

Ex-Ante Evaluation
Private Sector Investment Finance Division,
Private Sector Partnership and Finance Department, JICA

1. Name of the Project

- (1) Country: Republic of India ("India")
- (2) Project site/area name: India
- (3) Project Name: Agricultural Sector Support Project
- (4) L/A signing date: March 23rd , 2023

2. Background and Necessity of the project

- (1) Current status and issues of private sector development in India

The importance of the agricultural sector in the Indian economy is significant, accounting for approximately 17% of the country's GDP (World Bank, 2021). Agricultural products are inputs to India's food processing, tourism, and service industries, and have a significant impact on a wide range of industries in India. In addition, the agricultural sector accounts for approximately 50% of India's total employment, making it the largest sector in the country. The role of the agricultural sector in improving the country's standard of living and overall economic growth is extremely important.

In the agricultural sector, it has been observed that there is a need to increase the production of agricultural products and improve food security. In fact, the average monthly income of farmer is as low as Rs.10,218 (approximately 16,931 yen), which is nearly 50% of the average monthly income of a regular urban worker of Rs 18,190 (approximately 30,140 yen) as of 2019. (Bureau of Indian Statistics). Since the income gap between urban workers and farmers, who are considered to be mostly rural, also leads to regional disparities, it is essential to improve farmers' incomes from the perspective of correcting the disparity. The Indian government has launched a policy called "DOUBLING FARMERS INCOME" to double the income of farmers, and has emphasized the need to improve agricultural productivity, which will contribute to higher farmer incomes. The government aims to improve the quality and diversification of agricultural products, create price-competitive products by improving technological capabilities through the introduction of equipment and materials, expand marketing, and ultimately increase productivity leading to higher farm incomes.

Agricultural productivity in the country is low compared to the world average, and there are issues such as access to finance to improve

productivity. Of these, improved access to finance will contribute significantly to improving agricultural productivity through the purchase of agricultural equipment and materials, quality seeds, and necessary fertilizers, but the number of farmers who have sufficient funds to make such purchases is limited. It is difficult to ensure the economic rationale for lending to small farmers¹ due to the high risk involved and the high service cost burden of on-farm activities, and only about 41% of small farmers have access to loans from commercial banks (2019, Reserve Bank of India ("RBI")).

In this context, the Government of India has addressed the issue by supporting financial inclusion for farmers through the National Bank for Agricultural and Rural Development (NABARD)² Farmer's Finance Scheme, as well as through the provision of short-term credit services to small farmers by commercial banks (e.g. Kisan Credit Card).³ In addition, to strengthen financial inclusion, the country has encouraged commercial banks to set up Digital Banking Units⁴ to enable rural residents to open bank accounts, apply for loans, transfer money, make payments, and more. The government is also working to improve access to finance by enabling rural residents to open bank accounts, apply for loans, transfer funds, and make payments online. However, as noted above, access to finance for small farmers is currently limited.

In addition, the Reserve Bank of India has issued Priority Sector Lending to various banks and has identified lending to the agricultural sector as one of the priority sectors to promote lending to this sector⁵. In contrast, it has been pointed out that while public financial institutions have achieved their PSL targets, private commercial banks have not achieved (Review Agricultural Credit, 2019, RBI) . Private financial institutions play an important role in promoting financial inclusion in this sector, as approximately 80% of

¹Defined as farmers with less than 2 hectares of arable land.

²A government-affiliated financial institution that provides refinancing to state governments and public financial institutions.

³The scheme was introduced in 1998 to make it easier for farmers to issue credit cards and withdraw cash. Scheduled Commercial Banks, Regional Rural Banks, and Small Finance Banks and Cooperative have adopted the scheme.

Farmers can withdraw cash for seeds, fertilizers, pesticides, and other production needs. Eligible farmers are (1) individual farmers and joint farmers who lease land, (2) tenant farmers, and (3) Self Help Groups and Joint Liability Groups that include tenant farmers. (Reserve Bank of India "Master Circular-Kisan Credit Card (KCC) Scheme")

⁴IndusInd Bank Limited has established DBUs in Punjab and Tamil Nadu.

⁵The priority sectors are (1) agriculture, (2) MSME, (3) export credit, (4) education, (5) housing, (6) social infrastructure, (7) renewable energy, and (8) others. The agriculture sector is charged with allocating 18% of its loans (RBI).

loans to the agricultural sector come from commercial banks, and support from private financial institutions needs to be strengthened.

By improving access to finance in the agricultural sector, which plays an important role in the country's socio-economic development, the project is expected to increase agricultural productivity, raise farmers' incomes, reduce inequalities and promote inclusive and sustainable growth in the country. The country's agricultural sector has a growing demand for medium- to long-term credit, but agricultural finance collateralized by farmland is risky for loans to smallholder farmers. In addition, the high cost of providing services in rural areas makes it difficult to ensure economic rationality, and loans to farmers are limited and short-term. In this regard, IndusInd Bank Limited has a large number of branches in rural areas and does not focus heavily on urban areas.

