Report Number: ICRR0023108

1. Operation Information

Operation ID	Operation Name
P174292	MSME Emergency Response
Country	**Practice Area (Lead)**
India	Finance, Competitiveness and Innovation

Non-Programmatic DPF

L/C/TF Number(s)	Closing Date (Original)	Total Financing (USD)
IBRD-91530	30-Jun-2021	750,000,000.00
Bank Approval Date	**Closing Date (Actual)**	
30-Jun-2020	30-Jun-2021	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	750,000,000.00	0.00
Revised Commitment	750,000,000.00	0.00
Actual	750,000,000.00	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Program Objectives and Pillars/Policy Areas

a. Objectives

As per the Program Document (PD) on page 17, the Project Development Objective (PDO) of the Development Policy Financing (DPF) was " to support the Government of India (GoI) in preserving flows of finance to Micro Small and Medium Enterprises (MSMEs) through the COVID-19 crisis and lay the foundations for a stronger MSME financing ecosystem in the recovery phase". The program objective was not stated in the Loan Agreement (LA) and was unchanged throughout the period of implementation of the stand-alone Development Policy Finance (DPF) operation.

Toward assessing the performance of the DPF and in line with Operations Policy and Country Services (OPCS) guidelines (December 2021), this review will parse the PDO as follows:

- PDO-1: To support the Government of India (GoI) in preserving flows of finance to MSMEs through the COVID-19 crisis; and
- PDO-2: To lay the foundations for a stronger MSME financing ecosystem in the recovery phase.

b. Pillars/Policy Areas

As delineated below, the operation was underpinned by 7 Prior Actions (PAs), which were structured around the three pillars of the program and completed before disbursement.

Pillar 1: Channeling financing flows to MSMEs

The 2 PAs described below were completed ahead of the operation's legal approval.

- **Prior Action #1**: The Borrower through the Ministry of Finance, Government of India, has notified the Guaranteed Emergency Credit Line (GECL) Facility, supported by a 100 percent guarantee scheme, Emergency Credit Line Guarantee Scheme (ECLGS).
- **Prior Action #2:** The Borrower through the Ministry of Micro, Small and Medium Enterprises, has taken various steps to strengthen the already existing Credit Guarantee Scheme (CGS) managed by the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) to incentivize MSME lending: (i) by withdrawing the cap on utilizing guarantee cover and permitting utilization multiple times within the overall limit of Rs.20 million and (ii) by including fintech NBFCs in the scheme.

Pillar 2: Strengthening NBFCs

The 2 PAs detailed below were completed ahead of the operation's legal approval.

- **Prior Action #3**: The Borrower’s central bank, the Reserve Bank of India, (i) has launched a liquidity window that utilizes long-term repo operations (TLTROs) to channel liquidity through banks to investment-grade debt issuances by corporates, and a second liquidity window (TLTRO 2.0) of Rs.500 billion exclusively for NBFCs, with specific targets for issuances by small and medium NBFCs and (ii) has approved a liquidity support facility of up to 1 year for NBFCs/Banks/ MFIs for on-lending to MSMEs during the crisis; and (iii) the Ministry of Finance, Government of India, has launched a Special Liquidity Facility to guarantee the liabilities (short term investment grade debt securities) of NBFCs/HFCs/MFIs

- **Prior Action #4**: The Borrower through the Ministry of Finance, Government of India, has approved amendments to strengthen the already existing Partial Credit Guarantee facility by (i) including new eligible funding instruments such as bonds and commercial papers issued by NBFCs in the guarantee facility; (ii) increasing the risk coverage for PSBs to up to 20 percent (for the newly included debt securities); and (iii) including lower-rated NBFCs in the scheme

Pillar 3: Incentivizing the use of Fintech and digital channels in MSME lending and payments

The 3 PAs summarized below were completed ahead of the operation's legal approval.

- **Prior Action #5**: The Borrower's central bank, the Reserve Bank of India, has issued guidelines to operationalize the RBI Fintech Regulatory Sandbox (RS) including the requisite governance arrangements, eligibility criteria and exit strategies with appropriate risk mitigation actions, through circular issued on August 13, 2019

- **Prior Action #6**: The Borrower, through the Ministry of Heavy Industries & Public Enterprises, has notified that Central Public Sector Enterprises (CPSEs) should have their MSE vendors onboarded on the TReDS platform.

- **Prior Action #7**: The Borrower, through the Ministry of Finance, has launched the PSB Loans in 59 Minutes (PSB59) platform through the setting up of the PSB59 company to enable the fast processing and quick disbursal of MSME loans by select banks.

c. Comments on Program Cost, Financing and Dates

The India's Micro, Small and Medium Enterprises Emergency Response DPF was a one-off operation funded by a US$750 million International Bank for Reconstruction and Development (IBRD) loan disbursed in a single tranche. The operation was approved on June 30, 2020, became effective on July 14, 2020, and closed on schedule on June 30, 2021.

3. Relevance of Design

a. Relevance of Objectives

The ICR was comprehensive (pages 4-8) in describing the rationale and the relevance behind the preparation of the DPL which are summarized below.

(i) The COVID-19 impact on MSMEs was crippling and needed to be addressed head on. The pandemic affected the MSMEs through the cancellation of orders, loss of customers and clients, and supply chain disruptions, causing a sharp fall in revenues. This created a cash flow shortage, liquidity constraints, and difficulties in accessing finance, leading to potential solvency problems. The broad-based loss of cash flows triggerd a chain of nonpayments throughout the economy, including to the financial sector. The DPF intended to address immediate liquidity and credit needs of MSMEs so that viable firms can survive. Measures to unlock the liquidity in the financial system included de-risking lending by banks, including Small Finance Banks (SFBs), and NBFCs, while leveraging fintech/ DFS to incentivize on-time payments and faster lending processes.

(ii) The DPF's PDO was fully consistent with the Borrower's priority of providing MSMEs liquidity to mitigate the impact of the COVID-19 crisis on their balance sheets, and the potential solvency problems and job losses. The DPL supported a set of policy, regulatory, and institutional reforms, that were expected to promote an efficient and inclusive ecosystem of financing for MSMEs in India in the short and medium term. The proposed DPF was structured around three pillars: (i) channeling financing flows to MSMEs; (ii) strengthening Non-Bank Financial Companies (NBFCs); and (iii) incentivizing the use of Fintech and digital channels in MSME lending and payments. The MSME sector was already grappling with low credit growth in 2019 and early part of 2020, which has been further exacerbated by COVID-19 and the national lockdown.

