

INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	India	Project Title:	Proposed Debt Financing to AU Financiers to Expand Micro and SME Lending in Semi-
Lending/ Financing Modality:	Financial Intermediary	Department/Division:	Private Sector Operations Department/ Infrastructure Finance Division 1

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

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

AU Financiers (AU or the Company) is a non-banking financial company (NBFC) in India for small transport entrepreneurs, Micro and Small Enterprise (MSE) financing and small and medium enterprise and structure finance (SF). The proposed ADB loan will be used by the Company for micro and small enterprise financing, small and medium enterprise (SME) and structured finance (SF). ADB's funding will support growth of AU's MSE and SME and SF portfolio and reach underserved customer segments in India directly as well as through other NBFCs.

The investment will address one of the key constraints that is access to finance by MSMEs. The investment is aligned with the India Country Partnership Strategy (2013-2017)¹, which describes how ADB's financial sector strategy will focus on different broad areas of intervention including financial inclusion.

B. Targeting Classification

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

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C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. The ADB funding will support MSME growth and funding needs mainly in India by improving access to finance, which remains one of the most critical obstacles in MSME sector development. According to IFC² there are 29.8 million MSMEs in India operating across all industries employing more than 69 million people. This includes 2.2 million women-led enterprises demonstrating strong gender importance and 15.4 million rural enterprises – many of which focus on primary agriculture activities. MSMEs account for 45% of Indian industrial output and 40% of exports. Lack of adequate access to finance has been the biggest challenge to further growth. ADB's funding will support growth of AU's MSE and SME and SF portfolio and reach underserved customer segments in India.

¹ ADB. 2013. Country Partnership Strategy: India, 2013-2017. Manila.

² IFC. 2012. Micro, Small and Medium Enterprise Finance in India: A Research Study on Needs, Gaps and Way Forward (November, 2012)

2. Impact channels and expected systemic changes. Development impact through these investments potentially include job creation, improved access to financial services and improved health and education infrastructure.

3. Focus of (and resources allocated in) the PPTA or due diligence. Due diligence will address a number of topics including strategy and process in terms of supporting MSMEs' needs particularly the micro and small manufacturers, service enterprises, retailers and agribusiness, traders, wholesalers, distributors and education and healthcare facilities. The capacity of the borrower to ensure borrowers' compliance with local laws and regulations as well as internationally recognized core labor standards will also be assessed.

4. Specific analysis for policy-based lending. N/A

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? There are at least 2.2 million women-led enterprises that are impacted by limited access to credit and financial services, hampering their ability to improve their income. The project is categorized as having Some Gender Elements (SGE) in relation to gender mainstreaming. AU commits in increasing the number of women-managed or owned SMEs that will be served by the Company.

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? The proposed project is anticipated to improve women's access to credit and increase job opportunities for them through the investments that will be implemented.

Yes No Please explain. If yes, a gender action plan should be prepared during PPTA or due diligence.

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality? The proposed project is not expected to cause any specific cultural or social impact upon or exclude any socioeconomic group, including women, from benefiting from the investment.

Yes No Please explain If yes, actions and measures should be prepared during PPTA or due diligence.

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. Potential stakeholders include the borrower's staff and their target customers for the MSE segment which include micro and small manufacturers, service enterprises, retailers and agribusiness. Target customers for SMEs include traders, wholesalers, distributors and education and healthcare facilities.

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? Consultation meetings will be conducted depending on the need and complexity of the project to disclose environment and social risks and impacts.

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?

H Information generation and sharing H Consultation L Collaboration N/A
Partnership

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 Please explain. There are no issues on exclusion as the project will generally cater to the needs of small entrepreneurs.

IV. SOCIAL SAFEGUARDS

A. Involuntary Resettlement Category A B C FI (treated as C)

1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? Yes No Target customers for the MSE segment include micro and small manufacturers, service enterprises, retailers and agribusiness. Target customers for SMEs include traders, wholesalers, distributors and education and healthcare facilities. All proposed investments included in the prohibited list and categorized as A or B on IR will be excluded from funding support using ADB funding.

2. What action plan is required to address involuntary resettlement as part of the PPTA or due diligence process? The Fund will develop ESMS satisfactory to ADB and will adopt its ESMS prior to the first disbursement. Environmental and social management system arrangement

B. Indigenous Peoples Category A B C FI (treated as C)

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 The project is not expected to entail any significant impact on Indigenous Peoples. All proposed investments included in the prohibited list and categorized as A or B on IP will be excluded from project support using ADB funding.

2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? Yes No The project will not have significant impacts on Indigenous Peoples.

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

4. What action plan is required to address risks to indigenous peoples as part of the PPTA or due diligence process? The Fund will develop ESMS satisfactory to ADB and will adopt its ESMS prior to the first disbursement.

Environmental and social management system arrangement

V. OTHER SOCIAL ISSUES AND RISKS

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

Adhering to core labor standards

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

AU Financiers is committed to ensure its borrowers' compliance with the applicable national labor laws and take measures to adhere to internationally recognized core labor standards to ensure fair, safe and healthy working conditions for subprojects using ADB's funds.

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 (vi) other social risks. Are the relevant specialists identified?

Yes No If no, please explain why. There is no PPTA under private sector project but the client will mobilize competent staff to cover social dimension issues.

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 will be undertaken by staff.