetings; and arranged visits by PLFs to financial institutions (figure 3).

## LESSONS LEARNED

- **Strong technical guidance** – capacity-building for backward and forward linkages, and raising awareness among staff at all levels was requisite. The programme facilitated cluster-wide meetings and worked with beneficiaries to identify microenterprises.
- **Systematic business plan and loan proposal preparation,** and follow-up on enterprise functioning through advisors are essential. This helped first-time women entrepreneurs to gain confidence in setting up and expanding their businesses.
- **Strong management information systems (MIS) are required.** NABFINS relied heavily on PLFs to make collections. Poor MIS tracking at NABFINS initially led to variations in overdue figures between the programme and NABFINS MIS. As a result, some collections were held in a suspense account by NABFINS. By project completion, accounts were largely reconciled, but some discrepancies remained.

- **Complex procedures,** including repayment processes and no-due certificates to loan beneficiaries need to be smoothed out before this instrument can be scaled up.

KEY RESULTS

- Total funding through NABFINS assisted 1,280 JLGs through patient capital totalling US$1.2 million (INR 92.7 million) in six coastal districts.
- Microenterprises covered by patient capital included fishing equipment and fish sales (42 per cent), livestock activities (23 per cent) and off-farm activities (11 per cent). The majority of loans disbursed under the patient capital instrument through NABFINS were for fish-vending microenterprises.
- The impact evaluation on patient capital assistance by the Tamil Nadu government indicated that this instrument helped to smooth the credit requirements of JLGs by reducing the burden of higher interest to be paid by beneficiaries and reducing the margin requirement on the overall programme loan.

## Credit for SHGs and JLGs

PTSLP facilitated business development correspondent (BDC) arrangements between commercial banks and financial service providers such as ICICI Bank, IDBI Bank and NABFINS to ensure adequate credit flows to SHGs, JLGs and individual enterprises. PLFs acted as the BDC for NABFINS and several other rural banks. They also: supported the identification of SHGs, JLGs and enterprises in need of credit; fulfilled documentation requirements; and monitored repayments (for which they received commissions from banks, enabling their sustainability).

ABOUT FMS

All FMSs have an elected board and engage commission agents, who coordinate the auction of fish with larger traders. Members sell their catch through the FMS, which takes a commission of between 2-3 per cent of sales. These societies also support deductions for compulsory savings, insurance premiums and loan repayments, from the amount payable on sales. Savings are used for lending to fishers, especially during lean periods and for emergencies. FMSs also mobilize loans for fishers from their own funds and from banks. FMSs have therefore opened the credit market to fisheries communities, allowing them to repay their debts and take out small loans, in a sector that banks and microfinance institutions were always reluctant to lend to.

Credit flows – especially small loans for SHGs and JLGs – improved with PLFs acting as BDC for private-sector banks. BDC arrangements also helped PLFs to generate income and achieve sustainability. The BDC concept was unique at the time it was adopted by PTSLP (in 2012). The BDC, engaged by private banks, supported activities such as documentation and managing repayments. PLFs providing BDC services were provided a 2 per cent commission in two intervals: at the time of loan disbursement and following prompt repayment of loans by SHGs and JLGs.

A memorandum of understanding was signed with NABFINS for SHGs' credit linkages (using BDC arrangements) on a pilot basis in 2012 and 2013 to support 14 SHGs affiliated with three PLFs. Given the weak financial position of PLFs, PTSLP established a "caution deposit" of US$675 (INR 50,000) for each PLF. During phase 1, NABFINS financed SHGs with approximately US$67,000 (INR 4.3 million). Based on the success of this pilot, other commercial banks began to provide financing through PLFs.

## LESSONS LEARNED

- **Need to raise awareness of the lending model:** While the SHG lending model existed in the state of Tamil Nadu previously, PTSLP sponsored stakeholder awareness-raising programmes for bankers, NGOs, CRC personnel and PLF officers on SHG lending. Several rounds of engagement were required to establish an appropriate financial structure and lending instruments.
- **Strong role of PLFs:** It was noted in the government of Tamil Nadu impact evaluation that PLFs have a key role in the selection of SHGs and JLGs for enterprise lending, screening, promotion of income-generation activities, capacity-building and entrepreneurial skill-building in coastal communities.

