



## FAST Report

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Project Number: 50209-002  
April 2017

### Equity Investment Satin Creditcare Network Limited Supporting Access to Finance for Women in Lagging States Project (India)

This is an abbreviated version of the document approved by ADB's Board of Directors that excludes information that is subject to exceptions to disclosure set forth in ADB's Public Communications Policy 2011.

Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 24 March 2017)

Currency unit – Indian rupee/s (₹)

₹1.00 = \$0.0153

\$1.00 = ₹65.46

## ABBREVIATIONS

|      |   |  |
|------|---|--|
| ADB  | – | Asian Development Bank                             |
| FAST | – | Faster Approach to Small Nonsovereign Transactions |
| JLG  | – | joint liability group                              |
| MFI  | – | microfinance institution                           |
| NBFC | – | nonbanking financial company                       |
| RBI  | – | Reserve Bank of India                              |
| SFB  | – | small finance bank                                 |
| TA   | – | technical assistance                               |

## NOTES

- (i) The fiscal year (FY) of Satin Creditcare Network Limited ends on 31 March. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2017 ends on 31 March 2017.
- (ii) In this report, “\$” refers to United States dollars.

|                         |   |
|-------------------------|---|
| <b>Vice-President</b>   | D. Gupta, Private Sector and Cofinancing Operations   |
| <b>Director General</b> | M. Barrow, Private Sector Operations Department (PSOD)  |
| <b>Director</b>         | C. Engstrom, Private Sector Financial Institutions Division, PSOD   |
| <b>Team leaders</b>     | P. Flegler, Senior Investment Specialist, PSOD<br>A. Kumar, Investment Officer, PSOD  |
| <b>Team members</b>     | A. Porras, Senior Safeguards Officer, PSOD<br>I. Aguilar, Social Development Officer (Safeguards), PSOD<br>L. Johannes, Senior Results Management Specialist, PSOD<br>S. Shah, Principal Investment Specialist, PSOD<br>T. Rees, Counsel, Office of the General Counsel<br>V. Ramasubramanian, Senior Safeguards Specialist, PSOD |

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## PROJECT AT A GLANCE

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|--|---|--|---------------------------------|
| <b>1. Basic Data</b>                                       |   | <b>Project Number: 50209-002</b>       |                                 |
| <b>Project Name</b>  | Supporting Access to Finance for Women in Lagging States Project                | <b>Department /Division</b>            | PSOD/PSFI                       |
| <b>Country</b>   | India   |  |                                 |
| <b>Investee</b>  | SATIN CREDITCARE NETWORK LIMITED  |  |                                 |
| <b>2. Sector</b>   | <b>Subsector(s)</b>   | <b>ADB Financing (\$ million)</b>      |                                 |
| ✓ Finance  | Inclusive finance   |  | 10.00                           |
|  |   | <b>Total</b>                           | <b>10.00</b>                    |
| <b>3. Strategic Agenda</b>                                 | <b>Subcomponents</b>  | <b>Climate Change Information</b>      |                                 |
| Inclusive economic growth (IEG)                            | Pillar 2: Access to economic opportunities, including jobs, made more inclusive | Climate Change impact on the Project   | Low                             |
| <b>4. Drivers of Change</b>                                | <b>Components</b>   | <b>Gender Equity and Mainstreaming</b> |                                 |
| Private sector development (PSD)                           | Promotion of private sector investment  | Gender equity (GEN)                    | ✓                               |
| <b>5. Poverty and SDG Targeting</b>                        |   | <b>Location Impact</b>                 |                                 |
| Geographic Targeting                                       | No  | Rural                                  | High                            |
| Household Targeting  | No  | Urban                                  | Medium                          |
| SDG Targeting  | Yes   |  |                                 |
| SDG Goals  | SDG1, SDG5, SDG8  |  |                                 |
| <b>6. Nonsovereign Operation Risk Rating - NA</b>          |   |  |                                 |
| <b>7. Safeguard Categorization</b>                         | <b>Environment: FI-C</b>  | <b>Involuntary Resettlement: FI-C</b>  | <b>Indigenous Peoples: FI-C</b> |
| <b>8. Financing</b>  |   |  |                                 |
| <b>Modality and Sources</b>                                |   | <b>Amount (\$ million)</b>             |                                 |
| <b>ADB</b>   |   | <b>10.00</b>                           |                                 |
| Nonsovereign Direct Investment: Ordinary capital resources |   | 10.00                                  |                                 |
| <b>B-Loans</b>   |   | <b>0.00</b>                            |                                 |
| None   |   | 0.00                                   |                                 |
| <b>Official Cofinancing<sup>a</sup></b>                    |   | <b>0.00</b>                            |                                 |
| None   |   | 0.00                                   |                                 |
| <b>Others<sup>b</sup></b>                                  |   | <b>0.00</b>                            |                                 |
| <b>Total</b>   |   | <b>10.00</b>                           |                                 |

