



Preliminary Poverty and Social Analysis

Project Number: 58140-001
July 2024

India: SK Finance Supporting Financing for Micro, Small and Medium-Sized Enterprises and Electric Vehicles Project

ABBREVIATIONS

ADB	–	Asian Development Bank
SPS	–	Safeguard Policy Statement
SKF	–	SK Finance Limited

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

PRELIMINARY POVERTY AND SOCIAL ANALYSIS

Country:	India	Project Title:	SK Finance Supporting Financing for Micro, Small and Medium-Sized Enterprises and Electric Vehicles Project
Lending/ Financing Modality:	Debt Security	Department/ Division:	Private Sector Operations Department Financial Institutions Division

Preliminary Poverty and Social Analysis

1. Poverty Analysis

The proposed project involves an ADB loan of up to \$100 million to SKF (SK Finance Limited) to support financing to MSMEs, including WMSMEs, and EV buyers. The project will contribute to ADB country partnership strategy for India 2023-2027 strategic pillar 2: climate-resilient green growth which includes transport decarbonization and strategic pillar 3: deepen social and economic inclusiveness with focus on the underserved or underserved segments. One of the significant challenges faced by MSMEs is securing adequate and timely financing due to complex procedures, collateral demands, and high interest rates. This resulted in a substantial financing gap for MSMEs in India, estimated at ₹58.4 trillion, which is currently unmet or financed by informal sources.¹ In terms of climate change, India is one of the most vulnerable economies. Extreme conditions can precipitate major crises for livelihoods and food security. The effects of climate change can perpetuate and deepen poverty in the country. The proposed transaction will contribute to addressing these challenges by improving access to finance for MSMEs and the EV market. Addressing the funding requirements of MSMEs will drive financial inclusion in the country while support for EV financing which will contribute to the overall climate mitigation efforts and India's net zero transition goals.

2. Poverty targeting

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

The poverty targeting classification of the project is general intervention. The expansion of SKF's capacity to finance MSMEs and EV buyers is expected to support long-term inclusive and sustainable economic growth. SKF has a strong presence in semi-urban and rural areas where most people lack information on financial institutions, loan options, eligibility criteria, application procedures, and support mechanisms which hinder them from exploring and accessing suitable financial products. The expansion of SKF's financing to the underserved MSMEs will generate job opportunities and business growth. Supporting the adoption of EVs will help reduce CO₂ emissions and improve air quality. While effects on the poor or vulnerable population are indirect, it will help limit the vulnerability risk from climate change.

¹ IFC. 2018. *Financing India's MSMEs: Estimation of Debt Requirement of MSMEs in India*. Washington, DC.

3. Preliminary assessment of the project's impact channels

The expansion of SKF's financing capacity will benefit the underserved segments through the following: (i) SKF supports MSMEs that are at the bottom of the pyramid, (ii) SKF also supports customers that are first-time borrowers who are either underbanked or have no experience in accessing formal credit sources, (iii) SKF has penetrated and expanded in underserved areas of India, acting as catalyst to financial inclusiveness, and (iv) SKF's simplified application process reduces barriers to funding and makes it more convenient for the borrowers to access loans.

4. Social Analysis

Social analysis will include compliance with Safeguard Requirements on involuntary resettlement and Indigenous Peoples, compliance with Social Protection Requirements, gender and development, contractor and supplier management, gender analysis, stakeholder engagement and grievance redress mechanism.

4.1 Gender and Development

India ranks 135 out of the 146 countries on the Global Gender Gap Index 2022.² Closing the gender gap in financial access and worker skills could increase female economic participation and boost India's GDP by 6%. Most financial services providers do not see the business case in actively serving the women's market,³ and do not use different loan approval criteria for men and women applicants.⁴ The financial services sector in India has traditionally been male dominated, whereby even though women constitute 97% of the customers in the microfinance sector, female employees comprise only 12% of the total workforce.⁵

E-vehicles (EV) producer companies are hiring women from shop floor, design, and production to leadership roles in the EV industry, due to women valuing safety, quality, and practicality. Building a consumer base for the purchase of EV is a challenge being tackled by the public and private sectors across India, one which requires financial incentives.⁶

No negative impact or risks on women or on widening gender inequalities are expected from the project.

The project has potential to improve women's access to financial resources. Gender due diligence will explore the implementation of gender inclusive financial value proposition, particularly with MSMEs and electric vehicles consumers, in addition to contributing towards workplace gender inclusivity. A gender action plan will be designed from the due diligence findings.

The project is aiming for gender equity theme (GEN) gender categorization.

² World Economic Forum. 2022. [Global Gender Gap Report 2022](#). Geneva.

³ Women's World Banking. [Financial Inclusion in India](#). New York City, New York.

⁴ IFC 2020. [IFC, Aavas Financiers to Help Catalyze Affordable Green Housing Finance for Low-income Borrowers in India](#). News release. 2 December.

⁵ Sewabharat. 2014. [Employment Opportunities for Women in India's Growing Financial Sector](#). Delhi.

⁶ Roli Srivastava and Anuradha Nagaraj. 2023. [India's Drive to Increase Electric Vehicle Use Has Women at the Wheel](#). The Wire.

4.2 Participation and Empowering the Poor

The main stakeholders of the project are SK Finance employees, MSME borrowers and their employees, SK Finance clients who take loans for the purchase of electric vehicles, and communities that may be affected by the use of loan proceeds. Due to the nature of the project, there will be limited opportunity to involve stakeholders in the project's design. However, SK Finance management and employees will be involved in ESMS enhancements to fully comply with ADB's Safeguard Policy Statement and Social Protection Requirements. Stakeholder engagement will be geared towards information dissemination while the external grievance redress mechanism can serve as a venue to provide feedback to SK Finance.

4.3 Social Safeguards

The proposed project is categorized as FI-C for involuntary resettlement. Use of proceeds will be limited to MSME loans for expansion or improvement of small businesses such as grocery shops, tailoring, salons, handicrafts, milk collection and agricultural trading ranging from INR 50,000 to INR 4,000,000, and purchase of electric vehicles ranging from INR 35,000 to INR 135,000. SK Finance will also not finance through ADB proceeds any activity that would result to physical or economic displacement. SK Finance has an existing ESMS which includes screening and categorization procedure and exclusion list. However, this will be enhanced to fully align with ADB SPS. On Indigenous Peoples, the project will be categorized as FI-C. SK Finance has committed not to use ADB proceeds to finance subloans that will have impacts to distinct and vulnerable Indigenous Peoples.

4.4 Other Social Issues and Risk

The project design will consider compliance with core labor standards. Loan agreements between SK Finance and its borrowers should include provisions that require borrowers to observe core labor standards and applicable national and local labor requirements. SK Finance should also consider compliance with core labor standards when partnering with electric vehicle suppliers.

5. Social Plans to be Developed as part of the Poverty and Social Analysis

Due diligence will include review of SK Finance's environmental and social policies, including loan screening, risk categorization and management, compliance with national and local labor laws and core labor standards, stakeholder engagement, grievance redress mechanism, monitoring and reporting. If there are gaps identified, these policies will be enhanced to comply with ADB SPS and Social Protection Requirements.

6. Transaction Due Diligence Resource Requirement

OSPP Safeguards Team will review SK Finance environmental and social policies and procedures, its current loan portfolio, and its organization and capacity. The team will identify any gaps against ADB SPS and Social Protection requirements and agree with SK Finance on corrective actions.