ADB

Report and Recommendation of the President to the Board of Directors

Project Number: 50163-001
June 2016

Proposed Debt Financing
Janalakshmi Financial Services Private Limited (India)

This is an abbreviated version of the document approved by ADB's Board of Directors that excludes information that is subject to exceptions to disclosure set forth in ADB's Public Communications Policy 2011.

Asian Development Bank

CURRENCY EQUIVALENTS
(as of 31 May 2016)

Currency unit	–	Indian rupee/s (Re/Rs)
Re1.00	=	$0.0148
$1.00	=	Rs67.1745

ABBREVIATIONS

ADB	–	Asian Development Bank
BOD	–	board of directors
CAGR	–	compound annual growth rate
GDP	–	gross domestic product
JFS	–	Janalakshmi Financial Services
JLG	–	joint liability group
MFI	–	microfinance institution
NBFC	–	nonbank finance company
NPA	–	nonperforming asset
RBI	–	Reserve Bank of India
SFB	–	small finance bank

NOTES

(i) The fiscal year (FY) of the Government of India and Janalakshmi Financial Services Private Limited ends on 31 March. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2016 ends on 31 March 2016.

(ii) In this report, “$” refers to US dollars.

Vice-President	D. Gupta, Private Sector and Cofinancing Operations
Officer-in-Charge	M. Barrow, Private Sector Operations Department (PSOD)
Director	C. Engstrom, Capital Markets and Financial Sector Division, PSOD
Team leader	P. Bracey, Principal Investment Specialist, PSOD
Team members	I. Aguilar, Social Development Officer, PSOD
	M. Driver, Investment Specialist, PSOD
	A. Kumar, Investment Officer, PSOD
	M. Manguiat, Safeguards Officer, PSOD
	B. Raemaekers, Principal Guarantees and Syndications Specialist, PSOD
	T. Rees, Counsel, Office of the General Counsel
	S. Shah, Principal Investment Specialist, PSOD

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PROJECT AT A GLANCE

1. Basic Data			**Project Number:** 50163-001
Project Name	Debt Financing to Janalakshmi Financial Services Private Limited	**Department /Division**	PSOD/PSFI
Country	India		

2. Sector	**Subsector(s)**	**ADB Financing ($ million)**
✓ Finance	Small and medium enterprise finance and leasing	150.00
	Total	**150.00**

3. Strategic Agenda	**Subcomponents**	**Climate Change Information**	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Climate Change impact on the Project	Low

4. Drivers of Change	**Components**	**Gender Equity and Mainstreaming**	
Private sector development (PSD)	Promotion of private sector investment	Some gender elements (SGE)	✓

5. Poverty Targeting		**Location Impact**	
Project directly targets poverty	No	Rural	Low
		Urban	High

6. Nonsovereign Operation Risk Rating

Obligor Name	Obligor Risk Rating Local Currency	Obligor Risk Rating Foreign Currency	Facility Risk Rating
JANALAKSHMI FINANCIAL SERVICES PRIVATE LIMITED			

7. Safeguard Categorization **Environment:** FI **Involuntary Resettlement:** FI **Indigenous Peoples:** FI-C

8. Financing

Modality and Sources	Amount ($ million)
ADB	**150.00**
Nonsovereign LIBOR Based Loan: Ordinary capital resources	150.00
B-Loans	**0.00**
None	0.00
Official Cofinancing [a]	**0.00**
None	0.00
Others [b]	**0.00**
Total	**150.00**

[a] Concessional financing from external sources.
[b] Derived by deducting ADB financing, B Loans and Official Cofinancing from Project Total Cost.

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on the proposed senior debt facilities of up to $150 million (in Indian rupee equivalent) to Janalakshmi Financial Services Private Limited (JFS). JFS will use the proceeds of the Asian Development Bank (ADB) funding to finance microfinance loans, predominately loans to women customers under the joint liability group (JLG) model, as well as other small loans to individuals and micro and small enterprises. Up to 5% of the ADB facility will be specifically dedicated to loans for building and improving sanitation facilities (e.g., toilets and septic tanks) throughout India.

