

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 / Target Area: the Lagging States¹ (but not including disputed territories)
- (3) Project: Project for Rural Financial Access Improvement ("Project")
- (4) Signing Date: December 22, 2023

2. Background and Necessity of the Project

(1) Current State and Issues of Financial Access in rural India

Rural India is home to about 65% of the total population and 68% of the total working population, and is responsible for 46% of GDP. Agriculture is the main industry in those areas, accounting for about 37% of the rural economy. Also, with an average annual GDP growth rate of about 6.2% since 2000, rural India is a strong source of growth for the national economy (2022, Bain and Company). On the other hand, low income levels have been a major challenge in the rural areas, especially since the outbreak of the new coronavirus disease (COVID-19), with farmer income growth declining from 8.5% p.a. pre-COVID-19 to 2.9% p.a. post-COVID-19 and non-farmer income growth also having declined from 9.1% p.a. pre-COVID-19 to 5.2% p.a. post-COVID-19 in rural India (National Bank for Agriculture and Rural Development, 2022). Taking into account the rate of inflation in India increasing to 6.25% in 2022 and 6.5% in 2023, it's assumed that the real wage growth in rural India is considered to be negative. In addition, the poverty rate in rural India is as high as 19.3% compared to 5.3% in urban India, and approximately 90% of the poor reside in rural India, making poverty reduction in those areas a critical urgency. The poverty rates of the project targeted states are above 10% and the project states are among the top 13 states with the highest poverty rates in India. Therefore, the project contribution to poverty reduction is highly significant. In particular, Bihar has the highest poverty rate of all states, at 33.7% (2023, UNDP).

Access to finance is also a major challenge in rural India. For example, about 70% of small-scale farmers do not have a bank account and about 87% of them do not have access to finance. This poor access to finance has led to a lack of mechanization of agriculture in rural India, hindering productivity gains in agriculture (2021, CNBC TV18). The Doubling Farmers' Income (2017) strategy paper for the agriculture sector developed by the National Institute of Technology and Innovation (NITI Aayog) of India aims to double farmers' income in FY2022 compared to FY2015. The Doubling Farmers' Income (2017) states that the value chain should be built by diversifying crops from cereals to more profitable horticultural crops such as vegetables and fruits, improving storage and post-harvest processing efficiency to achieve better trading prices, strengthening the capacity of producer

¹ Ten states with poverty rates above 10%, namely Assam, Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Odisha, Rajasthan, Tripura, Uttar Pradesh and West Bengal.

associations (Farmer Producer Organization (2020)) and collaborating with private agri-tech companies.

In addition, in the two-wheeler industry, which is an important industry in India, the low level of access to finance in the rural areas makes it impossible to purchase two-wheelers and other vehicles. The challenge to improving livelihoods in rural India is that the demand for two-wheelers and other vehicles is not satisfied owing to the low level of access to finance. The spread of two-wheelers is considered necessary to improve the livelihoods in the rural areas, which support the country's economic growth (IMARC, 2023).

India also has about 63 million micro, small and medium enterprises (MSMEs). Among MSMEs, micro enterprises in particular account for 99.4% of the total number of MSMEs and play an important role in India's social and economic development. Micro enterprises employ about 96.9% of the 110 million people employed by MSMEs. On the other hand, according to the Reserve Bank of India (RBI) estimates for 2019, the overall MSME funding gap is estimated at 20-25 trillion INR, suggesting a very high demand for finance in the sector. Access to finance for micro enterprises is also limited, with around 83.2% of micro enterprises having no access to finance, and more than 90% of MSMEs owned by women rely on informal sources of finance (2022, Observer Research Foundation). The Government of India is working to improve MSMEs access to finance in its three-year action plan for 2017-2019, and the Budget for FY23 includes a new MSME credit guarantee scheme injecting 90 billion INR to launch. The National Policy for Women drafted by the Ministry of Women and Child Development also identifies improving women's access to finance as one of the priority issues to be addressed.

The project aims to improve access to finance in rural India through LTF with their wide branch network across the country, and is in line with the sector's challenges and the Government of India's policy.

(2) Japan and JICA's Cooperation Policy and Operations in Financial Access in Rural India

On 20 May 2023, at a side event of the G7 Partnership for Global Infrastructure and Investment, Prime Minister Kishida announced his commitment to contributing to the sustainable development of partner countries through public and private infrastructure investment, as well as the establishment of a new JICA loan facility totaling 4 billion dollars to address climate change in vulnerable countries, food security, MSMEs and women. Based on this, JICA established the Facility for Accelerating Financial Inclusion (FAFI) on May 22, 2023. The project will improve access to finance for MSMEs, women-owned businesses and farmers in India, which is consistent with the objectives of the Facility for Accelerating Financial Inclusion. In the context of key foreign policies, the project will also contribute to the pursuit of economic prosperity under the Free and Open Indo-Pacific Initiative through co-financing with the ADB from the perspective of improving access to finance.