(iii) The DPF's PDO was fully consistent with the Borrower's priority of laying the foundations for a stronger MSME financing ecosystem in the recovery phase. This operation intended to support the government in reviving credit to enable the MSME sector to meet business obligations, protect jobs, and avoid insolvency. Importantly, it aimed to leverage private intermediaries in the financial sector, so that they can contribute to the GoI’s approach to complement and diversify a dominantly public sector financial system.

(iv) The DPL was well aligned with the World Bank Group’s (WBG) approach to supporting countries with speed, and selectivity as they addressed threats posed by the COVID-19 crisis. This DPL was one part of a comprehensive set of interventions to support MSMEs in India to be delivered by the WB and the International Finance Corporation (IFC). Building on its extensive analytical and advisory engagement, the WB brought risk mitigation funding solutions and regulatory reforms, while the IFC contributed with its substantial MSME portfolio and a network of over 70 financial institutions and decades of successful track record as one of the biggest MSME financiers in India, both in terms of financial mobilization and impact. As a package, these interventions aimed to address structural reforms to increase MSME productivity and financing in the economic recovery phase, crowding in private sector financing in the medium term, and tackling long-standing financial sector issues that are holding back the growth of India’s real sector.

b. Relevance of Prior Actions

Rationale

The assessment and relevance rating of the Prior Actions draw from the material presented in paragraphs 14-25 of the ICR.

PAs under each PDO	**Relevar Rating**
PDO-1: To support the Government of India (GoI) in preserving flows of finance to MSMEs through the COVID-19 crisis.	
PA#1: The Borrower through the Ministry of Finance, Government of India, has notified the Guaranteed Emergency Credit Line (GECL) Facility, supported by a 100 percent guarantee scheme, Emergency Credit Line Guarantee Scheme (ECLGS).	HS

PA#2: The Borrower through the Ministry of Micro, Small and Medium Enterprises, has taken various steps to strengthen the already existing Credit Guarantee Scheme (CGS) managed by the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) to incentivize MSME lending: (i) by withdrawing the cap on utilizing guarantee cover and permitting utilization multiple times within the overall limit of Rs.20 million and (ii) by including fintech NBFCs in the scheme.	HS
PDO-2: To lay the foundations for a stronger MSME financing ecosystem in the recovery phase.	
PA#3: The Borrower's central bank, the Reserve Bank of India, (i) has launched a liquidity window that utilizes long-term repo operations (TLTROs) to channel liquidity through banks to investment-grade debt issuances by corporates, and a second liquidity window (TLTRO 2.0) of Rs.500 billion exclusively for NBFCs, with specific targets for issuances by small and medium NBFCs and (ii) has approved a liquidity support facility of up to 1 year for NBFCs/Banks/ MFIs for on-lending to MSMEs during the crisis; and (iii) the Ministry of Finance, Government of India, has launched a Special Liquidity Facility to guarantee the liabilities (short term investment grade debt securities) of NBFCs/HFCs/MFIs.	HS
PA#4: The Borrower through the Ministry of Finance, Government of India, has approved amendments to strengthen the already existing Partial Credit Guarantee facility by (i) including new eligible funding instruments such as bonds and commercial papers issued by NBFCs in the guarantee facility; (ii) increasing the risk coverage for PSBs to up to 20 percent (for the newly included debt securities); and (iii) including lower-rated NBFCs in the scheme.	S
PA#5: The Borrower's central bank, the Reserve Bank of India, has issued guidelines to operationalize the RBI Fintech Regulatory Sandbox (RS) including the requisite governance arrangements, eligibility criteria and exit strategies with appropriate risk mitigation actions, through circular issued on August 13, 2019.	S
PA#6: The Borrower, through the Ministry of Heavy Industries & Public Enterprises, has notified that Central Public Sector Enterprises (CPSEs) should have their Micro Small Enterprises (MSE) vendors onboarded on the TReDS platform.	S
PA#7: The Borrower, through the Ministry of Finance, has launched the PSB Loans in 59 Minutes (PSB59) platform through the setting up of the PSB59 company to enable the fast processing and quick disbursal of MSME loans by select banks.	S

PDO-1: To support the Government of India (GoI) in preserving flows of finance to MSMEs through the COVID-19 crisis.

PA#1: The goal of the PA#1 was to ensure a flow of fresh loan funds to MSMEs and to expand volume, tenors, and modalities of funding to MSMEs in order for firms to keep their "lights on" and avoid staff layoffs because the COVID-19 impact. Prior analytical underpinnings for this PA include the following: (i) an Expert Committee on MSMEs in its report recognized the need for timely credit for MSMEs and the need for a strategy that accounts for risk related aspects of MSME credit, and (ii) the WB note on impact of COVID-19 on MSMEs also emphasized the need for de-risking MSME credit and temporarily withdrawing the guarantee fee for MSME loans.

The key DPL action was to set up temporary liquidity facilities for MSME credit as part of the package of policy measures through the creation of the Guaranteed Emergency Credit Line (GECL) Facility, supported by a 100 percent guarantee scheme, the Emergency Credit Line Guarantee Scheme (ECLGS). This action was specific and credible because it was enabled and promoted by the national institutions responsible for financial oversight and management and aimed to address a real national challenge. Moreover, the measures and actions under PA#1 were determined based on a large consensus including key stakeholders in the financial sector. PA#1 had the potential to mitigate the consequences of reduction of flows of finance to MSMES during the period of the COVID-19 crisis, and to contribute to achieving the PDO#1 outcomes. Its relevance is rated as **Highly Satisfactory.**

PA#2: This PA aimed to strengthen the already existing Credit Guarantee Scheme (CGS) managed by the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), to incentivize MSME lending, address the risk aversion of lenders and allow the government to maximize the impact of limited fiscal resources by leveraging the guarantee cover to increase MSME credit. Prior analytical work found that strengthening the CGTMSE scheme can be used to leverage MSME credit with limited fiscal resources, and that more lenders (especially NBFCs) and removing the one-time cap on the guarantee amount will help improve usage of the scheme.