II. THE FINANCIAL INTERMEDIARY

A. Investment Identification and Description

2. **Economy.** Real gross domestic product (GDP) expanded at an average annual rate of 7.8% from FY2005 to FY2015, helping the country reduce poverty from 37.2% in FY2005 to 21.9% in FY2012.[1] Although India weathered the global financial crisis relatively well, growth slackened during FY2012–FY2014 as a result of tighter monetary policy to counter persistently high inflation, lack of consensus on some policy and regulatory issues, and the adverse effects of a decrease in global demand.[2] Growth rebounded during FY2015, helped by increased political certainty, several policy actions, lower commodity (oil and non-oil) import prices, improved business and consumer confidence, and reduced external vulnerabilities. GDP growth was 7.3% for FY2015. Stable policy, lower commodity prices, increasing government spending on infrastructure while maintaining the fiscal deficit and a supportive monetary policy are expected to boost real GDP growth to 7.4% in FY2016 and 7.8% in FY2017. The Indian economy is expected to grow by 8.0% over the next 5 years. However, the sustainability of high growth rates will depend on continuing to address supply-side bottlenecks and structural challenges through legislative changes and policy implementation.[3]

3. **Financial sector overview.** The Indian financial sector is still developing with banks dominating the sector. As of December 2015, there were 214 banks, including 147 scheduled commercial banks. As of 31 December 2015, the total deposits of all scheduled commercial banks stood at Rs91.3 trillion and total credit stood at Rs69.9 trillion.[4] As of the end of FY2015 (FYE2015), 11,842 nonbank finance companies (NBFCs) were registered with the Reserve Bank of India (RBI), with total assets of Rs14.6 trillion (for NBFCs with assets of Rs1 billion and above).[5] Notwithstanding the size of the financial sector and the significant strides the government is making in this sector, including the successful Pradhan Mantri Jan Dhan Yojana scheme (Prime Minister's People Money Scheme)[6], access to credit in India remains a key issue. Gross nonperforming assets (NPAs) for the banking sector (according to the RBI's definition) worsened from 3.5% in FY2013 to 4.6% in FY2015 and 5.1% as of 30 September 2015. Loans undergoing restructuring also increased during the same period, rising from 5.5% to 6.2%. The capital adequacy ratio of the banking sector declined from 14.0% in FY2013 to 12.7% as of 30 September 2015. The gross NPAs for the NBFC sector increased from 1.5% in FY2013 to 3.4% in FY2015

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[1] ADB. 2015. *Asian Development Outlook 2015: Financing Asia's Future Growth*. Manila; World Bank. 2014. *World Development Indicators 2014.* Washington, DC.

[2] GDP growth of 6.2% in FY2012, 5.1% in FY2013, and 6.9% in FY2014.

[3] RBI. 2016. *Survey of Professional Forecasters*. 5 February.

[4] RBI. 2016. Database on India Economy. http://dbie.rbi.org.in/DBIE/dbie.rbi?site=statistics (accessed on 1 March 2016).

[5] RBI. *Financial Stability Report.* https://www.rbi.org.in/Scripts/FsReports.aspx

[6] As of May 31, 2016, over 200 million accounts have been opened. www.pmjdy.gov.in.

and 3.5% as of September 2015, while the capital adequacy ratio stood at 23.8% as of 30 September 2015.[7]

