



## Initial Poverty and Social Analysis

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May 2019

### IND: Proposed Debt Financing Fullerton India Credit Company Limited Expanding Micro, Small, and Medium-sized Enterprise Lending Project

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Asian Development Bank

## **CURRENCY EQUIVALENTS**

(as of 15 April 2019)

Currency unit	–	Indian rupee/s (Re/Rs)
Re1.00	=	\$0.014457
\$1.00	=	Rs69.1685

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
FICC	–	Fullerton India Credit Company Limited
MSME	–	Micro, Small, and Medium-sized Enterprises

## **NOTES**

- (i) The fiscal year (FY) of the Government of India and Fullerton India Credit Company Limited ends on 31 March. "FY" before a calendar year denotes the year in which the fiscal year ends, e.g., FY2018 ends on 31 March 2018. "FYE" means fiscal year end.
- (ii) In this report, "\$" refers to United States dollars.

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## INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	<input type="text" value="India"/>	Project Title:	<input type="text" value="Debt Financing to Fullerton India Credit Company Limited for Expanding Micro, Small, and Medium-Sized Enterprise Lending"/>
Lending/Financing Modality:	<input type="text" value="Loan"/>	Department/ Division:	<input type="text" value="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 proposed transaction will support the growth of Fullerton India Credit Company Limited (FICC) as it expands its lending activities in response to the financing needs of the underbanked MSMEs, particularly in the rural areas and in lagging states<sup>a</sup> as well as to women-led MSMEs<sup>b</sup> across India. The proposed project will contribute to the achievement of ADB Strategy 2030 operational priorities in addressing remaining poverty and reducing inequalities by improving access to finance and credit, promoting rural development, and promoting women's economic empowerment. It will also respond to ADB's country partnership strategy (2018-20122) and country operations business plan (2017-2019) for India which stipulate that ADB's nonsovereign operations will continue to support the infrastructure and financial sectors by undertaking selective projects for physical and social infrastructure, as well as, financial infrastructure.

#### B. Poverty Targeting

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

The proposed financing to FICC will provide credit access to unbanked population and those who have limited access to credit, particularly women. Potential clients have an income range below the level targeted by banks and above the level served by microfinance institutions.

#### C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. Through the proposed ADB financing, FICC will specifically target providing loans and financial services to MSMEs engaged in micro and small manufacturing activities, service enterprises, retail and trade, agribusiness, wholesale and distribution of goods. Access to financing is one of the reasons that hampers the continuous growth of the MSME sector in India. 2017 data confirms that access to credit is a major concern in India since only 7% of the population age 15 years and older borrowed money from a bank or another type of financial institution. Women experience specific constraints due to inability to provide collateral and financial documents.<sup>c</sup>

2. Impact channels and expected systemic changes. The proposed assistance to FICC will support the development of financial sector and will contribute in improving the access to financial services of the underserved segments of the population including those in rural areas, lagging states, and women. FICC will cater to borrowers with expected income range between Rs 200,000-Rs450,000 per annum (approximately \$2,800-\$6,250) in rural areas and Rs450,000-Rs1.1 million (approximately \$6,250-\$15,250) in urban areas.

3. Focus of (and resources allocated in) the transaction TA or due diligence. The due diligence will review the impacts of FICC operations, as well as the business activities of its borrowers, on the environment, involuntary resettlement, and Indigenous Peoples.

### 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? In 2017, 14.0-20.4% of MSMEs were owned and/or operated by women of which mostly were micro-sized enterprises and primarily involved in the service sector. Women in MSMEs, as compared to men entrepreneurs, are experiencing more difficulties in accessing credit because of limited awareness and understanding on financial products, unfamiliarity with formal banking institutions, lack of collateral to guarantee credit, difficulties in presenting their personal profiles and track records, and the requirement for support from male family members for loan applications.<sup>d</sup> Employment data on women in India is also marginal representing only 25% of the total labor force. This is due to lower literacy rate of women (65.5%) as compare to men (82.1%) and lower completion rates of young women in secondary education (endnote d).

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

FICC will allocate a percentage of the proposed loan assistance from ADB for women MSMEs. A gender action plan will be developed to ensure greater participation and benefits of women from the proposed project. Special loan

products currently being offered by FICC exclusively to women borrowers will be reviewed and further enhanced. The ongoing effort of FICC to ensure women employment in its corporate and branch offices will also be reviewed and needed improvement will be explored.

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

Yes  No

The proposed project will not entail any adverse impacts to women and girls but will instead provide greater benefits through financial inclusion.

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

1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design. ADB's proposed assistance will provide direct benefits to FICC. As a conduit in providing benefits to MSMEs, the proposed project will also to respond to the needs of the underserved MSMEs to access credit and financial services for the establishment, expansion, and sustained management of business activities.

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? The proposed project will ensure that FICC has an avenue to gather concerns from its borrowers and have an existing systems and processes to respond and address concerns.

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?

(L) Information generation and sharing  Consultation  (L) Collaboration  Partnership

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?  Yes  No Not applicable. The proposed project will be focused on strengthening FICC's loan operations and financial services for underserved MSME sector in India.

### 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 Current and future/envisaged portfolio of FICC is largely small ticket loans and focused mainly on retail lending that will unlikely to entail impacts on involuntary resettlement. Also, the company provides loans to new MSMEs borrowers as loans against property (LAP) while loans for business expansions are secured through land and property rights.

2. What action plan is required to address involuntary resettlement as part of the transaction TA 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 (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

2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain?  Yes  No FICC's operations and business activities as well as its borrowers' will not likely to generate impacts on Indigenous Peoples.

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 transaction TA or due diligence process?

Indigenous peoples plan  Indigenous peoples planning framework  Social impact matrix

Environmental and social management system arrangement  None

<b>V. OTHER SOCIAL ISSUES AND RISKS</b>
<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? The proposed project will have measures to ensure FICC's compliance with national labor laws and core labor standards. Measures will also include FICC's process and procedures to confirm compliance of borrowers with applicable labor laws.</p>
<b>VI. TRANSACTION TA OR DUE DILIGENCE RESOURCE REQUIREMENT</b>
<p>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?</p> <p> <input checked="" type="checkbox"/> Yes                      <input type="checkbox"/> No </p> <p>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?</p> <p>Due diligence and assessment on social safeguards and other social aspects (gender and labor) relevant to the proposed project will be undertaken by ADB staff.</p>

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- <sup>a</sup> Lagging states are identified in the Raghuram Rajan Panel Report, 2013 and include low-income states with high poverty incidence and special category states. These include Assam, Bihar, Chhattisgarh, Himachal Pradesh, Jharkhand, Madhya Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Odisha, Rajasthan, Sikkim, Tripura, Uttar Pradesh, Uttarakhand, and West Bengal.
- <sup>b</sup> The terms "women-led" and "women MSME borrowers" include women borrowers and co-borrowers.
- <sup>c</sup> A. Demirgüç-Kunt et al. 2018. *Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution*. Washington, D.C. World Bank.
- <sup>d</sup> International Finance Corporation. 2014. *Improving Access to Finance for Women-owned Businesses in India*. <https://www.ifc.org/wps/wcm/connect/877d9d804326bc05a797ef384c61d9f7/WomenownedMSMEFinance.pdf?MOD=AJPERES>