

INITIAL POVERTY AND SOCIAL ANALYSIS

Country:

India

Project Title:

IND: Strengthening Rural Financial Inclusion and Farmer Access to Markets – Axis Bank and Yes Bank

Lending/Financing Modality:

LIBOR Based Loan

Department/ Division:

Private Sector Operations
Department/Private Sector Financial Institutions Division

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

The Government of India's 12th five year plan (the plan) and Asian Development Bank's (ADB's) country partnership strategy (CPS) for India, 2013–2017 (the CPS) emphasize the need for enhanced inclusive growth.^a The plan and the CPS target reduction of the poverty headcount ratio by 10 percentage points by 2017 through greater financial inclusion and improved farm sector growth and small producer linkage to markets for the benefit of poor farmers (including women). Higher levels of public and private investment are key factors.

Economic and finance sector reforms in the 1990s resulted in a sustained gross domestic product (GDP) compound annual growth rate (CAGR) of 7.5% over 2000–2012, which outperformed India's GDP growth during the preceding decades. Strong economic growth, coupled with slower population growth, resulted in a dramatic improvement in India's poverty headcount index, which fell from 66% in 1977 to 33% in 2009.^b Private sector credit coverage has improved substantially, representing 51% of GDP in 2012, up from 25% in 1990.^c However, rural financial inclusion remains low, with only 32% of rural residents having bank accounts and women disproportionately represented among those without access.

The CPS identifies limited access to economic opportunities as a major constraint for farm productivity and job creation. Poor nutrition, health, and education—especially early in life—have historically limited efforts to reduce poverty rapidly. Poor sanitation has a detrimental effect on health early in life and can lead to a loss of adult cognitive skills, as well as negatively impacting labor productivity. In addition to health concerns, India has a serious skills deficit, which has resulted in the low employability of its labor force. Many rural youth remain only seasonally employed or unemployed because of limited opportunities. A high proportion of rural women continue to be engaged in agriculture (79% of women against 63% of men in 2009-2010), but low asset ownership among women, particularly of land (women held only 12.4% of cultivated holdings in 2005-2006) affects their ability to access extension services, training, new technologies, and credit.

B. Targeting Classification

General Intervention Individual or Household (TI-H) Geographic (TI-G) Non-Income MDGs (TI-M1, M2, etc.)

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries.

Key poverty and social issues. About 680 million Indians or 56% of the population continue to lack the income and safety nets required to meet their essential needs, most of whom are rural dwellers. Of particular concern is the lagging performance of agriculture, which is the primary form of employment and the main source of income in the rural areas. With a CAGR of 3.1% (2000-2012) agriculture growth was consistently outpaced by that of industry and services sectors. Over the past five decades, the contribution of agriculture to GDP declined from 42% (1961) to 17% (2012).

With about two-thirds of India's people deriving their income from agriculture and nearly three quarters of the poor (estimated at more than 300 million people) living in rural areas, the impact of low agricultural productivity has been severe especially for the landless, unemployed, and seasonally employed. About 68% of India's 1.3 billion population, (comprising about 125 million farm households), live in rural areas, 80% of which are small holdings with only up to 2 hectares.

Low agriculture growth and productivity are a general feature across a variety of crops and regions and stem from a number of factors, including (i) slow progress on land reforms; (ii) inefficient state controlled input supply and marketing; (iii) inadequate irrigation infrastructure resulting in high dependence on rainfall; (iv) limited research and slow adoption of modern agricultural practices and technologies; (v) weak integration of farmers into the value chains of agribusiness companies; and (vi) very limited and costly access to financial services that support the farmer in building capital in order to invest in farm yield improvements. Labor productivity in the agriculture sector has been estimated to be only 29% of labor productivity nationally .

Agriculture generated more than 17-19% of GDP during 2007-2012, yet the sector only received 11-12% of institutional credit. The lack of access to affordable funding is among the main reasons limiting needed investment by India's 120 million farmers most of which are low income smallholders. Hence, many farmers, especially smallholders, are unable to undertake necessary farm investments to improve their productivity and income. Also, bank branch networks are still insufficient to reach out to the vast expanse of India's villages.

Beneficiaries. Primary beneficiaries of the project are (i) rural women organized in either savings and credit self-help groups (SHG) or joint liability groups and (ii) small farm households across India. While this target group may own small land plots, family subsistence demand and low farm productivity constrains their income generation capacity. Investment and working capital is needed to augment farm productivity and income opportunities. Although the performance of SHGs substantially varies by geography and by the quality of business correspondents (BC), India has established a good track record of sustainable practices of SHGs and supporting BCs, who are normally social organizations affiliated with microfinance institutions (MFIs) or directly owned or part of an MFI structure. In addition to using BCs as intermediaries banks may directly lend to SHG and the small farmers or use agriculture corporate relationships to access small farmer households.