4. **Microfinance sector overview.** As of 31 December 2015, the microfinance sector in India has provided microcredit to close to 28.8 million customers through 9,503 branches across the country, disbursing 25.1 million loans amounting to $6.2 billion (average loan size of approximately $261). During FY2012–FY2015, the sector had a compound annual growth rate (CAGR) of 44.9% in disbursements and a 40.8% CAGR in the gross loan portfolio. Strong growth continued over the first 9 months of FY2016, with disbursements rising by 72.2%, while the aggregate gross loan portfolio growth increased by 75.6% over the previous year.[8] CRISIL Research, a ratings agency, expects the aggregate microfinance institution (MFI) loan portfolio to grow by 30.0%–34.0% annually over the next 5 years. Problem loans among MFIs decreased quite significantly from 2.32% in FY2012 to 0.25% in FY2015 for 30 days past due.[9] More recently, however, portfolio at risk for 30 days (PAR 30) rose slightly to 0.42% as of 31 December 2015 against 0.38% as of 31 December 2014. CRISIL Research expects the profitability of MFIs to fall marginally in relation to earlier years because of the introduction of caps on lending rates.[10] The net profit margin for the sector is expected to fall from 3.6% to 3.3% during FY2014-FY2017.[11] In September 2015, to promote financial inclusion and access to credit, the RBI awarded in-principle small finance bank (SFB) licenses to 10 applicants, of which eight were MFIs. The awardees have 18 months to comply with the various requirements and start banking operations.

5. **Rationale.** Access to finance in India remains a key issue, with 47.0% of people unbanked. Access to credit is even more limited, with less than 14.0% of borrowers accessing credit through formal channels.[12] Given the continued need to address access to finance and access to credit issues for many customer segments in India, ADB has sought to identify financial institution partners that have demonstrated the ability to reach underbanked segments on a profitable and sustainable basis. JFS's deep understanding of its customer segments and comprehensive underwriting systems have enabled it to maintain solid asset quality and profitability while achieving above industry average growth rates. The proposed transaction seeks to support JFS's growth as it transitions into a pan-India (urban and rural) SFB and looks to diversify and increase the tenor of its liabilities, while it builds its deposit franchise, and in doing so, support JFS as it furthers its mandate of financial inclusion, in line with Government of India programs. The proposed transaction also seeks to support the development and deployment of sanitation loans that complement the government's sanitation initiatives. More than 53.0% of households in India do not have a household toilet and over 50.0% of the population defecates in open spaces. In addition to the spread of disease and various health issues across the wider population that result from mismanagement of waste, women are particularly affected—as evidenced by girl school dropout rates and the heightened risk of sexual molestation and violence

[7] RBI. 2015. *Fiscal Stability Report.* December. Delhi.

[8] Microfinance Institutions Network. 2016. *Micrometer.* 16. Excludes the portfolio of Bandhan, which converted into a universal bank in August 2015. Delhi.

[9] Microfinance Institutions Network. 2015. *Micrometer.* 15. Delhi.

[10] The RBI has imposed a margin cap of 10% on the cost of funds for MFIs with loan portfolios exceeding Rs1 billion. Smaller MFIs have a margin cap of 12%. It introduced these caps in February 2014, replacing the previous overall interest rate cap of 26%. Small finance banks (SFBs) do not need to adhere to these margin caps.

[11] CRISIL Research. 2014. *Tailwinds gather for rural banking rebound.* November. Mumbai.

[12] World Bank. 2015. Global Financial Inclusion Database. Washington, DC. The level of unbanked people in India has declined from 65% in 2011 following the launch by the Government of India of the Pradhan Mantri Jan Dhan Yojana scheme, which aims to open 100 million bank accounts for poor families; as of 6 April 2016, more than 215 million accounts have been opened under the scheme.

when relieving themselves at night or dawn in unsafe locations. Safe, clean, and secure toilet facilities, as well as adequate supplies of water, defend against these important gender issues.

B. Business Overview and Strategy

6. **Overview.** Founded in 2000 as an offshoot of the Sanhamithra Urban Program, an incubated microfinance initiative, JFS is currently India's largest NBFC-MFI, providing market-based financial services to underserved customers in urban India. With a diversified presence in 18 states throughout the country, reaching over 3.8 million customers in 331 Jana Centres and 50 Jana Pragati Centres, JFS had assets under management of over $1.7 billion as of the end of March 2016.[13] JFS is assisted in this effort by Jana Urban Foundation, its (Section 8) nonprofit holding company, which undertakes client-centric analytical research activities that deepen understanding of the challenges of financial inclusion. In line with JFS's long-term strategic focus of developing a platform to provide a full range of financial products and services for the urban poor, the RBI awarded JFS an in-principle SFB license in September 2015. Under RBI regulations, SFBs are allowed to undertake normal banking operations, including deposit taking, but are mandated to focus on smaller inclusive loans, with at least 50.0% of the loan portfolio constituting loans of less than $37,000 and a minimum of 75.0% of the loan portfolio directed toward priority sector lending (against 40.0% for standard banks). JFS is expected to be awarded the final license and commence banking operations in July 2016.

