



# Initial Poverty and Social Assessment

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Project Number: 43158  
September 2009

## India: Supporting Microentrepreneurship for Women's Empowerment

An initial poverty and social assessment (IPSA) is prepared in the early stage of the project cycle to assess the significance of social issues for a project. In accordance with ADB's public communications policy (PCP, 2005), the IPSA is disclosed upon completion. The final summary social assessment is included as an appendix to the project's report and recommendation of the President.

**Asian Development Bank**

## INITIAL POVERTY AND SOCIAL ANALYSIS

<b>India: Supporting micro entrepreneurship for women's empowerment</b>			
Lending/Financing Modality:	Japan Fund for Poverty Reduction Project	Department/ Division:	SARD/SAFM
<b>I. POVERTY ISSUES</b>			
<b>A. Linkages to the National Poverty Reduction Strategy and Country Partnership Strategy</b>			
<p>Despite recent rapid economic growth, poverty in India is widespread, with the nation estimated to have one of the largest concentration of poor people in the world and housing a third of the world's poor. According to the criterion used by the <i>Planning Commission of India</i>, 27.5% of the population (or nearly 302 million people) were living below the poverty line in 2004-2005, down from 51.3% in 1977-1978, and 36% in 1993-1994, marking a pace of reduction less than 1% per year<sup>1</sup>. About 221 million people (72% of the poor) live in rural areas and most depend on subsistence farming for their livelihood. Among them, 59% are small landholders, marginal farmers, and landless labors; and two thirds of agricultural laborers are women. Rural poverty was 28.3% and urban poverty was 25.7% in 2004-2005. An estimated 34.3% of the people lived on less than \$1/day in 2004-2005, with 80.4% of people living on less than \$2/day.<sup>2</sup> According to the World Bank's new estimates based on purchasing power parity exchange rates and domestic prices for 2005, 42% of the population lived on less than \$1.25/day in 2005 compared with 49.9% in 1993-1994. The new estimate also shows that 75.6% people lived on less than \$2/day in 2005<sup>3</sup> Poverty in India is partly attributed to the over concentration of the work force in the agriculture sector, with corresponding low productivity. In 2007, about 56% of the total population depended on agriculture, while agriculture contributed 18% to the gross national product. It is anticipated that the slow-down of the growth momentum will have implications on the poverty front. The proposed JFPR is in line with the priorities set out by the Government in its 11<sup>th</sup> Five Year Plan which considers the MSME sector and –more specifically- to the importance assigned to the support for women's empowerment in the <i>Prime Minister's 15-point Program</i> and in other flagship schemes of the Government<sup>4</sup>.</p> <p>Support for inclusive growth and catalyzing investment through innovative financing modalities are two of the strategic pillars of the <i>India Country Partnership Strategy (CPS)</i>. The CPS emphasizes the need for promoting financial sector and SME development and supporting gender equity issues and concerns. With respect to SME development, the CPS explicitly states that: (a) the provision of information, markets, technology and business development services should include mechanisms to promote women's and their enterprises' participation; and (b) gender-based barriers to access finance should be analyzed and addressed<sup>5</sup>. The proposed JFPR Grant responds to the commitment to gender-inclusive financial sector and SME development set out in the CPS by engaging with the <i>Small Industries Development Bank of India (SIDBI)</i> and its partner microfinance institutions (MFIs) in further advancing their commitment to pro-poor, social/gender-inclusive focus of their operations while –at the same time– addressing the specific needs and constraints faced by low-income women entrepreneurs. The JFPR is piggy-backed to the (upcoming) <i>MSME Development Project</i> (hereafter, the Project), which support MSME access to term finance. The Grant will complement the (proposed) approach under the Project by providing much-needed capacity building support to low-income women entrepreneurs in the unorganized sector, based in rural, urban/peri-urban settings.</p>			
<b>B. Targeting Classification</b>			
<p>1. Select the targeting classification of the project:</p> <p><input checked="" type="checkbox"/> General Intervention   <input type="checkbox"/> Individual or Household (TI-H);   <input type="checkbox"/> Geographic (TI-G);   <input type="checkbox"/> Non-Income MDGs (TI-M1, M2, etc.)</p> <p>2. Explain the basis for the targeting classification:</p> <p>The proposed Project will be implemented with a particular focus on lagging States such as: Rajasthan, Madhya Pradesh, Uttar Pradesh and –possibly– Uttarakhand, characterized by the persistence of poverty, social/gender issues and high percentage of unregistered women's micro/small medium enterprises. The MSME sector is a microcosm of all vulnerabilities—it touches upon the lives of women, minorities, scheduled castes and scheduled tribes in the villages, in the urban slums, and in the deprived pockets of flourishing towns and cities. For many families, it is the only source of livelihood. For others, it supplements the family income. Women are mostly found in the unregistered sector—food processing enterprises, manufacturing enterprises, and weaving—and often work part time in the family enterprises. Women enterprises are micro- and small-scale enterprises managed by one or more women as a proprietary concern, or in which she/they individually or jointly have a share capital of not less than 51% as partners, shareholders, directors of a private limited company or members of a cooperative society. In India, rural enterprises owned by women are smaller, younger, more likely to be informal and</p>			