<sup>a</sup> Concessional financing from external sources.<sup>b</sup> Derived by deducting ADB financing, B Loans and Official Cofinancing from Project Total Cost.

## I. INTRODUCTION

1. This is an eligible transaction under the Faster Approach to Small Nonsovereign Transactions (FAST) framework.<sup>1</sup> The transaction involves an equity investment of up to \$10,000,000, in Indian rupee equivalent, in Satin Creditcare Network Limited for the Supporting Access to Finance for Women in Lagging States Project in India.<sup>2</sup>

## II. THE FINANCIAL INTERMEDIARY

### A. Investment Identification and Description

2. **Rationale.** Access to credit in India is limited, with less than 14.0% of borrowers accessing credit through formal channels.<sup>3</sup> Women are at a greater disadvantage, with only 11.3% of women compared with 15.8% of men having access to credit.<sup>4</sup> Given the continued need to address access-to-credit issues, particularly for women, and to support the government's finance sector reform efforts, the Asian Development Bank (ADB) has sought to identify financial institution partners that have demonstrated the ability to reach under-banked segments on a profitable and sustainable basis. Satin, a Delhi-based microfinance institution (MFI), has a strong commitment to a solid credit methodology coupled with a comprehensive value proposition that provides adjacent business development services and livelihood programs to its female customers through its associate institutions. This has enabled it to maintain high-quality asset growth while achieving measurable social returns.<sup>5</sup>

3. The proposed transaction seeks to support Satin as it grows from its strong presence in northern and central India and diversifies its presence across under-penetrated regions of India, with a focus on lagging states and rural areas. This is to further its vision of offering equal opportunities, particularly for its low-income female customers, through universal access and financial deepening—promoting financial inclusion, livelihoods, and economic development. Satin has sought partnerships with like-minded institutions since its establishment. The proposed ADB equity investment will be its first partnership with a multilateral financial institution. In addition, owing to foreign ownership restrictions, Satin is among the few large institutions in India's microfinance industry in which ADB's equity participation is possible.<sup>6</sup>

<sup>1</sup> Asian Development Bank (ADB). 2015. *Faster Approach to Small Nonsovereign Transactions*. Manila.

<sup>2</sup> Lagging states include low-income states with high poverty incidence and special category states. These include Assam, Bihar, Chhattisgarh, Himachal Pradesh, Jharkhand, Madhya Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Odisha, Rajasthan, Sikkim, Tripura, Uttar Pradesh, Uttarakhand, and West Bengal.

<sup>3</sup> Sector Overview (accessible from the list of linked documents in Appendix 2).

<sup>4</sup> World Bank. Global Financial Inclusion Database. <http://datatopics.worldbank.org/financialinclusion/> (accessed 27 June 2016).

<sup>5</sup> Among the social initiatives Satin conducted in 2015 and 2016 are (i) providing primary health care on wheels and comprehensive free medical health camps in Jharkhand, in partnership with the Daya Memorial Charitable Trust; (ii) providing free medical consultancy and medicines to economically weaker section patients, in partnership with the Maharaja Agrasen Hospital Charitable Trust; and (iii) improving Dhokara craft artisan livelihood opportunities, in partnership with World Act nongovernment organization.

<sup>6</sup> In the case of small finance banks (SFBs), foreign ownership is restricted to 49%. In September 2015, the Reserve Bank of India (RBI) awarded licenses to 10 institutions to convert into SFBs. SFBs are to function like a standard bank, having the ability to accept deposits, but will also have to focus on smaller loans and have higher priority sector lending requirements than other banks.