The key action by the Borrower was to take various steps to strengthen the already existing Credit Guarantee Scheme (CGS) managed by the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) to incentivize MSME lending: (i) by withdrawing the cap on utilizing guarantee cover and permitting utilization multiple times within the overall limit of Rs.20 million and (ii) by including fintech NBFCs in the scheme. These actions were specific and credible because they were enabled and promoted by the national institutions (Finance Ministry and Central Bank) responsible for financial oversight and management and aimed to address a real national challenge. Moreover, the measures and actions under PA#2 were determined based on a large consensus including key stakeholders in the financial sector. The PA#1 had the potential to mitigate the consequences of reduction of flows of finance to MSMES during the period of the COVID-19 crisis, and to contribute to achieving the PDO#1 outcomes, and its relevance is rated as **Highly Satisfactory.**

<u>PDO-2: To lay the foundations for a stronger MSME financing ecosystem in the recovery phase.</u>

PA#3: This PA aimed to strengthen the Non-Banking Financial Companies (NBFCs), so that the NBFC sector in India can provide an increasingly important channel of credit for MSMEs, and to preserve this role overtime, and that the risk aversion of scheduled banks does not continue to hamper funding access to NBFCs as well as the underlying MSMEs. Prior analytical studies found that Banks need to remain incentivized to channel excess liquidity to NBFCs which have emerged as important sources of funding for MSMEs. TLTRO 2.0 provides liquidity to banks to invest in NBFC debt securities, including issuances by small and medium NBFCs. Such a facility would ensure systemic stability and avoid debt deflation and shock increases in debt interest rates/reductions in debt security values. In terms of refinancing, second-tier state-owned DFIs play an important counter-cyclical role in crisis times ensuring flow of credit to commercial lenders and ultimate beneficiaries such as MSMEs. Finally a FCI note emphasized that a low-cost refinance facility will allow small and medium NBFCs which cannot access capital markets to avail refinance through SIDBI for up to 1 year.

Actions supported by the DPL initiated by the Reserve Bank of India were as follows: (i) the launch of a liquidity window that utilizes long-term repo operations (TLTROs) to channel liquidity through banks to investment-grade debt issuances by corporates, and a second liquidity window (TLTRO 2.0) of Rs.500 billion exclusively for NBFCs, and (ii) the approval of a liquidity support facility of up to 1 year for NBFCs/Banks/ MFIs for on-lending to MSMEs during the crisis. Moreover, the Ministry of Finance, launched a Special Liquidity Facility to guarantee the liabilities (short term investment grade debt securities) of NBFCs/HFCs/MFIs. These measures were specific and credible because they were enabled by the national institutions (Finance Ministry and Central Bank) responsible for financial oversight and management and aimed to address a real national challenge. Moreover, the measures and actions under PA#3 were determined based on a large consensus including key stakeholders in the financial sector. The PA#3 had the potential to strengthen the MSME financing ecosystem in the recovery phase and to contribute to achieving the PDO#2 outcomes, and its relevance is rated as **Highly Satisfactory.**

PA#4: Prior analytical research found that NBFCs have been facing liquidity issues since the default of a few large NBFCs in 2018 and 2019 and the government launched the partial credit guarantee scheme (PCG) to provide liquidity to NBFCs in August 2019. The inefficient structuring of the scheme led to low utilization (35 percent) and the government recognized the need to strengthen the PCG scheme by including NBFC borrowings under the scheme and withdrawing the rating criteria for the scheme.

This PA aimed to strengthen the already existing Partial Credit Guarantee facility by setting up liquidity mechanisms to ensure a flow of fresh funds to NBFCs, for the NBFCs to be able to withstand market headwinds and refinance their liabilities and provide new loans to MSMEs. Toward the above goal, the Ministry of Finance approved amendments to strengthen the already existing Partial Credit Guarantee facility by (i) including new eligible funding instruments such as bonds and commercial papers issued by NBFCs in the guarantee facility; (ii) increasing the risk coverage for Public Sector Banks (PSBs) to up to 20 percent; and (iii) including lower-rated NBFCs in the scheme. These measures were specific and credible because they were enabled by the national institutions (Finance Ministry and Central Bank) responsible for financial oversight and management to address a real national challenge. Moreover, the measures and actions under PA4 were determined based on a large consensus including key stakeholders in the financial sector. The PA#4 had the potential to strengthen the MSME financing ecosystem in the recovery phase and to contribute to achieving the PDO#2 outcomes. However, while this action was relevant, the generation of results will take time. The PA#4 relevance is rated as **Satisfactory.**

PA#5: This PA aimed to strengthen the ability of the RBI to safely support fintech innovations by the industry, beginning with digital payments, and to support the emergence of alternative lending platforms through new channels for smaller enterprises to gain much needed access to finance. Prior analytical underpinnings found that the objective of the RS is to foster responsible innovation in financial services, promote efficiency and bring benefit to consumers. The operationalization of the Regulatory Sandbox can result in collaborative innovation leading to fintech solutions that could benefit MSMEs.

The key measure supported by the DPL and launched in the context of this PA was for the Reserve Bank of India to issue guidelines to operationalize the RBI Fintech Regulatory Sandbox (RS) including the requisite governance arrangements, eligibility criteria and exit strategies with appropriate risk mitigation actions. This measure was specific and credible because it was enabled by the national institutions (Finance Ministry and Central Bank) responsible for financial oversight and management and aiming to address a real national challenge. Moreover, the measures and actions under PA#5 were determined based on a large consensus including key stakeholders in the financial sector. The PA#5 had the potential to strengthen the MSME financing ecosystem in the recovery phase and to contribute to achieving the PDO#2 outcomes. However, while this action was relevant, the generation of results will take time. PA#7 relevance is rated as **Satisfactory.**

PA#6: Prior analytical underpinnings include the following: (i) MSMEs account for more than 50 percent of orders by value on GeM, further emphasizing the need for both Central Public Sector Enterprises (CPSEs) and MSMEs to register on TReDS. Linking GeM with TReDS will allow seamless discounting of CPSE invoices. Moreover, resolving the delayed payments issue of the MSMEs will help resolve a lot of working capital issues for the sector. This PA aimed to address delayed payments from Public Sector Enterprises to MSMEs, and the key measure supported by the DPL was to ascertain that the Central Public Sector Enterprises (CPSEs) have their MSE vendors are onboarded on the Trade Receivables Discounting System (TReDS) platform. This action was specific and addressed a critical issue hampering the finances of the MSMEs. The PA#6 had the potential to strengthen the MSME financing ecosystem in the recovery phase and to contribute to achieving the PDO#2 outcomes. However, the envisioned mechanism to address the delayed payments of MSMEs invoices by the CPSEs was unclear, and it will take more work to make it operational, and the P#6 relevance is rated as **Moderately Satisfactory.**

PA#7: This PA intended to support the integration of an E-government lending platform that accelerates the sanctioning of loans to MSMEs to less than one hour. Prior analytical studies found that the platform uses algorithms to analyze data points from various sources such as IT returns, GST data, Bank Statements, etc. Integrating the platform with CGTMSE and MUDRA would allow MSMEs to get a collateral free loan through an online platform. The measure supported by the DPL in the context of this PA#7 was for the Ministry of Finance to launch the Public Sector Bank (PSB) Loans in 59 Minutes (PSB59) platform by setting up the PSB59 company to enable the fast processing and quick disbursal of MSME loans by select banks. This measure was specific, innovative and credible because it was enabled by the national institutions (Finance Ministry and Central Bank) responsible for financial oversight and management and aimed to address a real national challenge. Moreover, the measures and actions under P#4 were determined based on a large consensus including key stakeholders in the financial sector. The PA#7 had the potential to strengthen the MSME financing ecosystem in the recovery phase and to contribute to achieving the PDO#2 outcomes. However, while this action was relevant, the generation of results will take time, and the PA#7 relevance is rated as **Satisfactory.**

Rating

Satisfactory

4. Relevance of Results Indicators

Rationale

The table below is the matrix illustrating the results logic between the PDO, the PAs and the results framework. The discussion and rating of the relevance of the indicators draws from the material presented in pages 10-18 and the Annex of the ICR.