<sup>1</sup> Government of India, 11<sup>th</sup> Five Year Plan Document. Planning Commission. New Delhi: 2007.

<sup>2</sup> UNDP's Human Development Index, 2007, UNDP, New York: 2007.

<sup>3</sup> <http://iresearch.worldbank.org/PovcalNet/jsp/index.jsp>,

<sup>4</sup> *ibid*, 11<sup>th</sup> Five Year Plan Document: 203.

<sup>5</sup> Country Partnership Strategy, India (2009-2012), March 2009, ADB, Manila: 106.

home-based. Female entrepreneurs are less educated and have significantly less access to medium- to long-term credit (enterprise finance). Banks and other financial institutions generally prefer large enterprise clients because of the lower transaction costs, and greater availability of collateral. Some of the Micro, Small and Medium-sized enterprises also fall outside the reach of microfinance schemes, and are thus compelled to depend more on informal sources of funds at higher interest rates. The lack of positive attitude and confidence of loan officers in women entrepreneurs' managerial skills further affects their access to credit. It has been estimated that the limited credit availability for MSMEs –in India– resulted in the loss of 30 million person-days of potential employment over a 5-year study period.

## II. SOCIAL DEVELOPMENT ISSUES

### A. Initial Social Analysis

Based on existing information:

1. Who are the potential primary beneficiaries of the project? How do the poor and the socially excluded benefit from the project?

The Project will target the specific needs and constraints faced by low-income women entrepreneurs in rural, urban and peri-urban settings. The JFPR –consistently with the focus of the proposed sovereign loan to SIDBI–to which it is piggy-backed–will target the specific needs and constraints faced by the 'missing middle' of low-income beneficiaries that want to graduate from MFI support and move into the formal (financial) sector. Financing programs to support the "missing middle" are currently inadequate. Such interventions would provide commercial funding to small borrowers who have potential and have done well but have grown too large for traditional microfinance support while -on the other hand- are still too tiny (or lack the necessary skills, capacity and experience) to access more conventional (bank) financing.

2. What are the potential needs of beneficiaries in relation to the proposed project?

A 2008 study carried out by the Ministry of Women and Child Development (National Credit Fund for Women or *Rashtriya Mahila Kosh*) indicates that the beneficiaries of the RMK Program indicated that the amount approved by the RMK scheme [25,000 Rs (or 500\$) for microenterprises loans] are too low to set up a microenterprise and that –most of the beneficiaries interviewed during the impact assessment- had to borrow funds from relatives or *sahukars* (moneylenders) to set up their microenterprises. Discussions with SIDBI suggest that the 'missing middle' of beneficiaries aim at loans between 50,000 Rs. (\$1,000) and 500,000 Rs. (\$10,000). The impact assessment of the RMK program validates the assumptions of the Grant that microcredit –while necessary- is not a sufficient condition for the development of microentrepreneurship. Other inputs are required, such as identification of livelihood opportunities, selection and motivation of the microentrepreneurs, business and technical training, financial literacy, establishing of market linkages for inputs and outputs, common infrastructure and some times regulatory approvals.

3. What are the potential constraints in accessing the proposed benefits and services, and how will the project address them<sup>6</sup>?

