



Initial Poverty and Social Analysis

November 2017

IND: Debt Financing to Cholamandalam Investment and Finance Limited for Expanding Credit Delivery for Micro-, Small-, and Medium-Sized Enterprises Project

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
Chola	–	Cholamandalam Investment Finance Limited
MSME	–	Micro, small, and medium enterprises
SGE	–	Some Gender Elements

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INITIAL POVERTY AND SOCIAL ANALYSIS

Country: Project Title:

Lending/Financing Modality: Department/ Division:

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

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

The proposed transaction will support micro, small, and medium-sized enterprises (MSME) in India by providing debt financing to Cholamandalam Investment and Finance Company Limited (Chola) which provides financing to underserved MSMEs in India. The proposed investment is consistent with the Government of India's Twelfth Five Year Plan, 2012–2017, as well as its ensuing Three Year Action Agenda, 2017-18 to 2019-20, and the Asian Development Bank (ADB) country partnership strategy for India, 2013–2017, which emphasize the need for enhanced inclusive growth and poverty reduction through financial inclusion.^a

B. Poverty Targeting

General intervention Individual or household (TI-H) Geographic (TI-G) Non-income MDGs (TI-M1, M2, etc.)

Chola will use the proceeds of ADB debt financing to provide credit to MSMEs in India, a portion of which will be used to finance loans in lagging states.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries.

Access to finance is key constraint for MSME growth. ADB's funding will support MSME growth and funding needs in India by improving access to finance, which remains one of the most critical obstacles in MSME sector development. There are 29.8 million MSMEs in India operating across all industries employing more than 69 million people^b. 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 their growth.

2. Impact channels and expected systemic changes.

Development impacts through these investments potentially include improved access to financial services and job creation.

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

Due diligence will assess possible social impacts of Chola's portfolio and its capacity to manage the same. 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.

II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector and/or 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 due diligence will explore opportunities to enhance access to financial services for women led enterprises.

2. Does the proposed project or program have the potential to contribute 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

The transaction is expected to provide access to finance to women-managed or women-owned MSMEs. This will be confirmed and agreed with Chola during the due diligence and specific targets and measures agreed upon in the project design.

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality? Yes No

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. Due diligence will review Chola's policy on non-discrimination as well its efforts in promoting equal employment opportunities.

4. Indicate the intended gender mainstreaming category:

GEN (gender equity) EGM (effective gender mainstreaming)
 SGE (some gender elements) NGE (no gender elements)

III. PARTICIPATION AND EMPOWERMENT
<p>1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design.</p> <p>The primary stakeholders in the project are the MSME borrowers who will seek loans from Chola for their investment financing needs. They will have limited participation in the project design.</p> <p>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?</p> <p>Not anticipated given the nature of the transaction. The due diligence will assess the need for such participation and empowerment of stakeholders and beneficiaries.</p> <p>3. What are the key, active, and relevant civil society organizations (CSOs) in the project area? What is the level of civil society organization participation in the project design?</p> <p>Not anticipated given the nature of the transaction.</p> <p><input type="checkbox"/> N Information generation and sharing <input type="checkbox"/> N Consultation <input type="checkbox"/> N Collaboration <input type="checkbox"/> N Partnership</p> <p>4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how should they be addressed? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>Not anticipated given the nature of the transaction.</p>
IV. SOCIAL SAFEGUARDS
<p>A. Involuntary Resettlement Category <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input checked="" type="checkbox"/> FI (treated as C)</p> <p>1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>Chola's existing procedures screen all investments for (i) negative and exclusion list of activities, and (ii) for potential land acquisition and involuntary resettlement impacts. This approach is expected to ensure that the proposed debt financing will not result in any physical or economic displacement. The due diligence will confirm that there will be no activities financed under the ADB loan that is likely to trigger economic or physical displacement.</p> <p>2. What action plan is required to address involuntary resettlement as part of the transaction TA or due diligence process?</p> <p><input type="checkbox"/> Resettlement plan <input type="checkbox"/> Resettlement framework <input type="checkbox"/> Social impact matrix <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None</p>
<p>B. Indigenous Peoples Category <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input checked="" type="checkbox"/> FI (treated as C)</p> <p>1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>3. Will the project require broad community support of affected indigenous communities? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>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 for indigenous peoples will be excluded from project support using ADB funding.</p> <p>4. What action plan is required to address risks to indigenous peoples as part of the transaction TA or due diligence process?</p> <p><input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Social impact matrix <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None</p>
V. OTHER SOCIAL ISSUES AND RISKS
<p>1. What other social issues and risks should be considered in the project design?</p> <p><input type="checkbox"/> Creating decent jobs and employment <input checked="" type="checkbox"/> L Adhering to core labor standards <input type="checkbox"/> Labor retrenchment <input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS <input type="checkbox"/> Increase in human trafficking <input type="checkbox"/> Affordability <input type="checkbox"/> Increase in unplanned migration <input type="checkbox"/> Increase in vulnerability to natural disasters <input type="checkbox"/> Creating political instability <input type="checkbox"/> Creating internal social conflicts <input type="checkbox"/> Others, please specify _____</p> <p>2. How are these additional social issues and risks going to be addressed in the project design?</p> <p>Due diligence will confirm Chola's commitment to compliance with applicable national labor laws, as well as its capacity to demand the same from its clients.</p>
VI. TRANSACTION TA OR DUE DILIGENCE RESOURCE REQUIREMENT

1. Do the terms of reference for the transaction TA (or other due diligence) contain key information needed to be gathered during transaction TA 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

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 transaction TA or due diligence?

ADB staff will conduct due diligence and assess poverty, social, and gender concerns relevant to the proposed project.

^a Government of India, NITI Aayog. 2017. *Three Year Action Agenda, 2017-18 to 2019-20*. Delhi; ADB. 2013. *Country Partnership Strategy: India, 2013–2017*. Manila.

^b International Finance Corporation. 2012. *Micro, Small and Medium Enterprise Finance in India: A Research Study on Needs, Gaps and Way Forward* (November 2012).