4. Satin has been part of ADB's Microfinance Risk Participation Program since 2012.<sup>7</sup> Excluding institutions with a small finance bank (SFB) license, it is the second-largest MFI in the country, with more than 99.5% of its portfolio concentrated in states where the microfinance industry has negligible, low, or moderate penetration.<sup>8</sup> ADB views Satin as a strong partner in India's microfinance industry as over 78% of its portfolio is in lagging states and about 65% is in rural areas; the industry average is 44% in lagging states and 40% in rural areas.<sup>9</sup> It is also a market leader in some of the largest underpenetrated and lagging states such as Bihar, Madhya Pradesh, and Uttar Pradesh. In addition, Satin's female-inclusive finance focus is directly aligned with ADB's inclusive finance and gender development objectives. ADB also views the proposed project as complementary to its other initiatives in the sector, including the Supporting Access to Finance for Women in Less-Developed States Project approved in September 2016.<sup>10</sup>

5. A significant initiative of the Government of India is to move the financial services industry toward cashless transactions. ADB views Satin as a pioneer of branch-level cashless collections, having converted more than 165 branches into cashless collection centers. Migrating to cashless transactions will help mitigate cash-handling risk and improve operational efficiency.<sup>11</sup> Satin's innovative work and focus on moving toward providing cashless transactions to its customers also makes it an attractive partner for ADB in India's microfinance industry.

## **B. Business Overview and Strategy**

6. Satin is India's fifth-largest MFI, and the bulk of its operations are in northern and central India. At the end of December 2016, it operated in 16 states through 710 branches, across 225 districts, servicing more than 35,000 villages with a customer base of 2.58 million. Satin was incorporated in 1990 as a nonbanking finance company (NBFC) providing small individual loans to urban microenterprises, primarily shopkeepers. It registered with the Reserve Bank of India (RBI) in 1998 and joined the microfinance industry in 2008 by starting group lending in rural areas. It mainly provides microloans under the joint liability group (JLG) model, but plans to branch out further to individual loans, primarily for its existing customers.<sup>12</sup> Satin is a publicly listed company, having listed on the main stock exchanges of India. It registered as an NBFC-MFI with the RBI in 2013.

7. The states in which Satin has its largest operations are Uttar Pradesh (representing 35% of assets under management), Bihar (19%), Madhya Pradesh (15%), Punjab (12%), Uttarakhand (3%), and Delhi (2%). It has recently expanded into new states in eastern and western India, including five during FY2016. It is growing faster in these recently entered areas than its traditional markets of Uttar Pradesh and Delhi as it seeks to diversify its portfolio geographically. As a result, Uttar Pradesh's share of assets under management fell from 59% in FY2013 to 35% in December 2016 and Delhi's fell from 15% in FY2013 to 1% in December 2016. Satin operates primarily in

<sup>7</sup> ADB. 2010. *Report and Recommendation of the President to the Board of Governors: Proposed Microfinance Risk Participation Program*. Manila.

<sup>8</sup> Excluding MFIs that the RBI has awarded in-principle licenses to transition to SFBs, Satin is the second-largest MFI in India. Including the MFIs with SFB licenses, it is the fifth-largest MFI.

<sup>9</sup> Microfinance Institutions Network. 2016. *Micrometer*. Issue 17. Gurgaon, Haryana, India.

<sup>10</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to IndusInd Bank Limited for the Supporting Access to Finance for Women in Less-Developed States Project in India*. Manila.

<sup>11</sup> CRISIL Independent Equity Research. 2016. *Enhancing Investment Decisions: Satin Creditcare Network Ltd.* Mumbai.

<sup>12</sup> A JLG is a group, typically of four to 10 people from the same village, that comes together to avail of loans without providing any collateral. Each member of the group is jointly and severally liable for the repayment of loans taken by all group members.

states where microfinance penetration is relatively low. At the end of FY2016, it derived almost 13% of its assets under management from states where MFI penetration is negligible, 69% from states where MFI penetration is low, and 18% from states where MFI penetration is medium.<sup>13</sup> It has no presence in southern India where MFI penetration is higher. Satin is the market leader in several states in which it operates. It has the largest microfinance loan portfolio in Bihar, Punjab, Uttar Pradesh, and Uttarakhand; and is one of the largest MFIs in Madhya Pradesh and Delhi. These six states accounted for 86% of Satin's assets under management at the end of September 2016.