## KEY RESULTS

- Currently, 232 PLFs are working as BDCs to support 1,299 SHGs with an overall disbursement of US$6.7 million. It is notable that that BDC arrangements are one of the key sources of PLFs' income and sustainability.
- The impact assessment of the BDC model for extending credit to SHGs and JLJs suggests that the major source of income for PLFs is the BDC commission received from financial institutions, boosting their sustainability. Eighty per cent of participating PLFs are financially sustainable and will not require government subsidies for operation moving forward.

# Credit linkages for FMSs

PTSLP took a comprehensive approach to working with FMSs and their federations in order to enable credit flows from private banks and microfinance institutions, and deliver insurance products that build the resilience of fishers to shocks and natural disasters. The programme established 121 FMSs with 7,061 member fishers across all programme districts. These FMSs were formed in partnership with the South Indian Federation of Fishermen Societies (SIFFS), an apex body of small-scale artisanal fisher organizations. To ensure inclusion of those most in need of the services, FMSs limited their membership to owners of small-scale and artisanal fishing craft such as catamarans and *vallams*. These FMSs focused on enabling fishers take control of the first point of sale of fish instead of selling directly to middlemen.

In order to mobilize women fish vendors, processors and seaweed gatherers, PTSLP worked with the District Level Fishermen Sangams[5] to mobilize women in JLGs and affiliate these groups with the federation. This gave the women greater access to financial services such as microcredit, savings, microinsurance and micropensions.

## Debt redemption fund

The first step towards enabling the establishment of FMSs was the creation of a debt redemption fund (DRF) to free fishers from indebtedness and from having to sell through fish traders (who previously provided them with loans). The programme provided funds for settling earlier loans from traders, which was critical for enabling the fishers to sell their catch to FMSs.

Initially, the programme created a corpus of US$337,000 as a grant to SIFFS for repaying fishers' debts to traders in the first four years of implementation. In order to benefit from the fund, fishers had to be members of any FMS registered with the SIFFS. Requirements for obtaining loans from the DRF included: (i) a resolution of the society providing details of the members' debts (through a survey of indebtedness by each society); (ii) tripartite agreement among each SIFFS, the FMS and member; and (iii) a statement or plan of marketing for the first month. Debt redemption loans were repaid by FMSs within the first two to three years at an interest rate not exceeding 12 per cent on a declining balance basis. This rate includes a margin of 2 per cent payable to district federations for processing loan applications and collecting repayments from their members. SIFFS was originally contracted to mobilize FMS and manage the DRF. This function was decentralized however, and the portfolio of each FMS or federation is now managed independently.

5 The FMSs formed by PTSLP are federated at the district or regional level to monitor and support FMSs over the long term. District-level federations (DLFs) ensure their members (including FMSs and JLGs) timely access to credit for working capital and the purchase of assets.

## LESSONS LEARNED

- **Financial inclusion of women:** Women usually do not undertake fishing but are involved in fish vending and sales. The project therefore focused on mobilizing women into JLGs in order to augment their sales, processing and quality-improvement capacities.
- **Adaption to local conditions:** During phase 2, fish marketing had to be adapted to local conditions, with 55 per cent of FMSs in phase 2 districts moving to individual sales. This was based on: (i) the possibility of collective fish marketing in areas with adequate catch; (ii) the fact that market inefficiencies are minimal in FMSs closer to markets where large numbers of traders are operating, thus enabling fishers to sell directly and repay loans; and (iii) the importance of fisheries JLGs, where fishers can directly market their catch.
- **Need for sustained counselling:** While district-level FMS federations have facilitated the financial inclusion of very poor fish-vending women and provided important economic opportunities, some collectives have run into difficulties due to adoption of banned fishing gear by their members. In such cases, sustained counselling is needed to revive the FMSs, aided by strict enforcement of fishing gear regulations by the government.