The results framework of this DPL was composed of 8 PDO results indicators, five of them aimed to measure the performance under PDO-1, while six of them were to measure achievements under PDO-2 as detailed in the table below. It is noticeable that some of the RIs do a duplicate job.

Results Indicators (RI)	Associated Prior Action	RI Relevance Rating	Baseline/ (Revised)	Target (Revised)	Actual Value	Actual change in RI relative to targeted change	Achievement Rating
PDO-1: To support the Government of India (GoI) in preserving flows of finance to MSMEs through the COVID-19 crisis.							

RI#1: Number of MSMEs reached through incremental credit facilities.	PA#1/PA#7	HS	0 (June 2020)	1.5 million (June 2021)	11 million (June 2021)	More than 1,000 percent	High
RI#2: Volume of incremental financing to MSMEs provided.	PA#1/PA#7	HS	0 (June 2020)	Rs.1 trillion (June 2021)	Rs.2.1 trillion (disbursed) Rs. 2.7 trillion (sanctioned) (June 2021)	More than 200 percent (disbursed) More than 200 percent (Sanctioned)	High
RI#3: Number of new guarantees provided.	PA#1/PA#2	HS	0 (June 2020)	1 million (June 2021)	11 million (ECLGS), 619,687 (CGTMSE), Total 11,619,687 (June 2021)	More than 1,000 percent	High
RI#4: Volume of new guarantee covers extended	PA#1/PA#2	HS	0 (June 2020)	Rs.350 billions (June 2021)	Rs.2.7 trillion (ECLGS), Rs.313.50 billion (CGTMSE), Total Rs.3.01 trillion (June 2021)	About 860 percent	High
RI#8: Awareness campaign by NCGTC/SIDBI for women entrepreneurs on the schemes under the government's economic recovery program	PA#1	MU	No campaign (June 2020)	Campaign completed (June 2021)	Not met	Zero percent	Modest
PDO-2: To lay the foundations for a stronger MSME financing ecosystem in the recovery phase.							
RI#5: Volume of incremental funding to NBFCs (through SIDBI and PSB purchases of MSME loan pools, RBI)	PA#3/PA#4	HS	0 (June 2020)	Rs.500 billion (June 2021)	Rs.369.51 billion (TLTROs), Rs.277.94 (PCG 2.0), Rs.72.27 billion (Special Liquidity Scheme),	184 percent	High

					Rs.198.23 billion (Refinance facility), Total Rs.917.95 billion (June 2021)		
RI#6: A study undertaken to review lessons learned and outcomes from fintech regulatory sandboxes.	PA#5	MU	0 (June 2020)	1 (June 2021)	Fully met	100 percent	Substantial
RI#7: For better monitoring of CPSEs usage of TReDS, the Samadhaan Portal to be updated to track an additional data point with the following details: Number of CPSEs vendors onboarded on TReDS.	PA#6	MU	0 (June 2020)	1 (June 2021)	Not met	Zero percent	Modest
RI#8: Awareness campaign by NCGTC/SIDBI for women entrepreneurs on the schemes under the government's economic recovery program	PA#1	MU	No campaign (June 2020)	Campaign completed (June 2021)	Not met	Zero percent	Modest

PDO-1: To support the Government of India (GoI) in preserving flows of finance to MSMEs through the COVID-19 crisis.

Five indicators were identified to measure the DPL performance and its contribution to the PDO-1. The assessment and rating of the relevance of the five indicators are discussed below.

- **RI#1: The first PDO indicator was the number of MSMEs served through incremental credit facilities.** The associated PA#1 was the setting up by the Government of India of a Guaranteed Emergency Credit Line (GECL) Facility, supported by a 100 percent guarantee scheme, Emergency Credit Line Guarantee Scheme (ECLGS). The indicator was an impact indicator to measure the contribution of the DPL on the outcome expected from the PDO-1. During a pandemic period, followed by a general economic recession, the financial sector is expected to be restrictive in approving credit lines, especially to MSMEs with limited collateral. In such an economic context, the normal trend is to see a stagnation or a fall in credit to MSMEs. The new facility and guarantee scheme gave the financial sector the needed comfort to expand credit to MSMEs in period of economic recession. Increase in the number of MSMEs served through incremental credit facilities during the COVID period would be a reflection of the effectiveness of the PA#1. The indicator was simple, specific, and measurable, and a logic result chain can be established between the PA#1, the RI#1 and the PDO-1, and its relevance is rated **Highly Satisfactory.**

- **RI#2: The second PDO indicator was the volume of incremental financing provided to MSMEs.** The associated PA#2 was the initiation by the Government of various steps to strengthen the already existing Credit Guarantee Scheme (CGS) managed by the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) to incentivize MSME lending. Similarly, in a context of a pandemic period, followed by a general economic contraction, the financial sector is expected to be restrictive in approving credit lines, especially to MSMEs with limited collaterals. In such a business environment, the normal trend is a fall or a stagnation in credit guarantees to MSMEs. The strengthening of the already existing Credit Guarantee Scheme (CGS) managed by the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) to incentivize MSME lending aimed to give the financial sector more assurance that loans will be paid back so that they can expand credit to MSMEs in a period of economic recession. Strengthening the CGTMSE scheme was used to leverage MSME credit with limited fiscal resources, and removing the one-time cap on the guarantee amount helped improve usage of the scheme. Incremental financing provided to MSMEs during the COVID period reflected the effectiveness of the PA#2. The indicator was specific and quantitative, and a logic result chain can be established between the PA#2, this RI#2 and the PDO-1, and its relevance is rated **Highly Satisfactory.**