7. JFS has two core business units: Retail Financial Services and Enterprise Financial Services.[14] As part of its transition to an SFB, it will add two additional business lines: Payments-Plus and Inclusions-Adjacencies (Table 1).

Table 1: Janalakshmi Financial Services Business Lines

Business Line	Description
Retail Financial Services	Retail financial services include such loan products as micro loans to JLGs (small batch); loans used for education, housing, and home improvement; and loans to individuals that have graduated from the group loan structure to support working capital, and capital investment needs for their businesses (Nano Loan). JFS also offers retail fee based products such as micro pensions, reloadable prepaid cards, and a goal-based savings plan.
Enterprise Financial Services	Enterprise financial services offer loan products to MSMEs for working capital and investment needs, such as the purchase of machinery. JFS also offers the Super Nano Loan to customers that have graduated from the individual Nano Loan cycle.
Payment-Plus	This vertical will focus on providing products and fee-based services involving digital payment processes.
Inclusions-Adjacencies (Other Businesses)	Public finance vertical that will finance sustainable urban infrastructure projects in fields viewed as integral to inclusion such as sanitation or waste management services, affordable housing development, and renewable energy. Also rural finance.

JFS = Janalakshmi Financial Services, JLG = joint liability group.
Source: Janalakshmi Financial Services.

8. **Business strategy.** Driven by its long-term strategy to develop a scalable platform to service the financial needs of the urban poor by offering the complete value chain of financial products and services, JFS has formulated successive business plans that focus on this core

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[13] JFS branches are well distributed across the southern (27%), northern (29%), western (27%), and eastern (17%) states of India.

[14] It is compulsory for all JFS borrowers to obtain life insurance for the period of the loan. All housing loan customers are required to participate in a group property insurance plan and all livestock loan customers must obtain livestock insurance.

objective. The foundations for JFS's establishment were laid out in its Jana 1.0 Strategic Plan (2005–2009), as the company initiated operations as a microfinance provider. Initially focusing on providing group microfinance lending under the JLG scheme, central to JFS's evolution has been the interconnection of three key factors: technology, human capital, and communication.[15] JFS's Jana 2.0 Strategic Plan (2010–2014) focused on expanding the range of its product offerings beyond JLG-based microfinance loans, as well as scaling its operations by expanding its geographical footprint to the national level. Under the Jana 3.0 Strategic Plan (2014–2015), JFS sought to enhance the capacity of the pillars of its foundation—technology, human capital, and communication—given the rapid expansion of its operations in terms of both product offerings and its distribution network. On all three fronts, JFS has partnered with leading global institutions (including Accenture and IBM) to obtain the expertise needed to advance JFS's mandate and operational capacity. With the awarding of its in-principle SFB license, JFS's Jana 4.0 Strategic Plan (2015 to present) refines the core building blocks of its operating model as the company transitions.

C. Ownership, Management, and Governance

9. **Ownership.** Integrity due diligence has been conducted on JFS in accordance with the Integrity Due Diligence Guidelines for Nonsovereign Operations.[16]The largest single shareholding in JFS (20.54%) is held by Jana Urban Foundation, a nonprofit organization, which will change to Jana Holdings Limited in August 2016. In light of new regulations allowing JFS to become an SFB, JFS is now creating a three-tiered structure similar to other SFBs because of limitations on foreign ownership. JFS's founder, Ramesh Ramanathan and his family's shares are held by Jana Urban Foundation. Seven private equity funds hold about 73.63% of JFS's shares, of which four funds are established by large institutional investors—Morgan Stanley, Citigroup, TPG Capital, and Tata Capital.