(2) Japan and JICA's Policy and Operations in the Private Sector

Japan's "Country Assistance Policy for the Republic of India" (April 2018) sets "Support for Sustainable and Inclusive Growth" as one of the development issues based on the country's needs. Furthermore, the "Economic Development and Livelihood Improvement in Rural Areas" is identified as a priority area in the Rolling Plan of Country Assistance Policy for the Republic of India" (April 2018), which will promote the stabilization of agricultural production in rural areas through the development of rural environment and rural infrastructure, and the improvement of rural incomes through increased agricultural productivity and income diversification. The policy also states that the government will "improve rural incomes by increasing agricultural productivity and income diversification. In addition, in terms of "improving rural incomes," also includes developing low-cost appropriate farming technology for poor farmers, improving and disseminating farm management and technology to diversify agriculture and other livelihoods, and supporting microfinance for the poor to improve farmers' incomes. In the "JICA Country Analysis Paper on India" (March 2018), identifies "inclusive growth in rural areas" as one of the development challenges, and analyzes that farmers' income should be increased by improving agricultural productivity, and this project is in line with these policies and analysis.

JICA has also supported the agricultural sector through the "Himachal Pradesh Crop Diversification Promotion Project (Phase 2)" (2021) and the "Uttarakhand Integrated Horticulture Development Support Project" (2022), both yen loans. In the states of Himachal Pradesh and Uttarakhand, the project

will develop agricultural production infrastructure such as small irrigation and farm roads, farmer organization and agricultural technology support, and supply chain development including marketing support and post-harvest processing. This project is in line with India's development issues and policies, as well as Japan's assistance policy and JICA's country analysis on India.

3. Project Description

(1). Project Description

① Project Description

This project will provide long-term loans to IndusInd Bank Limited, a leading private sector financial institution in India, to improve access to finance in the country's agricultural sector⁶, thereby contributing to inclusive and sustainable economic growth in the country by increasing agricultural productivity and farmers' income.

② Project Components

To improve access to finance in the country's agricultural sector⁷ through a long-term loan to IndusInd Bank Limited, thereby contributing to inclusive and sustainable economic growth by increasing agricultural productivity and farmers' incomes in the country.

③ Project Beneficiaries(Target Group)

Agricultural workers in India.

(2) Estimated project cost: About 19.8 billion yen (including 13 billion yen from JICA)

(3) Schedule (Cooperation Period):

March 2023 - March 2030

(4) Project Implementation Structure

(1) Borrower: Indusind Bank Limited

(2) Execution Agency: IndusInd Bank Limited

(5) Collaboration and Sharing of Roles with Other Donors

(1)Japan's Activities: N/A

(2)Other Donor's Activity:Co-finance with Citibank, N.A.

⁶ Specific end-users include (1) farmers who own land, (2) farmers who lease land, (3) laborers engaged in agriculture, and (4) farmers' producer organizations (FPOs) and other micro, small, and medium-sized business corporations and their workers. (3) "Agricultural Household" as defined by the Government of India. (Department of Agriculture & Cooperation Ministry of Agriculture Government of India, "NATIONAL POLICY FOR FARMERS 2007")

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(6) Environmental and social considerations

- ① Category Classification: C
- ② Reasons for Categorization: It is Judged under the JICA Environmental and Social Considerations Guidelines(promulgated in January 2022) that the undesirable effects of the Project on the environment are minimized..

(7) Cross-cutting issues: N/A

(8) Gender Classification:

Gender-related Projects] GI(S) Gender Activity Integration Projects

Reason for Categorization: Although the review identified the need for gender mainstreaming needs, it did not result in the establishment of indicators for specific initiatives that contribute to gender equality and women's empowerment.

(9) Other special notes: N/A

4.Targeted Outcomes

(1) Quantitative Effects

index-name	Baseline (2022)	Target (2029) [7years after L/A signing]
Outstanding loans to the agricultural sector	374,972 Million INR	674,835 Million INR
Number of borrowers to be financed by JICA loan	0 person	47,000 people

(2) Qualitative effects

Increased income for farmers.

5. Assumptions and external conditions

N/A

6. Lessons Learned from Past Projects

The results of the ex-post evaluation of the "Agricultural Sector Strengthening Project (II)" in Paraguay pointed out the importance of setting up a financing system that meets the objectives of the project. It was pointed out that the project failed to meet the screening requirements of the financial institutions, which resulted in the loans not reaching the originally intended target, and lessons were learned about the importance of setting the lending conditions of the financial institutions at a reasonable level. For

this project, we confirmed IndusInd Bank Limited's loan requirement was reasonable and that loan was likely to be implemented in agricultural sector. In addition, although JICA will be solely responsible for the last five years of the seven-year repayment period of the JICA loan, part of the supervision of this project will be conducted in cooperation with the India Office, including the Overseas Investment and Loan Task Team established in June 2021, in order to collect information and communicate more closely with the borrower more closely. The team will also work with the India office to gather information and communicate with the borrower more closely.

7. Evaluation Results

This project is in line with India's development challenges and policies, as well as assistance policy of Japan and analysis of JICA, Goal 17 (revitalization of partnerships), and therefore, the support is highly significant.

8. Plan for Future Evaluation

(1) Indicators to Be Used: As shown in Section 4

(2) Future evaluation schedule (estimate)

Ex-post-evaluation is planned approximately 7 years after L/A signing.

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