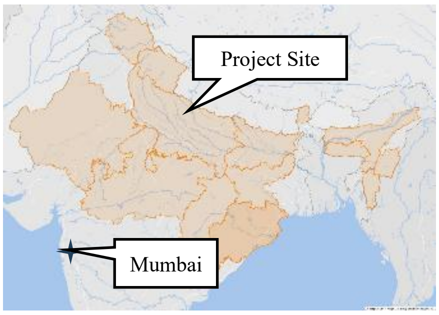
India

FY2024 Ex-Post Evaluation of Private-Sector Investment Finance

"Support for Micro, Small and Medium Enterprises in India"

External Evaluator: Toshihisa Iida, OPMAC Corporation

1. Project Description



Project Location (Source: Mapz.com (©OpenStreetMap contributors)

Plastic processing moulding machine purchased with a loan from the Borrower (Source: Evaluator)

1.1 Project Outline

The number of registered Micro, Small, and Medium Enterprises (hereinafter referred to as "MSMEs"), in India in 2016 was 63.38 million. Of these, 99.4% were micro enterprises, with 0.5% and 0.1% represented by small and medium enterprises respectively[1]. MSMEs have played an important role in the Indian economy, accounting for 31% of total GDP and 45% of total exports, and creating jobs for 124 million people (approximately 10% of the population). On the other hand, MSME access to financial services has been limited, and the funding gap was enormous, at $397.5 billion (about 15% of total GDP) according to a report by International Finance Corporation (hereinafter referred to as "IFC") in 2018 and 24% of the MSME financing gap occurred in the low-income states[2]. To address these challenges, the Government of India incorporated various support measures for MSME financing in its *Three Year Action Agenda (2017-18 to 2019-20)* and its annual central government budgets. The Project aimed to improve financial access for MSMEs, particularly those located in low-income states, thereby helping to correct regional disparities and promote sustainable economic growth in India by providing long-term funds to Mahindra & Mahindra Financial Services Limited (hereinafter referred to as "MMFSL"), a major non-bank financial company primarily operating in rural and semi-urban areas of India.

[1] Indian Ministry of Micro, Small and Medium Enterprises

[2] International Finance Corporation, Financing India's MSMEs, Estimation of Debt Requirement of MSMEs in India (November 2018)

2. Outline of the Evaluation Study

2.1 External Evaluator

Toshihisa Iida, OPMAC Corporation

2.2 Duration of Evaluation Study

This ex-post evaluation study was conducted with the following schedule.

Duration of the Study: August 2024 – January 2026

Duration of the Field Study: 19 January 2025 – 4 February 2025, 25 May 2025 – 30 May 2025

2.3 Constraints During the Evaluation Study

(1) Analysis of Efficiency

The following methods were used to evaluate efficiency in this ex-post evaluation. (i) Since the Borrower does not manage JICA loan funds in a separate account, the amount and number of loans financed with the funds of this Project could not be identified. Thus, at the start of the ex-post evaluation, the overall annual number and disbursed amount of loans extended to MSMEs by the Borrower were considered as the project output. However, for reasons such as the availability of Borrower data, the analysis ultimately focused on the trend of the total outstanding loan balance to MSMEs by the Borrower as a whole. (ii) For the project cost, the evaluation was based on a comparison of the planned and actual JICA loan amounts. (iii) For the project period, the date of the loan agreement was regarded as the project start date, the JICA loan disbursement deadline was regarded as the planned project completion, and the actual completion date was assessed based on the date of the final loan disbursement from JICA.

(2) Constraints on the collection of information

Out of the 14 targeted states[3] in this Project, interviews with end-users were actually conducted with 16 end-users at seven branches of the Borrower in four states (Madhya Pradesh, Uttar Pradesh, Assam, and Bihar). These were selected based on regional factors, per capita GDP, and outstanding loan balance to MSMEs. It should therefore be noted that the project benefits, such as qualitative effects and impacts, were determined based on matters confirmed through a limited number of interviews. Thus, the information obtained may not necessarily be representative.

(3) Definition of quantitative effect indicators

[3] The target states of the Project were 14 states located in eastern, north-eastern, and northern India: Assam, Bihar, Chhattisgarh, Himachal Pradesh, Jharkhand, Madhya Pradesh, Manipur, Meghalaya, Mizoram, Orisa, Rajasthan, Sikkim, Uttar Pradesh, and Uttarakhand.