Japan's Country Assistance Policy for India (March 2016) states that support for sustainable and inclusive growth is a pillar of its support and that it will work on programs to increase the incomes of the poor; JICA's India Country Analysis Paper (March 2018) identifies inclusive growth in rural India,

where low-income groups live, income growth in rural India and microfinance support for the poor as key development issues. In addition, JICA's Global Agenda “Digital for Development” (Strategies for Global Development Issues) (July 2021) states that, in addressing issues in developing countries, JICA will work on cooperation that generates greater achievements and added value than before by utilizing new approaches and technologies through DX in various areas and sectors, including finance. The Global Agenda “Public Finance and Financial Systems” (Strategies for Global Development Issues) (July 2021) also calls for improving access to finance for businesses and individuals and fostering financial markets as the basis for economic activity, and this project is in line with this analysis.

(3) Other Donors’ Activities

The Asian Development Bank (ADB) is participating in the project as a co-financing bank.

3. Project Description

(1) Project Description

① Project Objective

The objective of the Project is to promote financing for women, farmers, two-wheel users and MSMEs in the Lagging States of India through long-term loans to LTF, thereby addressing rural disparities and sustaining economic development in the country.

② Project Components

The project facilitates lending to women, farmers, two-wheeler users and MSMEs in the Lagging States through long-term loans to LTF. Loan funds are used for the following purposes.

- 1) Loans for women-owned businesses
- 2) Loans for agricultural machinery purchases
- 3) Loans for new two-wheeler purchases
- 4) Loans for MSMEs

In addition, at least 40% of the loan amount will be allocated to 1) Loans for women-owned businesses.

③ Project Beneficiaries (Target Group)

Women, farmers, two-wheeler users and MSMEs in the Lagging States of India

(2) Estimated Project Cost: 250 million dollars (of which the sum of 125 million dollars is financed by JICA)

(3) Schedule: December 2023 – November 2030

(4) Project Implementation Structure

- ① Borrower: L&T Finance Limited (LTF)
- ② Executing Agency: L&T Finance Limited (LTF)
- ③ Operation and Maintenance Organization: L&T Finance Limited (LTF)

(5) Collaboration and Sharing of Roles with Other Donors

- 1) Japan’s Activity:

JICA has provided support for improving farmers' livelihoods through the Himachal Pradesh Forest Ecosystem Management and Livelihoods Improvement Project, the Project for Sustainable Community Forest Management in Meghalaya and other means, as support for rural farmers. JICA also has supported energy-saving initiatives by MSMEs through the Micro, Small and Medium Enterprises Energy Saving Project (Phase 1-3) and expanding access to finance for MSMEs through the Private Sector Investment Finance “Support for Micro, Small, and Medium Enterprises”.

2) Other Donors' Activity: Co-finance with ADB

(6) Environmental and Social Consideration / Cross-Sectoral Issues / Gender Category

1) Environmental and Social Consideration

① Category: 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.

③ Other: The borrower reports to JICA that nothing other than Category C is in the subproject.

(7) Cross-Sectoral Issues: N/A

(8) Gender Category: GI: Gender mainstreaming needs assessment and analysis project

Reasons for classification: To improve access to finance for women-owned businesses by targeting at least 40% of the loan amount for women-owned businesses and the balance of loans outstanding and the number of women customers as operational effectiveness indicators.

(9) Other Important Issues: N/A

4. Targeted Outcomes

(1) Quantitative Effects:

1) Outcomes (Operation and Effect Indicators): LTF's outstanding loans for women borrowers in the Lagging States, Number of women borrowers in the Lagging States out of LTF's outstanding loans, Cumulative number of new-to-credit women borrowers out of LTF's outstanding loans, LTF's outstanding loans for agricultural machinery in the Lagging States, LTF's outstanding loans for two-wheelers in the Lagging States

(2) Qualitative Effects: Improvement of financial access and income gains in the Lagging States of India

5. External Factors and Risk Control

N/A

6. Lessons Learned from Past Projects

(1) Evaluation Findings of Similar Past Projects

In the ex post evaluation of the Japanese ODA Loan to Paraguay for the Agricultural Sector

Strengthening Project (II) (evaluation year: 2011), etc., the importance of setting up a loan scheme that meets the project objectives was pointed out. It was pointed out that loans did not reach the initially intended target owing to the failure to meet the screening conditions of the intermediary financial institutions, and lessons have been learnt that it is important to set the loan conditions of the intermediary financial institutions at a market level.

(2) Lessons for the Present Project

In view of such lessons learnt, the project confirmed the conditions of the LTF loan review through the screening process and confirmed that there is a high probability that the loan will be implemented in the envisaged rural areas.

7. Evaluation Results

As described above, the Project contributes to SDGs Goal 1 (No Poverty), Goal 5 (Gender Equality), Goal 8 (Decent Work and Economic Growth) and Goal 17 (Partnerships for the Goals), as it meets India's development challenges, development policies and the cooperation policy and analysis of Japan and JICA, and contributes to sustainable industrial development, especially through improving access to finance for women, and therefore the support provided by the foreign investment and loan 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 to be conducted five years after the L/A signing.

END

Annex: Map of the Project targeted states

Map of the Project targeted states