8. Satin's main product is microloans to female customers through the JLG model, accounting for over 98% of its lending operations. Through a subsidiary, it also acts as a business correspondent for three financial institutions and has a presence in eight states.<sup>14</sup> The average size of Satin's microloans is ₹26,000. Since FY2016, it has been introducing water and sanitation loans, and loans for solar lamps for its existing customers. The company also has plans to establish a housing finance subsidiary to provide micro-housing loans, primarily catering to the self-employed segment.

### C. Ownership, Management, and Governance

9. **Ownership.** The shareholding pattern of Satin as at 31 December 2016 is in the table.

| Satin Creditcare Network Shareholders                    |                         |
|--|-------------------------|
| Shareholder  | Holding<br>(% of total) |
| <b>A. Promoters</b>                                      | <b>33.0</b>             |
| <b>B. Institutional investors</b>                        |                         |
| 1. MicroVest Capital Management                          | 9.3                     |
| 2. SBI FMO Emerging Asia Financial Sector Fund Pte. Ltd. | 8.8                     |
| 3. Norwegian Microfinance Initiative Fund III            | 7.4                     |
| 4. Morgan Stanley  | 9.3                     |
| 5. Government Pension Fund Global                        | 1.6                     |
| 6. DSP Blackrock Mutual Fund                             | 1.1                     |
| 7. Other institutional investors                         | 11.3                    |
| <b>Subtotal (B)</b>                                      | <b>48.8</b>             |
| <b>C. Retail and other investors</b>                     | <b>18.2</b>             |
| <b>Total (A+B+C)</b>                                     | <b>100.0</b>            |

Source: BSE (formerly known as Bombay Stock Exchange Ltd.)

10. **Management.** Satin has been strengthening its management team since the start of 2016, having hired senior management staff, including a chief operating officer (previously employed at Bharat Financial Inclusion Limited), head of internal audit and risk (previously employed at J.P. Morgan), head of information technology (previously employed at Bata India Limited and Yum Brands, Inc), and head of human resources (previously employed at Magma Fincorp Limited).

11. **Governance structure.** Satin's board of directors supervises the company's operations, provides strategic guidance, and ensures its compliance with laws and regulations. The board

<sup>13</sup> Sa-Dhan. 2016. *The Bharat Microfinance Report 2016*. Delhi.

<sup>14</sup> A business correspondent is an agent appointed by a bank to help it mobilize deposits and drive credit penetration in rural and semi-urban areas. It can be an individual (such as a grocery store owner) or another entity such as an MFI or postal agency. Under this model, banks typically partner with MFIs and NBFCs to drive credit growth in unbanked and under-banked rural areas. The MFIs act as business correspondents for the bank and originate small microfinance loans for the bank's balance sheet.

comprises 13 directors, including two women, with seven independent directors; one nominee director each from MicroVest, the Norwegian Microfinance Initiative Fund III, the Small Industries Development Bank of India, and SBI FMO; and two promoter directors, including Havinder Pal Singh, who is also the board chair. The board members come from diverse backgrounds such as financial services, microfinance, and banking. ADB will have the right to nominate a member to the board of the company.

12. A system of appointed committees (including the audit committee, stakeholders' relationship committee, nominations committee, corporate social responsibility committee, risk management committee, and compensation committee) supports the board of directors. All committees except corporate social responsibility are chaired by an independent director.

### **III. THE ADB ASSISTANCE**

#### **A. The Assistance**

13. ADB funding consists of an equity investment of up to \$10 million equivalent in Indian rupees, and will represent about 4% of issued capital. Satin will use the proceeds of the ADB investment to increase its capital base, with the objective of expanding responsible financial services to underserved and unserved households in rural and semi-urban India. ADB will obtain the right to nominate a member to the board of directors. Under separate approval, ADB will provide capacity-building technical assistance (TA) in an amount of up to \$500,000, which will accompany ADB funding and will support Satin in key areas such as corporate governance and risk management, and assist the company in rolling out its cashless transaction platform.<sup>15</sup>

#### **B. Implementation Arrangements**

14. ADB will monitor the project throughout its duration.<sup>16</sup> Satin will provide ADB with financial reports at predetermined regular intervals and as requested, including (i) unaudited financial statements on a quarterly basis, (ii) audited financial statements on an annual basis, (iii) reports on characteristics of the loan portfolio, (iv) annual reports on selected development indicators agreed between ADB and Satin, and (v) annual reports on safeguards and social protection compliance. Exit options for ADB will include the sale of shares in the open market as the company is already listed, or a block trade sale to an institutional investor.

