



Initial Poverty and Social Analysis

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India: L&T Finance Limited Supporting Rural and Peri-Urban Sector Development Project

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ABBREVIATIONS

ADB	–	Asian Development Bank
CPS	–	country partnership strategy
COVID-19	–	coronavirus disease
LTF	–	L&T Finance Limited

NOTE

- (i) In this report, “\$” refers to United States dollars.

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INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	India	Project Title:	L&T Finance Limited Supporting Rural and Peri-Urban Sector Development Project
Lending/Financing Modality:	Financial Intermediary	Department/ Division	Private Sector Operations Department Private Sector Financial Institutions Division

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

The proposed transaction involves a senior secured loan of up to \$150 million, and \$100 million parallel loan, to L&T Finance Limited (LTF). ADB's loan facility will be used for financing to (i) women borrowers through micro loans, (ii) farmers through new farm equipment and working capital loans, (iii) new two-wheeler purchasers (including electric two-wheelers), and (iv) business loans to self-employed professionals in the lagging states of Assam, Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Odisha, Rajasthan, Tripura, Uttar Pradesh, Uttarakhand and West Bengal. ADB's support for this transaction aligns with the country partnership strategy (CPS) for India, 2018–2022, which focuses on boosting economic competitiveness to create more and better jobs, providing inclusive access to infrastructure networks and services, and addressing climate change.^a The proposed project is also consistent with ADB's Strategy 2030, as it supports the acceleration of progress in gender equality, promotion of rural development and food security, and long-term co-financing targets for private sector operations.^b

B. Poverty Targeting:

☒ General Intervention ☐ Individual or Household (TI-H) ☐ Geographic (TI-G) ☐ Non-Income MDGs (TI-M1, M2, etc.)

The project is expected to support India's poverty reduction efforts by enhancing financial inclusion of the traditionally underserved rural and peri-urban population and promoting the mechanization of the farming sector. ADB's loan facility will be restricted to on-lend for purchase of only new tractors and two-wheelers. As such, the project is also anticipated to contribute to the attainment of the country's agenda of transitioning to low emission-vehicles and mitigating climate change, which disproportionately impacts the poor and vulnerable population.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. Agriculture is the largest source of livelihood in India. 70% of rural households primarily derive their income from agriculture, with 82% of farmers being small and marginal.^c Given the considerable proportion of the country's poor population living in rural areas and depending primarily on agriculture, low agricultural productivity represents a major constraint to reducing poverty. The COVID-19 pandemic also had immense negative impact on the rural economy, as evidenced by the decline of farm income growth from 8.5% in November 2020 to 2.9% in March 2021. The Government of India has therefore taken steps to improve farmers' income to support poverty alleviation and accelerate the country's economic recovery from the impacts of the COVID-19 pandemic.^d However, access to finance, which is critical to the development of agricultural livelihoods, remains to be a challenge for the rural population. India's rural population faces a high level of financial exclusion, with only 10.6% of the population aged 15 years or above being able to access credit through a formal financial institution as opposed to 31.7% relying on informal channels such as family and friends for often-costly credit.^e Thus, expanding financial services in rural areas is a key consideration in the attainment of the country's agenda of enhancing farmers' income and addressing poverty.
2. Impact channels and expected systemic changes. By contributing to LTF's funding sources, the project is expected to support financial inclusion of the underserved rural areas where a significant number of poor and vulnerable individuals live and carry out their livelihoods.
3. Focus of (and resources allocated in) the transaction TA or due diligence. Due diligence will examine the potential environmental and social impacts of LTF's rural lending portfolio. The company's policies and procedures for screening and managing potential environmental and social risks associated with sub-loan applications will be assessed to ensure alignment with the requirements of ADB's Safeguard Policy Statement (2009) and compliance with applicable national laws and regulations.
4. Specific analysis for policy-based lending. Not applicable

II. GENDER AND DEVELOPMENT

- What are the key gender issues in the sector and/or subsector that are likely to be relevant to this project or program?
Closing the gender gap via access to formal finance and worker skills could increase participation of women in the economy and boost India's GDP by close to 6%. Because of the persisting gender disparities, women in India are often employed in low-productivity and informal jobs, receive lower wages for equal work, have lower average years of schooling, and are responsible for a much larger share of household-related work in comparison to men. Combined with restrictive social norms, this leads to women having a lower access to formal finance, asset ownership and economic security compared to men.¹
Women were less likely to manage business finance independently, often lacking adequate management practices as compared to men. The financing conditions for women owning small businesses are challenging – they are likely to face higher borrowing costs, may be required to provide collateral for a higher share of their loans than their male counterparts. They also mostly get shorter-term loans. The response of financial institutions to the MSME segment has been largely gender-agnostic. Financial institutions often cite limited resources and expertise for being largely unable to provide services to women. Women-owned small businesses are perceived to be risky. Women's lack of access to movable and unmovable property as collateral is a big impediment to their access to finance.⁹
- Does the proposed project or program have the potential to contribute to the promotion of gender equity and/or empowerment of women by providing women access to and use of opportunities, services, resources, assets, and participation in decision-making? ☒ Yes ☐ No
Due diligence will identify potential gender mainstreaming measures that may be incorporated in the project design. Gender measures may include expanding the financial institution's women-focused portfolio, designing a financial product targeted at women, building the capacity of women clients to effectively use the financial services, increasing women staff in decision-making roles and raising awareness of gender equality among the staff.
- Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?
☐ Yes ☒ No
- Indicate the intended gender mainstreaming category:
☒ GEN (gender equity) ☐ EGM (effective gender mainstreaming)
☐ SGE (some gender elements) ☐ NGE (no gender elements)