The debate on financial services to the poor and low income households in India has revolved around the rural population since the time when banks were nationalized for the first time in the country. Unlike rural financial intermediation, flow of financial resources to urban populations was never a matter of serious debate in India. The tendency among microfinance intermediaries to move towards urban centers came only after it found that the rural markets coming to a saturation point. Still now, the SHG-Bank Linkage model remains predominantly a rural phenomenon<sup>7</sup>. The first targeted credit program with focus on enterprise and self-employment opportunities in urban areas was launched in 1989 during the 7<sup>th</sup> Five Year Plan period (1985-90). Various urban poverty alleviation schemes with a credit focus introduced in India since 1989 shows that they broadly followed a top-down approach<sup>8</sup>. Credit flow from formal financial institutions to the urban population groups steadily increased in India since the 1970s and this has come to be concentrated in large cities and larger sized credit brackets. Though the social banking efforts of the Central Bank and the government financial intermediation in rural areas too have gone through a phase of expansion, the low income asset holding segments of urban areas have largely been bypassed by such overall expansion in financial intermediation. While the state's poverty alleviation approach has steadily expanded from mere provision of basic amenities and services to facilitating creation of income earning opportunities, it has failed to make any significant impact on the urban poor. Availing of the SIDBI networks of branches (100) and SFMC branches (7), the project will aim to support the capacity building of low-income women entrepreneurs, with a focus on rural, urban/peri-urban settings and contribute to tap into the potential of women entrepreneurs, by promotion their greater access to available financial services, resources and market opportunities.

<sup>6</sup> Tara S. Nair, India: Urban Poverty Report 2009, Chapter 6, Urban Microfinance in the context of Urban Poverty.

<sup>7</sup> Economic Development Associates (2004) observed that about 80% of the micro finance clients are without any formal savings, and 91%, without formal credit. Nearly 77% of the micro credit clients are in the rural sector.

<sup>8</sup> The *Swarna Jayanti Shahari Rozgar Yojana* (SJSRY) is the first such urban scheme launched by Government of India where community based organizations, especially poor urban women, were recognized as the critical points of delivery of benefits Indian Bank has started Microstate branches that are exclusive satellite branches for servicing micro loans. Later State Bank of India has promoted about 7,000 SHGs in the city of Mumbai of which nearly 2,000 are bank linked.

## B. Consultation and Participation

1. Indicate the potential initial stakeholders.<sup>6</sup>

An initial stakeholder analysis was carried out by the ADB Team and stakeholders identified through intensive consultation with relevant staff at ADB/HQ and the India Resident Mission (INRM). At the Government level, the *SIDBI Foundation for Micro Credit* (SFMC) is one of the most active and innovative players involved in targeting the specific needs faced by women micro-entrepreneurs in India. In addition, the Ministry of Small Scale Industries (MoSSI), the Ministry of Agro and Rural Industries (MARI) and the Ministry of Women and Child Development (MWCD) have programs directly/indirectly targeting the needs and constraints faced by women through the availability of dedicated credit lines and a range of capacity building initiatives. The MWCD has been implementing the National Credit Fund for Women (*Rashtriya Mahila Kosh*). With respect to the private sector, confederations of industries have been active in supporting capacity building initiatives among their members. These include: the Federation of Indian Micro and Small & Medium Enterprises (FISME), the Confederation of Indian Industries (CII), the Associated Chamber of Commerce and Industry (ASSOCHAM), the Federation of Indian Chambers of Commerce and Industry (FICCI), the Federation of Small Industries of India (FASII). Among the non-government agencies, the Team identified SEWA Bank as one of the most relevant micro-finance institution. In terms of training institutes, the Economic Development Institute (EDI) and the Indian School of Microfinance for Women have been implementing –among others- a range of rather innovative programs with strong gender focus. The World Bank, the International Finance Corporation (IFC), the *Reconstruction Credit Institute* (Kreditanstalt für Wiederaufbau, KfW), the (German Technical Cooperation (*Deutsche Gesellschaft für Technische Zusammenarbeit*), the French Technical Cooperation (*Agence Française de Développement*), the UK Department for International Development (DFID) and the Japan International Cooperation Agency (JICA) have all been involved –in different ways and degrees- in the promotion of M/SME but with no specific gender focus and/or targeting at low-income women entrepreneurs.

2. What type of consultation and participation is required during the project processing (e.g., workshops, community mobilization, involvement of nongovernment organizations and community-based organizations, etc.)?

During loan fact-finding (August 2009) and JFPR fact-finding (September 2009) consultations have been carried out with all relevant stakeholders identified above through direct consultations in-country. In-depth discussions were carried out with SIDBI and SFMC (in New Delhi and Lucknow, UP) and RMK (in New Delhi). The participation of the Team at one MFI event organized in New Delhi (with the participation of Women's World Banking, SEWA Bank and the Indian School of Microfinance for Women, among others) provided an excellent opportunity to better assess the complexity of MFI in India, the range of actors operating at both central and State level, and provided critical inputs in the definition of the approach followed under the (proposed) JFPR.