## KEY RESULTS

- The DRF was a critical intervention to relieve small fishers from having to sell fish at below-market prices to traders who provided them with loans. Selling fish at the open market at auction centres established by FMSs has increased market prices for fishers by 20 per cent or more.
- Through a US$1.9 million investment, 5,896 fishers have been freed from debts to traders. The federations have used the repayments to satisfy other members' debts and provided repeat loans for working capital to fishers. Cumulative loan disbursements from the fund total US$3.5 million.
- Over US$1.9 million in working capital loans was provided to 2,594 JLGs comprised of 12,506 women fish vendors.
- The DRF credit instrument was developed based on an assessment of small-scale fishers' credit needs for catching and marketing fish. The affordable rate of interest and relatively long repayment period of three years were set accordingly.
- Three quarters of fisher federations are financially sustainable and have corpus funds ranging from US$61,000 to US$810,000.[6]

6 IFAD project supervision report (2020).

Fishermen in Thathanenthal load thermocol rafts onto their fishing boat

# Fishing asset mutual insurance

While fishing can be dangerous, particularly for small fishers, most are not covered by insurance or other forms of risk mitigation. Membership of an active SHG can mitigate this risk to some extent through savings and loans to invest in livelihood diversification. Apart from the economic and health risks, a major risk to fishers is asset-related: fishing assets are not generally insured, and boats often lack safety and communication equipment. The government's fishing policy focuses on insurance for bigger vessels and few insurance companies insure small fishers.

The cost of insurance premiums is another deterrent to buying insurance since it provides no immediate or tangible benefits unless a covered loss occurs. For example, a small-scale fisher who owns a small boat valued at US$1,350 would need to pay an annual premium of US$55. Considering the catch, value of fish and operational expenses involved, the annual premium per vessel was very high. Out of 142,243 households, only 18.7 per cent were covered under life insurance at programme startup, and 2.7 per cent had health insurance.[7] Almost 91 per cent of fishers – the most vulnerable beneficiary group in terms of assets – had no asset insurance.

Asset insurance is also sometimes accepted as partial collateral for loans from banks and microfinance institutions. In this context, PTSLP focused on insurance, pension and savings products to build beneficiaries' resilience and ensure the sustainability of programme interventions. PTSLP helped households to mitigate risks by piloting new products and adapting existing ones to meet their needs

## Insurance for artisanal fishing assets

Insurance companies are reluctant to cover fishing assets because claims are difficult to verify and reliable documentation of the age and condition of boats is difficult to obtain. Many fishers find insurance premiums unaffordable and complain about the high application rejection rate and long delays in paying compensation. To manage these issues, an insurance programme was launched in 2017 in partnership with SIFFS and United India Insurance Company Ltd (UIIC). A tripartite agreement by PTSLP, UIIC and the Board of PTSLP Fishing Asset Risk Mutual Society (PFARMS)[8] was established by the fisher marketing federations for insuring fishing boats and engines.

SIFFS sought a grant from PTSLP to establish a revolving fund that provides the first insurance premium as a loan and provides a cushion in years when losses are higher than expected. FMPs were supported in establishing a PFARMS to organize fishers for enrolment and support with claims administration. Individual risks

7 Thematic study on insurance conducted by PTSLP.

8 DLFs are the founding members of PFARMS and the new federations formed after programme completion can became members. PFARMS is registered under Section 10 of the 1975 Tamil Nadu Societies Registration Act as implementing body of the Fishing Asset Insurance Programme in the Coastal Areas of Tamil Nadu.

such as loss of equipment due to collision, capsizing and accidents are insured by the mutual PFARMS policy, while co-variant risks such as natural disasters are insured by a policy purchased by PFARMS from UIIC. The premium of 1 per cent of net asset value is shared equally between UIIC – which operates like a reinsurer – and PFARMS.