- **RI#3: The third PDO indicator was the number of new guarantees provided to MSMEs.** The associated PA#3 consisted in the Reserve Bank of India taking actions to: (i) launch a liquidity window that utilizes long-term repo operations (TLTROs) to channel liquidity through banks to investment-grade debt issuances by corporates, and a second liquidity window (TLTRO 2.0) of Rs.500 billion exclusively for NBFCs, with specific targets for issuances by small and medium NBFCs and (ii) approve a liquidity support facility of up to 1 year for NBFCs/Banks/ MFIs for on-lending to MSMEs during the crisis; and the Ministry of Finance, to approve a Special Liquidity Facility to guarantee the liabilities (short term investment grade debt securities) of Non-Banking Financial Companies/ Housing Finance Companies/ Microfinance institutions (NBFCs/HFCs/MFIs). In a gloomy economic environment, the normal expectation is to observe a fall or a stagnation in credit guarantees to MSMEs. If instead there is an increase in the number of new guarantees provided to MSMEs, it can be inferred that actions initiated by the Reserve Bank of India and the Ministry of Finance were the cause of the increased number of new guarantees provided to MSMEs. The indicator was specific and measurable, and a logic result chain can be established between the PA#3, the RI#3 and the PDO-1, and its relevance is rated **Highly Satisfactory.**

- **RI#4: The fourth PDO indicator was the volume of new guarantee covers extended**. The associated PA#4 was for the Government of India to approve amendments to strengthen the already existing Partial Credit Guarantee facility by (i) including new eligible funding instruments such as bonds and commercial papers issued by NBFCs in the guarantee facility; (ii) increasing the risk coverage for PSBs to up to 20 percent; and (iii) including lower-rated NBFCs in the scheme. In a business environment marked by a pandemic and economic concession, the financial sector has no incentive to expand new guarantee coverage. Instead, the financial sector will pause the extension of guarantees or may discontinue existing ones. If instead we observe an increase in the volume of new guarantee covers in a context of weak economic activity, we can conclude that the new guarantee covers are a reflection of the PA#4. The indicator was simple, specific and measurable, and a logic result chain can be established between the PA#1, the RI#4 and the PDO-1, and its relevance is rated **Highly Satisfactory.**

- **RI#*8***: **The eighth indicator was the awareness campaign by National Credit Guarantee Trustee Company Ltd/ Small Industries Development Bank of India (NCGTC/SIDBI) for women entrepreneurs on the schemes under the government's economic recovery program.** This indicator was not associated to a specific PA but was susceptible to signal a contribution to the outcome expected both under PDO-1 and PDO-2. However, this indicator was rather an activity and was inappropriate to measure the performance of the DPL policies and reforms under the PDO-1, and its relevance is rated **Moderately Unsatisfactory**.

PDO-2: To lay the foundations for a stronger MSME financing ecosystem in the recovery phase.

Six indicators were identified to measure the performance of the DPL, and their contribution to the PDO-2. It is noticeable that two of the indicators have already been analyzed under PDO-2. The assessment and rating of the relevance of the five indicators are discussed below.

- **The RI#3 and RI#4 discussed under PDO-1 were also identified as potential yardsticks to measure the impact of the PA#1 on the progress made toward the PDO-2.** As discussed under PDO-1, the RI#3 and RI#4 were respectively to measure (i) the number of new guarantees provided to MSMEs, and (ii) the volume of new guarantee covers extended. In a context economic recession, the financial sector has no incentives to approve new guarantees and expand guarantee covers. If this occurs, it reflects the impact of countercyclical measures and actions initiated by the Government to boost economic recovery under the PA#3 and PA#4. These indicators were therefore credible, and appropriate to measure the performance of the PA#3 and PA#4 under the PDO-2 and are rated **Highly Satisfactory.**
- **RI#5**: **The RI#5 was the volume of incremental funding to NBFCs** (through SIDBI and PSB purchases of MSME loan pools, RBI)**.** The associated PAs were the PA#3 and PA#4 as presented below:
    - The associated PA#3 consisted in the Reserve Bank of India to: (i) launch a liquidity window that utilizes long-term repo operations (TLTROs) to channel liquidity through banks to investment-grade debt issuances by corporates, and a second liquidity window (TLTRO 2.0) of Rs.500 billion exclusively for NBFCs, with specific targets for issuances by small and medium NBFCs and (ii) approve a liquidity support facility of up to 1 year for NBFCs/Banks/ MFIs for on-lending to MSMEs during the crisis; and the Ministry of Finance, to approve a Special Liquidity Facility to guarantee the liabilities (short term investment grade debt securities) of NBFCs/HFCs/MFIs.
    - The associated PA#4 was for the Government of India to approve amendments to strengthen the already existing Partial Credit Guarantee facility by (i) including new eligible funding instruments such as bonds and commercial papers issued by NBFCs in the guarantee facility; (ii) increasing the risk coverage for PSBs to up to 20 percent; and (iii) including lower-rated NBFCs in the scheme.
- As discussed previously, the financial sector had no incentive to expand credit supply in favor of MSMEs in a period of economic recession. To the contrary, NBFCs would tend to stabilize or

reduce their exposure to the MSMEs which have limited collaterals. If there is an increase in the volume of incremental funding to NBFCs (through SIDBI and PSB purchases of MSME loan pools, RBI) during the period of pandemic crisis, one would conclude that the trend is reflective of the impact of the measures and policies implemented in the context of PA#3 and PA#4. The indicator was specific and quantitative, and a logical result chain can be established between this PA#3 and PA#4, the RI#5 and the PDO-2, and its relevance is rated **Highly Satisfactory.**

- **RI#6: The sixth PDO indicator was a study undertaken to review lessons learned and outcomes from fintech regulatory sandboxes.** The associated PA#5 intended to ensure that the Reserve Bank of India has issued guidelines to operationalize the RBI Fintech Regulatory Sandbox (RS) including the requisite governance arrangements, eligibility criteria and exit strategies with appropriate risk mitigation actions. The goal of the indicator was to prepare a study, but this was not a credible indicator. This was an activity and was not an appropriate indicator to measure good progress toward PDO-2. While the study could come up with lessons and recommendations which are relevant to PDO-2, this indicator was inappropriate, and is rated as **Moderately Unsatisfactory**.