#### **C. Value Added by ADB Assistance**

15. **Finance sector development and financial inclusion as a strategic shareholder.** The proposed equity investment seeks to support a private financial institution's growth as it seeks to expand its lending presence into unserved and underserved geographical regions of India. ADB will provide a stable source of longer-term funding as Satin undertakes its portfolio expansion. ADB funding will underpin Satin's objective of providing products and services to address the financial needs of India's poor, which are not being met by mainstream financial institutions, and thereby complement the government's objective to increase financial inclusion. ADB TA also is expected to support a pilot project of branch-level cashless collections so as to support Satin in its adoption of a cashless transaction platform that will mitigate cash-handling risk and improve operational efficiency. ADB will be Satin's first multilateral institutional partner. Satin's

<sup>15</sup> The TA will be approved separately and will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-other sources).

<sup>16</sup> Details of Implementation Arrangements (accessible from the list of linked documents in Appendix 2).



stakeholders believe that it is necessary to fill this gap in the existing shareholder structure by bringing in a like-minded development partner with experience and knowledge in some of its core business areas, such as micro- and small enterprise finance, and rural finance. Through ADB's nominee on Satin's board of directors and broader shareholder engagement, Satin plans to benefit from ADB's experience with other financial institutions in the region.

16. **Satin's stronger capital adequacy and confidence in the market.** Satin will need capital as it continues to expand its loan portfolio in response to significant demand for credit from underserved segments where it targets its operations, and the growing needs of the Indian economy. The company will be required to raise additional capital to ensure compliance with existing prudential capital adequacy levels. The proceeds from ADB's investment will have a multiplier effect. Satin's total capital–gross loans ratio was 16.1% at the end of September 2016. Satin's ability to leverage this infusion of ADB equity will enable it to lend much more to its target customers and reach further into underserved customer segments in India.<sup>17</sup> The promoter has also identified significant benefits from raising capital in the current market from an institution such as ADB, given some of the disruptive impacts of the demonetization exercise, which will signal confidence in Satin and its ability to manage the situation without substantial longer-term impacts.

17. **Adherence to market-leading standards.** As the institution's first development financial institution shareholder and through expected TA, ADB will help develop and support Satin's (i) adherence to high corporate governance standards; and (ii) adoption of market-leading risk management, social, and environmental standards at one of India's largest MFIs.

#### IV. DEVELOPMENT IMPACT AND STRATEGIC ALIGNMENT

##### A. Development Impact, Outcome, and Outputs

18. **Impact.** The impact will be increased access to finance for the underserved in alignment with the Government of India's Twelfth Five Year Plan, 2012–2017, which highlights the delivery of financial services at affordable costs to disadvantaged and low-income groups as a means to promote poverty reduction and inclusive growth through employment generation.<sup>18</sup>

19. **Outcome.** ADB's investment will allow increased uptake of financial services to women in lagging states. Satin aims to increase the reach of its loans for solar lamps, and water and sanitation.

20. **Outputs.** The project's outputs will be (i) Satin's capacity to sustainably serve financially underserved populations is increased; and (ii) innovative business solutions are implemented.

##### B. Alignment with ADB Strategy and Operations

21. The Midterm Review of Strategy 2020 emphasizes ADB's support for the finance sector. The proposed investment contributes to finance sector development by supporting the growth of an MFI, with microfinance being an important component of the finance sector in India.<sup>19</sup> The Midterm Review of Strategy 2020 also seeks to promote inclusive growth. Without access to formal financial services, lower-income people or underserved segments will be excluded from

<sup>17</sup> This would equate to more than \$60 million in additional lending at the same total capital–gross loans ratio of 16.1%.

<sup>18</sup> Government of India, Planning Commission. 2012. *Twelfth Five Year Plan (2012–2017): Faster, More Inclusive and Sustainable Growth*. Delhi.