### HOW IT OPERATES

- **FMSs** are the owners of the mutual policy. These societies pass on the insurance premium from members' fish sales.
- **Fishery mutual PFARMS** enrols members for insuring boats and engines. It facilitates the registration of boats together with the Tamil Nadu Fisheries Department. PFARMS collects a premium of 1 per cent of the value of the fishing assets with timely renewal, with 20 per cent of the value and premium deducted every year at renewal.
- **A commercial insurer underwrites** the co-variate weather risk with a parametric product based on a three-year memorandum of understanding between PFARMS and UIIC, the government insurance company. UIIC collects 0.43 per cent of the total premium, excluding service charges, tax and stamp duty, from PFARMS. Rates are negotiated yearly.
- **The Fisheries Department** and its local district administrations insisted that fishers enrol in asset insurance to take advantage of a fuel subsidy and the department's facilitation of boat registration. The insurance product has the support of the Fisheries Department, which is keen on scaling it up to cover all 35,000 small vessels in the coastal area of Tamil Nadu.
- **PLFs** were named as agents of the insurance companies to underwrite the policies.
- **PTSLP** provided a matching grant in the amount of 1:1 of the premium collected from clients in 2017-2018 and 2018-2019 as a risk fund and funded the administrative costs of PFARMS from 2017 to 2019.

## ROLE OF PTSLP AND INSTITUTIONS

PTLSP engaged in discussions with insurers and linked fishers with a formal insurance company. It also facilitated the incorporation of PFARMS as a mutual risk mutualization society. PTSLP also helped to develop a new tailor-made product and approach, and mobilized fishers as an advocate for insurance. This included community promotion of the policy and raising awareness of its benefits. When a disaster occurred, PFARMS held an advocacy event where fishers heard, "I did not insure but my neighbour did, and he got a settlement within one week". As an additional incentive, the Fisheries Department required the fishers to obtain insurance in order to take advantage of a fuel subsidy.

The UIIC and Life Insurance Corporation have appointed the 109 PLFs and three DLFs affiliated with SIFFS. In turn, PLFs appointed insurance focal points to handle insurance service for members. PTSLP trained the officers of PLFs and DLFs affiliated with SIFFS on insurance management at the PLF/DLFSF level SHG and FMS members were trained in insurance and risk management.

## LESSONS LEARNED

- **Need for a separate legal entity:** The newly created, PFARMS, is a key player that liaises with fishers, motivates them to enrol and assists with registration and claims assessment in the case of a disaster. A new and separate legal entity was created – outside of fisher federations – to ensure sustainability. A community-based organization is administering the mutual instrument.
- **Ensure affordability of premiums:** The current insurance policy costs 4 per cent of the value of a trawler, which can cost US$1,000. Since this per centage may appear high to small-scale fishers, the premium was subsidized temporarily by PTSLP as a market-development incentive.
- **Administrative and digital support:** When a new fisher is enrolled, PFARMS must upload many documents, including social security number and fishing asset registration, manually. Digital support for administration is required. For damage assessments, it is possible to take pictures using a smartphone and to upload them into a simple database. However, PFARMS has no modern IT system to manage these data and faces challenges with manual processing.
- **Awareness:** Increased awareness of insurance services and their benefits enables community members to access other government insurance products. PLFs will need to continue raising awareness about insurance and ensure its wide adoption.

### KEY RESULTS

- Of all 40,078 boats in the 12 programme districts, 22 per cent (8,956 boats) were insured with the fishing-asset insurance product. The renewal rate has been over 60 per cent.
- The operation of PFARMS has stabilized over four years and considered sound at project closure. PFARMS has adequate funds totalling US$300,000 and the operational model of insuring individual risks through the PFARMS make the operations viable.
- Following a comparative assessment of products through PTSLP, the programme supported memorandums of understanding with the Life Insurance Corporation of India for life insurance, and United India Insurance for general insurance. With facilitation, awareness and simplification of processes, the programme saw a steady increase in uptake of all forms of microinsurance, including health, life, cattle and personal accident insurance.
- The enrolment of PLFs as third-party administrators of insurance companies for the distribution of insurance products has minimized any moral hazards.

## Vulnerability reduction fund

PTSLP conducted workshops to discuss the risk-management needs of community members, including fishers. In order to support poor and very poor households in the programme area when incomes are disrupted by natural disaster such as cyclones, a vulnerability reduction fund (VRF) was established. The programme team held discussions with various stakeholders regarding the type of risks to be covered, methods of identifying beneficiaries, amount of loans and beneficiary contributions. PLFs were given the responsibility of administering the VRF.