- **RI#7: The seventh PDO indicator was the number of CPSEs vendors onboarded on TReDS.** The associated PA#7 was for the Ministry of Finance to launch the PSB Loans in 59 Minutes (PSB59) platform through the setting up of the PSB59 company to enable the fast processing and quick disbursal of MSME loans by select banks. To better monitoring of CPSEs usage of TreDS, the Samadhaan Portal was to be updated to track the number of CPSEs vendors onboarded on TreDS. Timely payments by CPSEs to the vendors (MSMEs) were critical to the financial health of the MSMEs. Having the CPSEs vendors onboarded on TreDS was an activity in the right direction, but it was not a good outcome indicator to measure progress toward the PDO-2, and is rated **Moderately Unsatisfactory.**

- **RI#*8***: **The eighth indicator was the awareness campaign by NCGTC/SIDBI for women entrepreneurs on the schemes under the government's economic recovery program.** This indicator was not associated to a specific PA but was susceptible to improve the outcome expected both under PDO-1 and PDO-2. This indicator was rather an activity and was inappropriate to measure the performance of the DPL policies and reforms on the PDO-2, and its relevance is rated **Moderately Unsatisfactory**.

Rating

Satisfactory

5. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

PDO-1: To support the Government of India (GoI) in preserving flows of finance to MSMEs through the COVID-19 crisis.

Rationale

Theory of change.

There was no explicit theory of change, neither in the PAD, nor in the ICR. The results chain was implicit in the Program document and the ICR. It entailed 3 prior actions which were completed ahead of the DPL approval (PA#1, PA#2 and PA#7). Other policy, measures and actions were expected to be implemented by the Government and key stakeholders, building on completed PAs. Both the PAs and subsequent actions and measures were expected to contribute to the outcome achievement. Finally, toward the PDO-1, five results indicators were identified, which were to measure the DPL performance toward the outcome expected under the PDO-1. The DPL performance toward the PDO-1 is assessed below against the results indicators identified at appraisal. The PAs were underpinned by recommendations from studies and theories conducted ahead of the DPL approval which indicated that these prior actions could expand or sustain MSMEs.

Efficacy

RI#1: The target for the number of MSMEs reached through incremental credit facilities was largely exceeded, as the GECL scheme channeled credit to over 11 million MSMEs between June 2020-June 2021, significantly higher than the target of 1.5 million MSMEs. Achievement measured by the RI#1 toward the PDO-1 outcome is rated as **High**.

RI#2: The target for the volume of incremental financing to MSMEs provided was exceeded as the GECL scheme leveraged additional credit to the tune of Rs. 2.7 trillion between June 2020-June 2021 as compared to the target of Rs.1 trillion. The emergency credit line was successful in preserving credit flow to MSMEs while also minimizing the risk of deterioration of asset quality. The scheme proved extremely significant in maintaining credit flows to MSMEs and others, and disbursals under the scheme accounted for around 20 percent of total incremental credit by banks between June 2020 and November 2021. Also, more than 48% of borrowers who accessed additional credit had utilization rates of 78 percent or higher, indicating that the sanctioned credit was actually utilized for reopening their businesses.

An analysis on the impact of the GECL scheme found that at least 1.35 million MSMEs accounts were saved from becoming NPLs due to this scheme, during the first wave and second wave of Covid-19 cases in 2020 and 2021, respectively, as this scheme helped to preserve firms for a much longer period than initially anticipated. In absolute terms, MSME loan accounts worth Rs 1.8 trillion (including Rs 120 billions of restructured) have improved during the period. Achievement measured by the RI#2 toward the PDO-1 outcome is rated as **High**.

RI#3: The target for the number of new guarantees provided was also exceeded, as a total of over 11.61 million guarantees were issued under both the Emergency Credit Line Guarantee Scheme (ECLGS) and Credit Guarantee Trust Fund for Micro and Small Enterprises (CGTFMSE) guarantee schemes, much higher than the target of 1 million. The government guaranteed 100% of the additional credit under the emergency credit line mentioned above, through a state-owned guarantee fund. The number of guarantees under the permanent MSME guarantee fund (CGTMSE) declined slightly in FY 2020-21 as compared to FY 2019-20 but complemented the overall MSME funding strategy of the government as part of its Covid-19 response. Achievement measured by the RI#3 toward the PDO-1 outcome is rated as **High**.

RI#4: The target of the volume of new guarantee coverage was exceeded, as the total guarantee cover amount under the ELCGS and CGTFMSE guarantee schemes reached Rs.3.01 trillion, as compared to the target of Rs.350 billion. The scheme was well received by both lenders and borrowers and became more inclusive and cover a wider set of borrowers and leveraged a total of around Rs.3.1 trillion for MSMEs and other eligible borrowers by February 2022. The government allocated Rs.410 billion as additional capital for the ECLGS and thus was able to leverage a much higher amount of existing liquidity for MSMEs utilizing these guarantee schemes. Achievement measured by the RI#3 toward the PDO-1 outcome is rated as **High**.

RI#8: The awareness campaign by the National Credit Guarantee Trustee Company Ltd (NCGTC/SIDBI) for women entrepreneurs on the schemes under the government's economic recovery program was not implemented as a separate campaign, as originally planned. However, SIDBI also undertook outreach activities which target women entrepreneurs, as part of its agenda to improve awareness of the liquidity facilities available to borrowers. Achievement measured by the RI#8 toward the PDO-1 outcome is rated as **Modest.**

Rating

Satisfactory

OBJECTIVE 2

Objective

PDO-2: To lay the foundations for a stronger MSME financing ecosystem in the recovery phase.

Rationale

Theory of change. There was no explicit theory of change, neither in the PAD, nor in the ICR. The results chain was implicit in the Program document and the ICR. It entailed four prior actions which were completed ahead of the DPL approval (PA#3, PA#4, PA#5, and PA#7). Other policy, measures and actions were expected to be implemented by the Government and key stakeholders, building on completed four PAs. Both the PAs and subsequent actions and measures were expected to contribute to the outcome achievement. Finally, toward the PDO-2, five results indicators were identified (see Section 4), which were to measure the DPL performance toward the outcome expected under the PDO-2.

The PAs were underpinned by recommendations from studies and theories elaborated ahead of the DPL approval which indicated that these prior actions could expand or sustain MSMEs. The DPL performance toward the PDO-2 is assessed against the PAs and the results indicators identified at appraisal was as follows:

RI#3&RI#4: As presented under the PDO-1, newly created ECLGS and CGTFMSE guarantee schemes led to an increased number of new guarantees, as well as a larger guarantee coverage. Achievement as measured by the RI#3&RI#4 toward the PDO-1 outcome is rated as **High**.