10. The private equity funds holding shares in JFS in Singapore and Mauritius are typical for funds investing in India, since India has a double taxation avoidance agreement with both Mauritius and Singapore. Both of these jurisdictions are rated as largely compliant with the international tax standard of exchange of information on request by the Global Forum on Transparency and Exchange of Information for Tax Purposes. Citigroup's funds incorporated in Mauritius are held through funds established in the Cayman Islands and Jersey. India does not have double taxation agreements with the Cayman Islands and Jersey, but none of the countries is listed by the Financial Action Task Force as a strategically deficient jurisdiction. None of the ultimate beneficial owners of the private equity funds have been identified, as the private equity funds are well established in jurisdictions not identified to be deficient or noncompliant. JFS relies on the reputation of these funds for the investments. ADB is not in a position to obtain further details of the funds, to identify these ultimate beneficial owners, or to consider if tax exchange agreements are in place for the relevant jurisdiction. ADB's review of the funds does not give ADB cause to believe that it has been established, or is being used for cross-border tax evasion, money laundering, or terrorism financing in the jurisdictions involved in the project. Integrity due diligence findings indicated that a politically exposed person is an independent member of the BOD, but their involvement does not appear to pose any integrity risk. Other information related to the private equity fund investors and investment bank general partners was discovered during integrity due diligence, but nothing was outside of the normal course of business and nothing was project related. Due diligence did not find any apparent significant or potentially significant integrity issues.

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[15] A joint liability group is an informal group of between 10 to 20 members (typically women), coming together for the purposes of taking out bank loan either singly or through a group mechanism against a mutual guarantee.

[16] http://www.adb.org/documents/integrity-principles-and-guidelines.

11. **Corporate governance.** JFS's board of directors (BOD) is responsible for the strategic direction, policy setting, and supervision of the company's performance, as well as ensuring its compliance with laws and regulations. It is composed of professional members and leaders from the banking, finance, and business segments as well as from microfinance investment funds and social investors. Of the 16 members, five are independent directors, eight are investor directors, and the remaining three are executive directors. The BOD is chaired by JFS's promoter, Ramesh Ramanathan, a former banker (Citibank), and supported by a system of appointed committees (asset-liability committee, audit, risk and credit, borrowing, nomination and remuneration, corporate social responsibility).

12. **Management.** JFS's 10-member executive management team is responsible for the day-to-day management of the company, as well as overseeing the transition of the NBFC MFI into an SFB. Business lines—Retail Financial Services and Enterprise Financial Services—are headed by former corporate credit bankers with over 20 years of experience.

13. **Risk management.** JFS is governed by a BOD-approved risk management policy that oversees all aspects of risk including credit, operational, market, liquidity, interest rate, and compliance risks. The BOD Risk Management Committee is updated quarterly on company risks by the chief risk officer, who manages the day-to-day functioning of the Risk Management Department. JFS has developed an integrated risk management approach, with well-defined control systems in place. The first level of controls is built through the operations processes, with a focus on business tracking to ensure quality assurance and successful collection. Monitoring—through credit risk management, operations and compliance risk management, and fraud risk management—is the second level of controls. Loan processing and approval processes are centralized at central processing centers, with a maker–checker concept at every stage. Internal audit is viewed as the third level of control, with independent quarterly audits of the branches undertaken on five major parameters: client acquisition, disbursements, recovery, systems and processes, and cash management. JFS's risk management framework is supported by a digitized, data-driven performance management system based on the balanced scorecard methodology, which covers both entity performance management and individual performance management.[17]

III. THE PROPOSED ADB ASSISTANCE

A. The Assistance

13. ADB's debt financing up to $150 million (in Indian rupee equivalent) will be provided to JFS in one or both of the following modalities described in Table 2:

Table 2: Financing Modalities

Structure Options	Nonconvertible Debentures (3–5 years)	Bilateral Loan (3–5 years)
On or Offshore	Onshore domestic debenture—senior unsecured, settled in Indian rupees	Onshore senior unsecured loan—settled in Indian rupees

Source: Asian Development Bank.

