

Ex-Ante Evaluation (for Japanese ODA Loan)

Private Sector Partnership and Finance Department, JICA

1. Name of the Project

Country: India

Project: Support for Micro, Small, and Medium Enterprises in India

Loan Agreement: March 27, 2020

Borrower: Mahindra & Mahindra Financial Services Limited

2. Background and Necessity of the Project

(1) Current State and Issues of the MSME Sector in India

The number of micro, small, and medium enterprises (MSMEs) registered 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 (source: Indian Ministry of Micro, Small and Medium Enterprises). MSMEs play 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). MSMEs' access to financial services is limited (22%), and the funding gap is enormous, at \$3978.5 billion (about 15% of total GDP) (source: International Finance Corporation (IFC)). In India, while poverty is improving nationwide, the poverty rate in northern, eastern, and northeastern states in which the income level per person is low still remains high, and these poor states account for 24.2% of the funding gap for MSMEs (source: IFC).

(2) Japan's and JICA's Policy for the MSME Sector in India

Japan's Country Assistance Policy for India (March 2016) holds up enhancing industrial competitiveness as one of its main pillars. The JICA Country Analysis Paper for India (March 2018) views developing high-productivity industries as its priority issue. In particular, as part of its initiatives for contributing to creation of new employment, reinforcement of the economy's technological foundation, and increase in productivity by strengthening the manufacturing sector, JICA has developed and offered management personnel training programs to develop SMEs through the senior manager training project for the manufacturing industry (technical cooperation), promoted MSMEs' energy conservation initiatives through the MSME energy conservation project (bilateral government loan), and improved the investment environment through the Tamil Nadu state investment promotion program and the Gujarat state investment promotion program (bilateral government loan). In the future, in order to ensure sustainable and comprehensive growth of the Indian economy, another pillar of the Country Assistance Policy for India, it is indispensable to take measures such as expanding the scale of assistance for MSMEs through mobilizing

private funds, diversifying approaches to MSME funding, and broadening the base of support for the poor states. The Project, which aims at expanding MSMEs' access to financial services particularly in the low-income states through Mahindra & Mahindra Financial Services Limited (MMFSL), which has a network of branches that covers the entire country, will contribute to help achieve three of the SDGs: Goal 8 (expanding access to financial services), Goal 9 (promoting industrialization by expanding small enterprises' access to financial services), and Goal 17 (partnership).

3. Project Description

(1) Project Objective

By providing long-term finance to MMFSL in India, the Project aims at expanding the access of MSMEs to financial services, particularly in low-income and special category states, thereby helping fill the regional funding gap and contributing to sustainable economic growth in the country.

(2) Project Site/Target Area

Low-income and special category states in India (Bihar, Uttar Pradesh, Madhya Pradesh, Odisha, Rajasthan, Jharkhand, Chhattisgarh, Assam, Meghalaya, Manipur, Mizoram, Sikkim, Uttarakhand, and Himachal Pradesh)

(4) Environmental and Social Consideration/Gender Category

① Social Consideration

a) Category: C

b) Reason for Categorization:

It is judged under the JICA Environmental and Social Considerations Guidelines (promulgated in April 2010) that the undesirable effects of the Project on the environment are minimized

② Gender Category: [Not included] ■GI (gender mainstreaming needs survey/analysis project)

<Reason for Categorization> Gender mainstreaming needs were confirmed during the examinations, but the Project did not lead to the implementation of specific initiatives for contributing to gender equality and women's empowerment.

(5) Other Important Issues

This is a joint financing project with Sumitomo Mitsui Banking Corporation.

4. Targeted Outcomes

(1) Quantitative Effects

The balance of loans granted to MSMEs in the low-income and special category

states will be measured.

(2) Qualitative Effects

The Project is expected to expand MSMEs' access for financial services.

5. Lessons Learned from Past Projects

(1) Results of Evaluation of Similar Projects

The results of ex-post evaluation of the Micro Enterprise Assistance Project, a Japanese ODA loan for the Arab Republic of Egypt, drew two lessons: in developing similar projects to support finance for micro and small enterprises, it is important that financiers have (i) rich financing experience and (ii) many branches to grasp the creditworthiness of customers scattered throughout the country.

(2) Lessons for the Project

In the examination process, MMFSL's financing experience and branch system are examined and confirmed that MMFSL has sufficient ability to implement the Project.

6. Evaluation Results

The Project is relevant to the development issues and development policy of India and is consistent with Japan's and JICA's development cooperation policies. It is also expected to contribute to sustainable industrial development by providing MSMEs with better access to financing. Therefore, the Project is expected to help achieve three of the SDGs, Goals 8, 9, and 17, and is highly significant.

7. Plan for Future Evaluation

(1) Indicators to Be Used

As described in Section 4. (1) above.

(2) Timing

Scheduled for March 2024.

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