3. What level of participation is envisaged for project design?

Information sharing    Consultation    Collaborative decision making    Empowerment<sup>7</sup>

4. Will a consultation and participation plan be prepared?  Yes    No   Please explain.

## C. Gender and Development

1. What are the key gender issues in the sector/subsector<sup>8</sup> that are likely to be relevant to this project/program?

Women enterprises are small-scale enterprises managed by one or more women as a proprietary concern, or in which she/they individually or jointly have a share capital of not less than 51% as partners, shareholders, directors of a private limited company, or members of a cooperative society. Evidence collected during the fact-finding mission and discussions with various Government of India (GOI) agencies, private sector and multi-/bilateral donors suggest that the credit crunch arising from the global financial crisis has accentuated the shortage of credit for low-income women entrepreneurs –especially located in rural, urban/peri-urban settings- with severe repercussions on livelihoods. MSMEs play an important role in the non-farm sector as a means for sustainable employment. In achieving these outcomes, MSMEs benefit women both directly in terms of wages and indirectly by supplementing family incomes, reducing drudgery, and providing sustainable social capital. Against this backdrop, offering financing alone will not be sufficient to target the specific needs and constraints faced by low-income women entrepreneurs. The need to support capacity building interventions was discussed and agreed as critical through the finalization of a grant-financed component for capacity building support to women entrepreneurs operating in the informal sector. This aspect would be addressed by the third component of the ADB Project, through the establishment of a technical assistance facility that would provide capacity building to women entrepreneurs in the unorganized sector.

2. Does the proposed project/program have the potential to promote gender equality and/or women's empowerment by improving women's access to and use of opportunities, services, resources, assets, and participation in decision making?  Yes    No

3. Could the proposed project have an adverse impact on women and/or girls or to widen gender inequality?

Yes    No

<b>III. SOCIAL SAFEGUARD ISSUES AND OTHER SOCIAL RISKS</b>			
<b>Issue</b>	<b>Nature of Social Issue</b>	<b>Significant/Limited/ No Impact/Not Known</b>	<b>Plan or Other Action Required</b>
<b>Involuntary Resettlement</b>	No involuntary resettlement will be triggered	No Impact	<input type="checkbox"/> Full Plan <input type="checkbox"/> Short Plan <input type="checkbox"/> Resettlement Framework <input checked="" type="checkbox"/> No Action
<b>Indigenous Peoples (IP)</b>	No adverse issues related to indigenous people ('scheduled tribes') or ethnic minorities are anticipated. Rather, women IP will benefit from expanded access to financial resources and services through the target interventions to women MSMEs.	No impact	<input type="checkbox"/> Plan <input type="checkbox"/> Other Action <input type="checkbox"/> IP Framework <input checked="" type="checkbox"/> No Action
<b>Labor</b> <input checked="" type="checkbox"/> Employment opportunities <input type="checkbox"/> Labor retrenchment <input type="checkbox"/> Core labor standards	The project will promote greater access of women micro/small entrepreneurs (mostly unorganized sector workers) to financial services. Training and capacity building initiatives will introduce notions of gender awareness, labor rights and core labor standards (CLS) and contribute to greater knowledge and –possibly- application of CLS <sup>9</sup> .	No impact	<input type="checkbox"/> Plan <input type="checkbox"/> Other Action <input checked="" type="checkbox"/> No Action
<b>Affordability</b>	The project promotes greater access of women MSME to affordable financial resources and services and thus is likely to contribute to reducing the costs and prices of manufactured goods and services.	No impact	<input type="checkbox"/> Action <input checked="" type="checkbox"/> No Action
<b>Other Risks and/or Vulnerabilities</b> <input type="checkbox"/> HIV/AIDS <input type="checkbox"/> Human trafficking <input type="checkbox"/> Others	No other risks or vulnerabilities have been identified.	No impact	<input type="checkbox"/> Plan <input type="checkbox"/> Other Action <input type="checkbox"/> No Action

<sup>9</sup> Modalities to associate the Ministry of Labor and Employment of India (at State and federal level) and to engage with the ILO Subregional Office for South Asia will be assessed