14. Nonconvertible debentures,[18] a bilateral loan, or a combination of these two modalities will

[17] The balanced scorecard is a strategic planning and management system developed at Harvard Business School that is used extensively in business and industry, government, and nonprofit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals.

[18] Nonconvertible debentures are unsecured bonds that cannot be converted to company equity or stock.

be considered, depending on market conditions and client needs. ADB's financing will be senior unsecured, with recourse on the JFS balance sheet. ADB is also providing technical assistance under the regional Technical Assistance for Business Development and Implementation Support for Nonsovereign Operations project in an amount of up to $250,000 to support the development of sanitation loan prototypes, a crucial need in India. [19,20]

B. Implementation Arrangements

15. **Use of proceeds.** JFS will use the proceeds of the ADB funding to finance microfinance loans, predominately loans to women customers under the JLG model, as well as other small loans to individuals and micro and small enterprises. In addition, up to 5% of the ADB facility will be dedicated to loans for building and improving sanitation facilities throughout India. Some 50% of the funding will target less developed states, as classified in the Raghuram Rajan Panel Report, 2013.[21]

16. **Monitoring and reporting.** ADB's Private Sector Operations Department will carry out project monitoring. JFS will provide ADB with financial reports at predetermined regular intervals and as requested. These will include (i) unaudited financial statements on a quarterly basis, (ii) audited financial statements on an annual basis, (iii) compliance certificates for financial covenants on a quarterly basis, (iv) reporting on the microfinance and sanitation loan portfolios on a semiannual basis, and (v) annual reporting on selected development indicators agreed by ADB and the borrower.

17. **Evaluation.** Monitoring reports will be prepared and submitted to ADB regularly and at least annually. The first report will be submitted no later than 12 months after the first disbursement.

C. Value Added by ADB Assistance

18. **Supporting access to finance and financial sector development.** The proposed transaction seeks to support JFS's growth as it transitions into a pan-India (urban and rural) SFB and looks to diversify its liabilities while it builds its deposit franchise. As wholesale bank funding will no longer be available to JFS as an SFB, ADB support will provide stable, longer-term funding as JFS transitions. In addition, ADB's funding will underpin JFS's mandate to provide a complete range of products and services to address the financial needs of the underserved, which are not being met by mainstream financial institutions, and thereby complement the government's objective to increase financial inclusion.

19. **Supporting development of the sanitation sector.** The proposed transaction, in combination with the technical assistance, will help to develop and deploy sanitation loan prototypes that can be used by financial institutions throughout India as a complement to the government's sanitation initiatives.

IV. DEVELOPMENT IMPACT AND STRATEGIC ALIGNMENT

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[19] http://www.adb.org/projects/50036-001/main#project-overview.

[20] ADB. 2016. *Technical Assistance for Business Development and Implementation Support for Nonsovereign Operations.* Manila (TA-9078 REG).

[21] Assam, Bihar, Chhattisgarh, Gujarat, Jharkhand, Karnataka, Meghalaya, Madhya Pradesh, Odisha, Rajasthan, West Bengal, Manipur, Mizoram, Nagaland, Tripura, Sikkim, Himachal Pradesh, and Uttar Pradesh. All states are classified as *least developed* or *less developed* in the Raghuram Rajan Panel Report. Government of India. 2013. *Report of the Committee for Evolving a Composite Development Index of States*. Delhi.

A. Development Impact, Outcome, and Outputs

20. **Impact.** The expected impact of the transaction will be that access to finance for the underserved is increased in alignment with the Government of India's 12th Five Year Plan, 2012–2017, which highlights the delivery of banking and other financial services at affordable costs to disadvantaged and low-income groups as a means to promote poverty reduction and inclusive growth through employment generation.[22] In addition, sanitation services in India are improved in alignment with the government's Swachh Bharat Abhiyan Policy, which seeks to provide sanitation services to the mass population.