2. Impact channels and expected systemic changes.

Poor women and their households will benefit from the financial literacy training imparted by the BCs and the savings capital mobilized by the SHGs, as well as the credit provided for well-defined agricultural and farm household needs.

Relevant issues will be identified by the SHGs at the grassroots level as needed, discussed in group meetings, and addressed within the SHGs to the extent possible.

3. Focus of (and resources allocated in) the PPTA or due diligence.

The systems, controls, and monitoring of the banks and the BCs to ensure a more effective outreach to a large number of women SHG beneficiaries and small farmers.

4. Specific analysis for policy-based lending.

Not applicable.

II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector/subsector that are likely to be relevant to this project or program?

Despite some progress in gender equality, India ranks lowest among 6 countries in South Asia in the Global Gender Gap Report 2013, demonstrating that growth has not necessarily been inclusive for women. Women only represent 18.6% of wage employment in nonfarm activities, whereas 79% of women as compared to 63% of men are engaged in agriculture. The average rural wage for women is 68% of that of men and 57% in urban areas. Women hold only 12.4% of cultivated holdings, and own less than one-third of deposits in commercial banks. Only 55% of adult women are literate compared to 78% of men.

Rural financial inclusion remains low with only 32% of rural residents having bank accounts and women are disproportionately represented among those without access. Poor women would benefit from more attention to the development of appropriate financial services and financial literacy. This includes access to savings services and insurance, both of which enable the poor to guard against the risk associated with debt.

2. Does the proposed project or program have the potential to make a contribution to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making?

Yes No

A gender action plan will be prepared for YES Bank.

Both banks support (i) rural women organized in either savings and credit self-help groups (SHG) or joint liability groups and (ii) small farm households across India by providing working capital to augment farm productivity and income opportunities. The banks will use BCs as intermediaries or directly service women SHGs. The SHG model ensures adequate participation of women in the decision making and reception of essential financial literacy training

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?

Yes No

Not applicable

4. Indicate the intended gender mainstreaming category:

GEN (gender equity theme) EGM (effective gender mainstreaming)

SGE (some gender elements) NGE (no gender elements)

III. PARTICIPATION AND EMPOWERMENT

1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will

participate in the project design.
Small farmers and women participants in SHGs.

2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable and excluded groups? What issues in the project design require participation of the poor and excluded?

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3. What are the key, active, and relevant civil society organizations in the project area? What is the level of civil society organization participation in the project design?

N Information generation and sharing **N** Consultation **N** Collaboration **N** Partnership
Not applicable

4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how shall they be addressed? Yes No

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IV. SOCIAL SAFEGUARDS

A. Involuntary Resettlement Category A B C FI

1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? Yes No

Not applicable

2. What action plan is required to address involuntary resettlement as part of the PPTA or due diligence process?

Resettlement plan Resettlement framework Social impact matrix
 Environmental and social management system arrangement None

B. Indigenous Peoples Category A B C FI

1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? Yes No

2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? Yes No

Not applicable

3. Will the project require broad community support of affected indigenous communities? Yes No

Not applicable

4. What action plan is required to address risks to indigenous peoples as part of the PPTA or due diligence process?

Indigenous peoples plan Indigenous peoples planning framework Social impact matrix
 Environmental and social management system arrangement None

V. OTHER SOCIAL ISSUES AND RISKS

1. What other social issues and risks should be considered in the project design?

Creating decent jobs and employment(**N**) Adhering to core labor standards(**N**) Labor retrenchment(**N**)
 Spread of communicable diseases, including HIV/AIDS (**N**) Increase in human trafficking (**N**) Affordability(**N**)
 Increase in unplanned migration(**N**) Increase in vulnerability to natural disasters(**N**) Creating political instability(**N**)
 Creating internal social conflicts(**N**) Others, please specify(**N**) No

2. How are these additional social issues and risks going to be addressed in the project design?

Not applicable

VI. PPTA OR DUE DILIGENCE RESOURCE REQUIREMENT

1. Do the terms of reference for the PPTA (or other due diligence) contain key information needed to be gathered during PPTA or due diligence process to better analyze (i) poverty and social impact; (ii) gender impact, (iii) participation dimensions; (iv) social safeguards; and (v) other social risks. Are the relevant specialists identified?

Yes No

Information will need to be gathered on both banks regarding (i) rural women SHGs and (ii) small farm households across India with regard to means of providing working capital to augment farm productivity and income opportunities.

2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social and/or gender analysis, and participation plan during the PPTA or due diligence?
Due diligence by PSFI.