

Ex-Ante Evaluation

Private Sector Investment and Finance Division,
Private Sector Partnership and Finance Department,
JICA

1. Name of the Project

Country: Republic of India

Project: Women's financial inclusion facility (under the "Facility for Accelerating Financial Inclusion in Asia")

Loan Agreement: August 25, 2021

Borrower: Northern Arc Capital Limited

2. Background and Necessity of the Project

(1) Current State and Issues of the women's financial inclusion in India

India's overall score on the Gender Gap Index, which measures gender inequality, is ranked 112th out of 153 countries, indicating that the gender gap is extremely large. In particular, India ranks 149th in terms of opportunities to participate in economic activities, a significant deterioration from 110th in 2006, and the gender gap in terms of economic advancement is widening. One of the factors contributing to this situation is the lack of access to finance for women, with over 40% of the country's female population (approximately 280 million people) without access to finance, and only just over 10% of women-owned micro, small and medium enterprises (MSMEs) receiving finance from formal financial institutions (approximately 30% of all MSMEs) and the financing gap faced by women MSMEs is estimated at USD 20.52 billion. In addition, the impact of the spread of the COVID-19 has been particularly severe in the shock-vulnerable segments of the population, and support is needed more than ever for women who were already in a precarious situation before the outbreak of the COVID-19. The Government of India has also identified improving women's access to finance as one of the priority issues to be addressed in the National Policy for Women being drafted by the Ministry of Women and Child Development.

Non-Bank Finance Companies (NBFCs), which have a large number of customers in rural areas as well, play a major role in improving women's access to finance. The role of NBFCs is significant and is expected to increase in the future. There are 9,659 NBFCs registered with the Reserve Bank of India, accounting for about 17% of India's total credit, with microfinance playing a particularly important role in improving women's access to finance (85% women customers), with about 67% of microfinance institutions being NBFCs. On the other hand, the default of a major NBFC in 2018 increased the risk of credit and liquidity crises in the NBFC sector, which has increased NBFCs' funding costs, and in addition, the country's macroeconomic downturn due to the

pandemic of COVID-19 have worsened the funding environment even for the best NBFCs. Individual and MSME lending by NBFCs, such as microfinance and SME lending, as well as housing loans, are more vulnerable to the deteriorating funding environment due to their relatively higher risk profile, and the NBFC sector has been unable to meet the huge and underserved financing needs of women while expanding its business. There is a strong need to support the NBFC sector in securing stable funding (longer maturities and diversification of funding sources) in order to expand its business.

The project aims to improve women's access to finance in the country through support to Northern Arc Capital Limited ('NAC'), which is working to diversify funding sources for the NBFC sector, and is in line with the sector's challenges and the Government of India's policy.

(2) Japan's and JICA's Policy for the women's financial inclusion in India and the Priority of the Project

Japan's Country Assistance Policy for India (March 2016) states that the country will support sustainable and inclusive growth as pillar (3) of its priority areas, and will work on programmes to increase the income of the poor, and in the Points to Consider, the country will pay attention to gender equality in order to achieve an equal and inclusive society. In addition, JICA pays attention to gender equality to achieve an equal and inclusive society. JICA also promotes gender equality and women's empowerment as a whole, and is working to promote women's economic empowerment as one of its priorities. Under the 2X Challenge: Financing for Women initiative, in which a new phase of implementation until 2022 was announced at the 2021 G7 Cornwall Summit (UK) with Japan's participation, development finance institutions in G7 countries will promote private sector investment by priming their own funding. This project is in line with this policy. In addition, in January 2021, JICA has provided Yen Loan to India "The COVID-19 Crisis Response Support Loan for Social Protection" for the purpose of reducing and mitigating the socio-economic impact of the coronavirus crisis in the country, and this project will expand financial assistance to women who have been severely affected by the COVID-19. The project is also positioned as support that contributes to the realisation of human security, which is a priority issue for JICA.

3. Project Description

(1) Project Objective

The project will improve women's access to finance in India by providing loans through NAC to non-bank financial institutions and others that provide financial services to women in India, thereby contributing to the reduction of gender disparities and sustainable economic growth in the country.

(2) Project Site/Target Area

All of India (except disputed territories)

(3) Project Component

Funds will be used to finance loans by NAC to NBFCs providing financial services to women, with NAC lending only to NBFCs with sub-lending operations that meet the 2x challenge eligibility criteria (as of June 2021).

(4) Environmental and Social Consideration/Gender Category

① Environmental and Social Consideration

a) Category: C

b) Reason for Categorization:

It is judged under the JICA Environmental and Social Considerations Guidelines promulgated in April 2010 that the undesirable effects of the Project on the environment are minimized

② Gender Category: ■GI(P) (Gender Informed(Principal))

<Reason for Categorization> Because the project aims to improve women's access to finance.

(5) Other Important Issues

None

4. Targeted Outcomes

(1) Qualitative Effects

index	standard value as of September 2020	target value as of 2025
Number of female clients supported by NAC	3,839,401 people	5,712,280 people
Number of female customers of subleased NBFCs	Confirmed upon subproject approval	Value at subproject completion increased since approval
Outstanding loans to women customers of NBFCs to which they sublet	Confirmed upon subproject approval	Value at subproject completion increased since approval

(2) Quantitative Effects

Improving women's access to finance

5. Lessons Learned from Past Projects

(1) Results of Evaluation of Similar Projects

In the results of the ex-post evaluation of the Yen Loan to India "Support for SMEs and Energy Saving" (including the Three Step Loan, which is partly the same as this project), lessons were learnt that going through financial institutions rooted in each region may have led to more efficient and effective financing by utilising a wider network than if the implementing agency had implemented the project on its own. The lessons learnt are that this may have led to more efficient and effective financing through a wider network than the implementing institution alone.

(2) Lessons for the Project

The project confirms that NAC has sufficient screening and risk management capacity at portfolio and individual counterparty level when selecting financial institutions rooted in each region as counterparties.

6. Evaluation Results

The Project is in line with India's development challenges, development policies and the assistance policy and analysis of Japan and JICA, and will contribute to the reduction of gender disparities and sustainable economic growth in India by promoting financial inclusion of women. The project contributes to SDGs Goal 1 (poverty reduction), Goal 5 (gender equality), Goal 8 (improved access to financial services) and Goal 17 (partnerships).

7. Plan for Future Evaluation

(1) Indicators to be used

As shown in Section 4. (1) above

(2) Timing

Future evaluation is scheduled for Japanese FY2025.

END