21. **Outcomes.** The expected outcome of the transaction will be that sustainability of JFS's lending activities for the underserved is demonstrated as it transitions to an SFB.

22. **Outputs.** The expected outputs from the transaction will be (i) increased JFS capacity for microfinance lending as evidenced by (a) active microfinance loan accounts increasing to 24.6 million by FY2024 (baseline 4.6 million, FY2016); (b) active microfinance loan accounts to women increasing to 24.6 million by FY2024 (baseline 4.6 million, FY2016); and (c) at least 50% of the loans made using ADB funding be directed to less developed states; and (ii) increased JFS operations in sanitation as evidenced by (a) active sanitation loans reaching 206,000 by FY2024 (baseline: not applicable); and (b) share of sanitation loans as a percentage of the total loan portfolio increasing to 1% by FY2024 (FY2016 baseline: not applicable).

B. Alignment with ADB Strategy and Operations

23. The Midterm Review of Strategy 2020 emphasizes ADB's support to the financial sector by helping to develop financial infrastructure, institutions, and products and services. The proposed transaction contributes to financial sector development by supporting the growth of an SFB, an important component of the financial sector in India.[23] The Midterm Review of Strategy 2020 also seeks to promote inclusive growth. Without access to formal financial services, lower income people or underserved segments will be excluded from the growth process and its benefits. According to the India country partnership strategy, 2013–2017, ADB's nonsovereign operations will continue to support the infrastructure and financial sectors by undertaking selective projects for physical and social infrastructure and financial infrastructure.[24] The proposed transaction will support the development of microfinance in India, one of the financial infrastructures identified and a high priority for the government.

V. POLICY COMPLIANCE

A. Safeguards and Social Dimensions

24. The investments are classified as category FI for impacts on the environment and involuntary resettlement, and as category FI (treated as C) for indigenous peoples. The potential environment and social impacts of the proposed investments and associated risks have been assessed, as well as the banks' commitment to and capacity for environmental and social management. The proceeds of ADB's funding will not be used by JFS or its successor, Jana Small Finance Bank, to finance projects classified as having category A impacts on the environment or involuntary settlement, or projects classified as having category A or B impacts on indigenous peoples. JFS and its successor will apply ADB's prohibited investment activities

[22] Government of India, Planning Commission. 2012. *Twelfth Five-Year Plan, 2012–2017: Faster, More Inclusive and Sustainable Growth*. Delhi.
[23] ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.
[24] ADB. 2013. *Country Partnership Strategy: India, 2013–2017.* Manila.

list, ensure that investments using ADB funds abide by applicable national laws and regulations, comply with ADB's Safeguard Policy Statement (2009), and establish and maintain an environmental and social management system satisfactory to ADB before first disbursement of the loans. JFS's environmental and social management system and that of its successor bank will include arrangements to comply with national labor laws and ADB's Social Protection Strategy. [25] The borrower will comply with national labor laws and internationally recognized core labor standards. JFS is an equal opportunity employer and has a gender-equal human resource policy. The transaction is classified as some gender elements under ADB's guidelines.

B. Anticorruption Policy

25. JFS was advised of ADB's policy of implementing best international practice relating to combating corruption, money laundering, and the financing of terrorism. Its draft know-your-customer and anti-money laundering policy, which is subject to board approval, mitigates the risks of money laundering and terrorist financing. ADB will ensure that the investment documentation includes appropriate provisions prohibiting corruption, money laundering, and the financing of terrorism, and remedies for ADB in the event of noncompliance

C. Investment Limitations

26. The proposed loan is within the medium-term country, industry, group, and single investment exposure limits for nonsovereign investments.

D. Assurances

27. Consistent with the Agreement Establishing the Asian Development Bank (the Charter),[26] the Government of India will be requested to confirm that it has no objection to the proposed assistance to JFS. ADB will enter into suitable finance documentation, in form and substance satisfactory to ADB, following approval of the proposed assistance by the Board of Directors.