III. PARTICIPATION AND EMPOWERING THE POOR

- Who are the main stakeholders of the project, including beneficiaries and affected people? Explain how they will each participate in the project's design.
The primary stakeholders are the LTF's management and employees, as well as its clients, who are mainly farmers, self-employed professionals, and women borrowers from lagging states in India. Due diligence will review LTF's grievance redress mechanism for internal and external stakeholders.
- Who are the key, active, and relevant CSOs in the project area?
CSO participation is not expected due to the nature and scope of the project.
- Are there issues during project design for which participation of the poor and vulnerable is important?
☐ Yes ☒ No If yes, what are these issues?
- How will the project ensure the participation of beneficiaries and affected people, particularly the poor and vulnerable and/or CSOs, during project design to address these issues?
The project will have few opportunities for participation beyond immediate stakeholders. Due diligence will confirm if LTF's policies and practices on information disclosure, stakeholder engagement, and grievance redressal are in accordance with national laws and regulations and ADB requirements.
- What level of CSO participation is planned during the project design
 Information generation and sharing NA Consultation NA Collaboration NA Partnership

IV. SOCIAL SAFEGUARDS

- A. Involuntary Resettlement Category** ☐ A ☐ B ☐ C ☒ FI treated as C
- Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? ☐ Yes ☒ No
Considering the nature and size of potential sub-loans, an involuntary land acquisition that may result in physical or economic displacement is not envisaged. Due diligence will review if LTF has adequate procedures to screen for potential involuntary resettlement impacts of sub-loans applications.
 - What action plan is required to address involuntary resettlement as part of the transaction TA or due diligence process?
☐ Resettlement plan ☐ Resettlement framework ☐ Social impact matrix
☐ Environmental and social management system arrangement ☒ None
Sub-loan applications that are category A and B for involuntary resettlement will be excluded from ADB financing.

B. Indigenous Peoples Category <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input checked="" type="checkbox"/> FI treated as C	
1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No The project does not target nor discriminate distinct and vulnerable indigenous peoples.	
2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
3. Will the project require broad community support of affected indigenous communities? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Project activities are not anticipated to result in commercial development of cultural resources and knowledge of distinct and vulnerable ethnic minority groups, displacement of such groups from their traditional land, or commercial development of any natural resources within customary land.	
4. What action plan is required to address risks to indigenous peoples as part of the transaction TA or due diligence process? <input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Social impact matrix <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None Sub-loan applications that are category A and B for Indigenous Peoples impacts will be excluded from ADB financing.	
V. OTHER SOCIAL ISSUES AND RISKS	
1. What other social issues and risks should be considered in the project design? <input checked="" type="checkbox"/> Creating decent jobs and employment (L) <input checked="" type="checkbox"/> Adhering to core labor standards (L) <input type="checkbox"/> Labor retrenchment <input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS <input type="checkbox"/> Increase in human trafficking <input type="checkbox"/> Affordability <input type="checkbox"/> Increase in unplanned migration <input type="checkbox"/> Increase in vulnerability to natural disasters <input type="checkbox"/> Creating political instability <input type="checkbox"/> Creating internal social conflicts <input type="checkbox"/> Others, please specify _____	
2. How are these additional social issues and risks going to be addressed in the project design? Due diligence will review LTF's compliance with national labor laws and adherence to internationally recognized core labor standards.	
VI. TRANSACTION TA OR DUE DILIGENCE RESOURCE REQUIREMENT	
1. Do the terms of reference for the transaction TA (or other due diligence) contain key information needed to be gathered during transaction TA or due diligence process to better analyze (i) poverty and social impact, (ii) gender impact, (iii) participation dimensions, (iv) social safeguards, and (v) other social risks? Are the relevant specialists identified? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social, and/or gender analysis; and the participation plan during the transaction TA or due diligence? The ADB project team will undertake due diligence in accordance with ADB requirements.	

^a Asian Development Bank (ADB). 2017. [Country Partnership Strategy – India \(2018-2022\)](#). Manila.

^b ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, and Resilient and Sustainable Asia and the Pacific](#). Manila.

^c FAO. 2022. [FAO in India: At a Glance](#). New Delhi.

^d ADB. 2022. [Indian Economy to Grow 7.5% in FY2022, 8% in FY2023](#). Manila

^e World Bank. 2021. [Global Financial Inclusion Database](#). [accessed 26 August 2022].

^f P. Khera. 2018. [Closing Gender Gaps in India: Does Increasing Women's Access to Finance Help?](#). Working Paper No. 18/212. International Monetary Fund (IMF).

^g International Finance Corporation. 2019. ["Financial Inclusion for Women-Owned Micro, Small & Medium Enterprises \(MSMEs\) in India"](#). Delhi. 2019