The quantitative effect indicators for this Project are (i) the outstanding loan balance to MSMEs in all states and (ii) the outstanding loan balance to MSMEs in the target states. In July 2020, following the conclusion of loan agreements, the Indian government revised the definition of MSMEs, and accordingly, the classification of MSMEs in the loan data of the Borrower was also revised to align with the new definition. However, the baseline and target values for the indicators remained unchanged. Thus, in this ex-post evaluation, taking into account the July 2020 revision of the MSME definition, the impact of the novel coronavirus disease (hereinafter referred to as "COVID-19"), and the status of Borrower data reorganisation, the outstanding loan balance to MSMEs was adopted as the indicator definition. These are registered in an Udyam online MSME registration portal using the new MSME definition (and hereinafter referred to as "registered MSMEs[4]"). Using the outstanding loan balance as of 31 March 2023, as the baseline value, data aggregation under the new definition having become possible, the target value (as of 31 March 2025) was reset using the original target value setting approach. A comparison was then made between the target value and the actual value.

3. Conclusion

The Project aimed to expand the access of MSMEs to financial services, particularly in low-income and special category states, by providing long-term finance to the Borrower in India, thereby helping to correct the regional funding gap and contribute to sustainable economic growth in the country. The results of the ex-post evaluation are as follows:

Relevance: The Indian government was implementing measures to improve financial access for MSMEs, both at the time of project appraisal and the ex-post evaluation. Thus, the Project was consistent with the development policies of the Government of India. At the time of the ex-post evaluation, while the importance of the MSME sector to the Indian economy has been increasing, it is estimated that a funding gap for MSMEs still exists. Thus, the need for financial support for MSMEs remains high. The Borrower in this Project has conducted lending operations for MSMEs and has an extensive network of branches across India, with a particularly significant presence in rural and semi-urban areas. Therefore, the logic for achieving the project objectives was deemed sound, and both the project plan and approach were considered appropriate.

Coherence: The Project was consistent with Japan's ODA policy at the time of project appraisal. While no collaboration with other JICA projects was identified, coordination with the co-financing institution and alignment with international frameworks were implemented as initially

[4] Registered MSMEs obtain an official registration certificate (Udyam Registration Certificate) issued by the Indian government for MSMEs, which entitles them to government support measures and preferential treatment.

envisioned, and tangible outcomes were confirmed. The necessity for support through Private-Sector Investment Finance was also reaffirmed, based on the high market share of the non-banking sector in MSME financing in India, the strong presence of the Borrower in rural and semi-urban areas, the Borrower's funding needs, and the mobilisation of private Japanese funds.

Efficiency: As for the project outputs, the outstanding loan balance to MSMEs in the target states at the end of each fiscal year from FY 2023 onwards increased to a level exceeding the JICA loan amount. The actual project cost was as planned, and the actual project period was within the plan.

Effectiveness: The quantitative effect indicators set at the time of ex-ante evaluation (Outstanding loan balance to MSMEs in all states, and the targeted states) were achieved. The implementation period of this Project coincided with the spread of COVID-19. Amidst the resulting low liquidity in India's financial markets, the long-term financing provided by this Project contributed to increasing the Borrower's lending capacity. Furthermore, the end-users who received loans from the Borrower used these funds to expand their businesses. These activities included the purchase of vehicles and machinery and the expansion of stores and factories. In addition, it has been confirmed that the Borrower's activities to enhance the basic knowledge of existing and prospective customers regarding financial transactions, support for MSME registration, and the promotion of awareness of the proper preparation of financial statements have contributed to some extent to improving these customers' access to finance.

Impact: It is considered that the expansion of business activities by end-users using funds borrowed from the Borrower has had a certain positive impact on local communities, including the creation of employment opportunities, increased income generation opportunities, and improved convenience in daily life. Furthermore, through CSR activities, the Borrower has implemented programmes to enhance basic knowledge of financial transactions and understanding and capacity to utilise digital technologies among low-income communities and others. It is confirmed that these efforts have contributed to social and economic development.

Sustainability: The Government of India has continuously supported MSMEs, and consistency with this project continues to be observed in terms of policies and institutional frameworks at the time of ex-post evaluation. The Borrower has a nationwide branch network, and no significant issues have been identified in the system for loan screening, monitoring and recovering. It can be considered that the Borrower has continuously provided training to staff and that staff possess the sufficient skills to communicate effectively with clients and respond appropriately to their needs. No issues have been observed in the financial, and environmental and social aspects. The shortterm likelihood of risks anticipated at the time of ex-ante evaluation, such as downturn in the non-bank sector and the auto loan market, is considered low.

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