VI. RECOMMENDATION

28. I am satisfied that the proposed debt financing would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the senior debt facilities of up to $150,000,000 (or in Indian rupee equivalent) to Janalakshmi Financial Services Private Limited in India, from ADB's ordinary capital resources, with such terms and conditions as are substantially in accordance with those set forth in this report, and as may be reported to the Board.

Takehiko Nakao
President

7 June 2016

[25] http://www.adb.org/documents/social-protection-strategy.
[26] ADB. 1966. *Agreement Establishing the Asian Development Bank.* Manila.

DESIGN AND MONITORING FRAMEWORK

Impact the Project is Aligned with
Access to finance for the underserved increased in alignment with the Government of India's 12th Five Year Plan, 2012–2017, which highlights the delivery of banking and other financial services at affordable costs to disadvantaged and low-income groups as a means to promote poverty reduction and inclusive growth through employment generation[a] Sanitation services in India improved in alignment with the Government of India's Swachh Bharat Abhiyan Policy, which seeks to provide sanitation services to the mass population

Results Chain	Performance Indicators with Targets and Baselines	Data and Reporting	Risks
Outcome Sustainability of JFS's lending activities for the underserved demonstrated as it transitions to a small finance bank	a. Active micro loan accounts or loans outstanding increased to 24.6 million by FY2024 (FY2016 baseline 4.6 million) b. Active micro women-owned loan accounts or loans outstanding increased to 24.6 million by FY2024 (FY2016 baseline 4.6 million) c. Nonperforming loans (90 days past due) no more than 5.0% on average from FY2016 to FY2024 (FY2016 baseline: 0.34%) d. Active sanitation loans reach 206,000 by FY2024 (baseline: not applicable) e. JFS's share of sanitation loans as a percentage of the total loan portfolio increased to 1% by FY2024 (baseline: not applicable)	a–e. Annual development effectiveness monitoring reports from JFS a–e. Annual audited financial statements of JFS	JFS's asset quality deteriorates significantly with the rapid growth of the portfolio
Outputs 1. Increased JFS capacity for microfinance lending	1a. Micro loans disbursed amount to Rs1,186 billion by FY2021 (FY2016 baseline Rs105 billion) Of which: 1b. Micro loans disbursed to women Rs1,186 billion by FY2021 (FY2016 baseline Rs105 billion)	1–2. Annual development effectiveness monitoring reports from JFS 1–2. Annual audited financial statements of JFS	Interest rates and inflation increase to high levels JFS unable to build deposit base and other funding sources in time to respond to growth in demand Demand for sanitation loans lower than expected

Results Chain	Performance Indicators with Targets and Baselines	Data and Reporting	Risks
2. Increased JFS operations in sanitation	1c. 50% of aggregate funding will be disbursed in less developed states (baseline: not applicable) 2. Sanitation loans disbursed amount to Rs1.7 billion by FY2021 (FY2016 baseline: not applicable)		

Key Activities with Milestones

1.1 ADB executes legal agreements in Q3 2016.
1.2 ADB loan is fully disbursed by Q3 2016.
1.3 JFS uses the proceeds of the ADB loan to fund microfinance, small loans to micro and small enterprises, and sanitation loans by Q3 2017.

2.1 Technical assistance approved by Q2 2016.
2.2 Pilot testing for JFS commences by Q4 2016.

Inputs

ADB: Up to $150 million (loan)

Assumptions for Partner Financing

Not applicable.

ADB = Asian Development Bank, JFS = Janalakshmi Financial Services, Q = quarter.
Note: Baselines for sanitation loans are not applicable because JFS did not specifically track sanitation loans in the past.
[a] Government of India, Planning Commission. 2012. *Twelfth Five-Year Plan, 2012–2017: Faster, More Inclusive and Sustainable Growth*. Delhi.
[b] Convert to US dollars based on the exchange rate at the time data is reported.
[c] Convert to US dollars based on the exchange rate at the time data is reported.
[d] Convert to US dollars based on the exchange rate at the time data is reported.
Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

http://www.adb.org/Documents/RRPs/?id=50163-001-4

1. Contribution to the ADB Results Framework
2. Country Economic Indicators