<sup>19</sup> ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

the growth process and its benefits. According to ADB's country partnership strategy, 2013–2017 for India, ADB's nonsovereign operations will continue to support the finance sector by undertaking projects in support of the country's financial infrastructure.<sup>20</sup> The proposed investment will support the development of microfinance in India, one of the financial infrastructures identified as a high priority for the government. It will also support lending growth in lagging states, another priority area of the government. The project also aligns with ADB's Gender Equality and Women's Empowerment Operational Plan, 2013–2020.<sup>21</sup>

## V. POLICY COMPLIANCE

### A. Safeguards and Social Dimensions

22. The investment is classified *category FI treated as C* for impacts on the environment, involuntary resettlement, and indigenous peoples. Satin's business activities, as well as that of its subsidiaries, have minimal or no adverse environmental impacts, and are unlikely to entail impacts on involuntary resettlement and indigenous peoples. Satin and its subsidiaries will apply ADB's prohibited investment activities list, commit to adopt a screening checklist to exclude all projects that will have adverse environment and social safeguards impacts, ensure that Satin and its operating subsidiaries abide by applicable national laws and regulations, and comply with the ADB Safeguard Policy Statement (2009). Investment documentation will include provisions that Satin will finance only activities that have minimal or no impacts on the environment, involuntary resettlement, and indigenous peoples. Satin will confirm this in its periodic report to ADB and need not apply any other specific safeguard requirements.<sup>22</sup>

23. Satin and its subsidiaries will comply with national labor laws and, pursuant to ADB's Social Protection Strategy (2001), will take measures to comply with internationally recognized core labor standards. Satin will report regularly to ADB on (i) its compliance with such laws, and (ii) the measures taken. Information disclosure and consultation with affected people will be conducted in accordance with ADB requirements.

24. In India, only 15.8% of men have access to credit. Women are at a greater disadvantage, as only 11.3% of them have access to credit (footnote 4). Lack of a land title—exacerbated by other constraints, including lack of collateral needed to obtain credit, low income, lack of financial documents, and unfamiliarity with paperwork and procedures—limit access to formal credit, particularly for women.<sup>23</sup> Satin addresses these constraints through JLG lending, with over 98% of the cumulative amount of microloans disbursed provided to female borrowers for services and activities directly benefiting women. Satin's portfolio includes lending products for solar lamps, as well as water and sanitation. The project has gender-specific loan targets and is expected to benefit at least 4.8 million female borrowers directly by 2022. A gender action plan has been prepared to support the *gender equity theme* classification of the project.<sup>24</sup> This includes gender measures to improve women's financial planning and literacy, legal literacy, and other social measures.

<sup>20</sup> ADB. 2013. *Country Partnership Strategy: India, 2013–2017*. Manila.

<sup>21</sup> ADB. 2013. *Gender Equality and Women's Empowerment Operational Plan, 2013–2020: Moving the Agenda Forward in Asia and the Pacific*. Manila.

<sup>22</sup> Summary Poverty Reduction and Social Strategy; and Safeguards and Social Dimensions Summary (accessible from the list of linked documents in Appendix 2).

<sup>23</sup> ADB. 2013. *India: Gender Equality Diagnostic of Selected Sectors*. Manila.

<sup>24</sup> Gender Action Plan (accessible from the list of linked documents in Appendix 2).

## **B. Anticorruption Policy**

25. Satin was advised of ADB's policy of implementing best international practice relating to combating corruption, money laundering, and the financing of terrorism. ADB will ensure that the investment documentation includes appropriate provisions prohibiting corruption, money laundering, and the financing of terrorism, and remedies for ADB in the event of noncompliance.

## **C. Investment Limitations**

26. The proposed equity investment is within the medium-term, country, industry, group, and single investment exposure limits for nonsovereign investments.

## **D. Assurances**

27. Consistent with the Agreement Establishing the Asian Development Bank (the Charter),<sup>25</sup> ADB will proceed with the assistance upon establishing that the Government of India has no objection to the assistance to Satin. ADB will enter into suitable finance documentation in form and substance satisfactory to ADB.

## **VI. THE PRESIDENT'S DECISION**

28. The President, acting under the authority delegated by the Board, has approved the equity investment of up to \$10,000,000, in Indian rupee equivalent, from ADB's ordinary capital resources in Satin Creditcare Network Limited for the Supporting Access to Finance for Women in Lagging States Project in India, and hereby reports this action to the Board.

5 April 2017

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<sup>25</sup> ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila.

### **LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/FastReport/?id=50209-002>

1. Sector Overview
2. Contribution to the ADB Results Framework
3. Country Economic Indicators
4. Summary Poverty Reduction and Social Strategy
5. Safeguards and Social Dimensions Summary