RI#5: The target for the volume of incremental funding to NBFCs (through SIDBI and PSB purchases of MSME loan pools, RBI) between June 2020-June 2021 was exceeded, reaching around Rs.917.95 billion, higher than the target of Rs.500 billon. However, over 82 percent of the funding to NBFCs went to large, systemically important NBFCs, while only 2 percent of funding from TLTROs was channeled to BBB rated NBFCs. The extended partial credit guarantee scheme channeled around Rs.277.94 billion, while the special liquidity scheme for NBFCs led to liquidity of around Rs.72.27 billion for NBFCs. The refinance facilities to sector specific DFIs channeled around Rs.198.23 billion to NBFCs. While some of the dedicated facilities for

NBFCs were only partially utilized, they were nonetheless successful in improving funding to the NBFC sector. Achievement measured by the RI#3&RI#4 toward the PDO-1 outcome is rated as **High**.

RI#6: A study undertaken to review lessons learned and outcomes from fintech regulatory sandboxes was carried out. The study results will be used as inputs for the WBG's ongoing engagement with the RBI on implementation of the Regulatory Sandbox. The WBG's engagement with the RBI has supported the implementation of the various cohorts of the Regulatory Sandbox through TA inputs from the WBG on global examples and best practices from other Regulators. Achievement measured by the RI#3&RI#4 toward the PDO-1 outcome is rated as **Substantial.**

RI#7: For an improved monitoring of CPSEs usage of TReDS, the Ministry of MSMEs agreed to update the MSME Samadhaan portal to reflect the status of onboarding of MSME vendors of CPSEs on TReDS platforms. In order to facilitate data compilation, the World Bank team held consultations with the three existing TReDS platforms and agreed on a format for data to be shared with the Ministry of MSME periodically. The format was then shared with the Ministry of MSME, and while the portal has not been updated yet, it is expected that the additional data point will be added to the portal after the Ministry formalizes a data reporting mechanism for the TReDS platforms. Achievement measured by the RI#7 toward the PDO-1 outcome is rated as **Modest.**

RI#8: The awareness campaign by the National Credit Guarantee Trustee Company Ltd (NCGTC/SIDBI) for women entrepreneurs on the schemes under the government's economic recovery program was not implemented as a separate campaign, as originally planned. However, SIDBI also undertook outreach activities which target women entrepreneurs, as part of its agenda to improve awareness of the liquidity facilities available to borrowers. Achievement measured by the RI#8 toward the PDO-2 outcome is rated as **Modest.**

Rating

Satisfactory

Overall Achievement of Objectives (Efficacy)
Rationale

Toward the PDO-1, the program was satisfactory. Achieved results toward preserving flows of finance to MSMEs during the COVID-19 period (PDO-1) included (i) a newly created GECL scheme which allowed an increased number of MSMEs accessing a larger volume of incremental financing, (ii) a newly created ECLGS and CGTFMSE guarantee schemes which led to an increased number of new guarantees, as well as a larger guarantee coverage. However, the awareness campaign by NCGTC/SIDBI for women entrepreneurs on the abovementioned schemes was not implemented as planned. Overall, efficacy toward the PDO-1 was **substantially achieved.**

Toward the PDO-2, the program was also satisfactory. Achievements toward a stronger MSME financing ecosystem (PDO-2) included the following: (i) the ECLGS and CGTFMSE guarantee schemes were created and led to an increased number of new guarantees, as well as a larger guarantee coverage, (ii) a larger volume of incremental funding was channeled to NBFCs (through SIDBI and PSB purchases of MSME loan pools), (iii) the liquidity facilities supported by the DPL helped in reducing borrowing costs for the NBFC sector, (iv) there was some progress toward improved monitoring of CPSEs usage of TReDS, and finally, (v) a study undertaken to review lessons learned and outcomes from fintech regulatory sandboxes was carried out. In all, efficacy toward the PDO-2 was **substantially achieved.**

Based on the above achievements, overall DPL efficacy is rated **Satisfactory.**

Overall Efficacy Rating

Satisfactory

6. Outcome

Rationale

Overall, the relevance of PAs, the relevance of the RIs, and the program efficacy were satisfactory, resulting in a Satisfactory rating of the DPL outcome. Most prior actions were appropriate, all of them being rated between High satisfactory and Satisfactory. PAs and program measures and actions toward the PDO were overall effective and contributed to a satisfactory achievement of the PDO as summarized below.

Toward supporting the Government of India (GoI) in preserving flows of finance to MSMEs through the COVID-19 crisis, a newly created GECL scheme and two newly created ECLGS and CGTFMSE guarantee schemes led to an increased number of new guarantees, as well as a larger guarantee coverage. However, the awareness campaign by NCGTC/SIDBI for women entrepreneurs on the abovementioned schemes was not implemented as planned.

Toward laying the foundations for a stronger MSME financing ecosystem in the recovery phase, there was also a good progress. Beyond the above-described ECLGS and CGTFMSE guarantee schemes which expanded the guarantee coverage, and a larger volume of incremental funding, the liquidity facilities supported by the DPL helped in reducing borrowing costs for the NBFC sector. However, progress was limited toward improved monitoring of CPSEs usage of TReDS, and the use of lessons learned and outcomes from fintech regulatory sandboxes.

a. Rating

Satisfactory

7. Risk to Development Outcome

While the DPL supported the MSMEs sector during the COVID-19 pandemic period, other risks might develop afterwards (ICR, pages 21-22) which will have to be addressed by the Government supported by external partners including the World Bank, and this review concurs with that conclusion.

The DPL was instrumental in cushioning the NPLs risks and in boosting funding to MSMEs. When the COVID-19 hit, the RBI's stress tests indicated that overall NPLs could rise from 6.9 percent in September 2021 to 9.5 percent in September 2022, and estimates indicated that non-performing loans (NPLs) in some sectors could rise more sharply in the next two years**.** These risks were mitigated by strengthening and better targeting of existing emergency schemes, as well as launching of dedicated schemes for underserved borrowers, to support MSMEs impacted by successive waves of Covid-19 cases.

The government's dependence on guarantees to leverage MSMEs funding has increased its contingent liabilities risk. A large part of the government's Covid-19 emergency response for MSMEs and NBFCs was based on guarantee schemes for additional lending to these sectors. While these guarantee schemes lowered the upfront fiscal costs and leveraged market funding, they also led to a large increase in contingent liabilities for the government and state-owned guarantee funds. This could lead to additional demands for fiscal resources to recapitalize these guarantee funds. These risks are mitigated through more precise targeting of the latest expansions of credit guarantee schemes, as well as recapitalization and strengthening of the permanent credit guarantee scheme for MSME.

An increase in borrowing costs might reduce access to capital market funding for NBFCs after the withdrawal of liquidity measures by RBI. The increase in capital market funding for NBFCs and others in FY 2020-21 was incentivized mainly by low-cost liquidity facilities including TLTROs by RBI for banks, who in turn invested funds from these facilities in investment grade securities issued by NBFCs and others. As a result of these facilities, the borrowing costs declined from 7.57 percent in March 2020 to 5.93 percent in August 202128. An increase in borrowing costs along with an expected deterioration in asset quality could lead to NBFCs being unable to increase credit growth in the recovery phase.