The fund requires a community contribution of 20 per cent share capital against an 80 per cent programme contribution. Individual members affected by a calamity or livelihood asset loss were provided a loan of between US$68 and US$135 in up to 10 instalments at 6 per cent interest rate per year on a declining basis. A moratorium of up to two months was placed on the loans in order to build resilience to financial shocks. PLFs were tasked with ensuring that very poor women-headed households and ethnic minorities benefited from the fund. The National Rural Livelihood Mission,[9] which is a national scheme of the Government of India, has scaled up VRF through its own programme.

9 This is a central government-sponsored scheme to promote rural poor people's self-employment and organization.

## LESSONS LEARNED

- The VRF is an effective solution to provide timely access to finance in emergencies, reducing the need for taking high-interest loans from money lenders.
- **Membership of institutions:** Implementation has been far from smooth since several PLFs have less than 1,000 SHG members. This affects both the overall community contribution and the reach of benefits to the poorest communities. Beneficiary contributions have not surpassed 60 per cent of the target, indicating that the PLFs face difficulties in enforcing contributions.

## KEY RESULTS

- PTSLP has provided US$893,000 to 236 PLFs in 12 coastal districts to set up the VRF, with a community contribution of US$235,000. Cumulatively, 46,261 loans have been disbursed totalling US$3.7 million.
- Of the loan applications received by PLFs, 25 per cent were for loss of livelihood, 69 per cent were for health and 6 per cent were for other losses.
- A large proportion of the loans provided by the VRF are overdue and PLFs have been unable to recover the funds. This indicates that PLFs have limited capacity to enforce repayment, address governance issues, amend product terms and manage repayment risk. These issues need to be considered as this initiative is scaled up.

Fish is cleaned and packaged for sale at the market in the village of Pazhaverkadu

# Impact of the programme

During 2021 and 2021, IFADs Research and Impact Assessment division carried out an assessment of the PTSLP. Key findings related to financial inclusion and insurance include the following:

1. While there were no significant differences in access to bank accounts among target groups, there was a significant difference between the number of loans taken. A preference for PTSLP-led innovative instruments and lower-interest loans was noted. Overall, the preference for loans from microfinance institutions dropped by 23 per cent while PTSLP-led loans (VRF, patient capital, credit through SHGs) jumped almost 800 per cent.
2. Programme beneficiaries received almost 40 per cent more training on credit access than the control group. Almost 20 per cent more loan applications and 16 per cent more loan disbursements were noted among target beneficiaries.
3. While the revenues of women fish vendors' enterprises and fisheries overall increased by nearly 100 per cent, net profits were lower since the overall costs of fishing also increased.
4. The estimated impact of PTSLP on the gross total income of beneficiary households is an additional US$416 per year. It may be noted that total household income is composed of multiple income sources, of which income from fishing and income-generating enterprises contributes a significant share.
5. Most beneficiary households reported an increased appetite for insurance, with a nearly 28 per cent difference between the target and control groups. The target group also reported an improved understanding of insurance, with a nearly 20 per cent difference between target and control groups.
6. Both women-led enterprises and joint enterprises reported increased income of almost 60 per cent over the control group.

# Sustainability and exit strategy

The sustainability of programme interventions is due to PTSLP's strong focus on the formation and strengthening of grassroot institutions, many of which are now financially sustainable. One challenge that remains is the long-term need for mentoring on governance and management – for both institutions and enterprises supported by PTSLP. The government of Tamil Nadu state is considering the formation of a separate institution to address the integrated livelihood needs of coastal communities and continue scaling up PTSLP interventions. This will support post programme sustainability. Factors supporting sustainability include the following:

- The programme has built strong social inclusion, with the formation of JLGs for enterprises and financial inclusion of women fish vendors, promoted economic independence and cohesion among fishers through promotion of FMSs, and developed federations (PLFs) to support decentralized rural economic and social activities.
- Robust SHG-bank linkages, piloting of JLG-led enterprise development and consistent performance on loan repayments has built mutual trust between beneficiaries and financial institutions. More than 85 per cent of supported enterprises across diverse sectors are now profitable.

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