The DPL paved the way for sustained support to MSMEs by the Bank. New instruments to address the potential risks arising from this operation have to be in place, and the World Bank has been supporting the GOI in this area with further DPLs and technical assistance. While this program was a single tranche operation, the outcomes have provided a solid foundation for sustained engagement with the MSME sector in the recovery phase. The Bank is already engaged in a US$ 500 million P4R operation on improving MSME productivity.

8. Assessment of Bank Performance

a. Bank Performance – Design

Rationale

The Bank performance in designing this operation was discussed in the ICR (paragraphs 58-61) and key takeaways are summarized below.

The design of the program was based on extensive Bank analytical work. Following its sustained engagement with the government, the WBG was agile in supporting the government's request for its Covid-19 emergency response for MSMEs. The design of the program was based on extensive analytical work, which had already identified the issues of asset quality deterioration and low credit growth for MSMEs, as well as liquidity and other challenges for non-bank lenders. The World Bank relied on its strong partnerships and engagement within the MSME ecosystem to design a rapidly disbursing DPL as an instrument that addressed the immediate liquidity needs of MSMEs and NBFCs.

The Bank team fully identified potential risks and mitigation measures. The operation faced significant macroeconomic and fiscal risks due to the unprecedented nature of the COVID-19 pandemic and the consequent downturn in economic activity, and to extremely high uncertainty about the outcomes of the crisis and the shape of the economic recovery. There were also technical risks related to the design of the emergency facilities that could have limited their effectiveness. In order to address these concerns, the team limited support to facilities that had defined sunset clauses, as well as clear linkages to the PDO. The program did not support the initiatives for which effectiveness and linkages to short- and medium-term recovery of the MSME sector were unclear, while supporting facilities with clearly identified beneficiaries and exposure limits to mitigate partially the technical risks of the program.

The operation team designed the program as a WBG team with the support of external partners. The Bank team collaborated effectively with IFC in designing an effective intervention for the MSME sector through this program. The policy areas and results framework were informed by collaboration with IFC on joint TA programs and knowledge partnerships. The program was also designed as part of a broader medium-term package of interventions supported by planned IFC investments in the MSME sector. The team also held consultations with other development partners to coordinate emergency response measures for the sector, including discussions with the Asian Development Bank (ADB) on strengthening the CGTMSE scheme to provide guarantees for MSME lending as a complement to the WBG's interventions.

Rating

Satisfactory

b. Bank Performance – Implementation

Rationale

The ICR assessment of Bank supervision of the DPL was insufficient, but upon request, the operation team provided additional material which is summarized below.

The Bank team conducted in-depth monitoring of the implementation of the program. The Bank team organized a series of virtual consultations in October and November 2020 given the Covid-19 situation at the time, to review the effectiveness of the various emergency liquidity facilities and other programs supported by the DPL. The team also discussed any potential stability concerns in the financial sector, due to the increase in credit to a large number of firms stressed by Covid-19, but these concerns were mitigated to a large extent by the design of these facilities. Consultations were also held with implementing agencies and industry associations in order to be better informed about any constraints facing project beneficiaries (MSMEs and NBFCs). In particular, the team discussed the performance of the liquidity schemes for NBFCs, which were seen by industry associations as excluding lower rated NBFCs which needed funding the most.

The Bank team worked together with IFC staff to monitor the impact of the DPL various facilities on key beneficiaries. The Bank team utilized the results of the IFC Business Pulse Survey on the impact of Covid-

19 on MSMEs, which was answered by around 1000 MSMEs and had several questions on the challenges around access to finance and liquidity. The survey revealed that some of the most accessed relief measures were the access to additional credit, and the loans at subsidized rates and loan moratorium, which were supported by the DPL. At the same time, there was a lack of awareness of these facilities among micro firms, as compared to small and medium firms, which the team highlighted in consultations with implementing agencies such as SIDBI. The concerns highlighted by the team informed the further strengthening of the emergency liquidity facility in the following federal budget in February 2021, and the team continued to monitor the impact of the modified schemes throughout the implementation of the DPL.

The Bank team continued to engage the RBI on its Fintech regulatory sandbox initiative and other Credit Guarantee Schemes supported by the DPL. The WBG continued to provide TA to the RBI as the initial cohorts of the Regulatory Sandbox were being prepared for implementation and engaged with relevant stakeholders on the CGTMSE and TReDS related PA, where the team emphasized the need for effective and innovative reforms to the respective frameworks. The team's focus on these structural reforms helped in ensuring that MSMEs could transition to benefitting from sustainable support from these long-term facilities, as the emergency measures were gradually withdrawn.

Overall, the Bank performance in supervising the DPL implementation is rated as satisfactory, despite the travel challenges which constrained the Bank team to relying on resident staff and virtual interaction with the Borrower representatives.

Rating

Satisfactory

c. Overall Bank Performance

Rationale

At appraisal, the program design was underpinned by extensive Bank analytical work, collaboration with key stakeholders as well as mitigation measures to address potential risks. During implementation, supervision and oversight were done through virtual sessions which allowed the Bank team to stay in contact with key stakeholders on the ground. The ICR did not raise any significant incident at appraisal and during implemnation, and the Overall Bank performance is rated as **Satisfactory.**

Overall Bank Performance Rating

Satisfactory

9. Other Impacts

a. Social and Poverty

This DPL focus was on micro, small and medium enterprises (MSMEs), and not directly to the poor categories of the society. However, the COVID-19 pandemic had a significant impact of the MSMEs, and some of its workers and beneficiaries run the risk of falling into poverty with the lockdown that hit the Indian economy during the period 2019-2022. The DPL support to ensuring continuous financing to the MSMEs indirectly kept some households members employed, alleviating the risk of increase in poverty and social unrest. Firms that received credit as a result of an emergency credit guarantee scheme during the Government's first Emergency Response were less likely to lay off employees or cut their wages.

b. Environmental

The ICR did not discuss environmental issues as no environmental safeguards policies were triggered. The policy and institutional reforms under the DPL had no significant positive or negative environmental effects. The DPL reforms and actions were directed towards channeling financing to the MSMEs either through the NBFCs or banks and improving fintech solutions that will enable efficiencies in loan processing and in availing/receiving funds.

c. Gender

The ICR discussed gender issues on page 19, and below is the summary of the main takeaways.

Women entrepreneurs owned around 10 percent of MSMEs, and past studies suggest that the lack of access to credit finance was one of the biggest constraints for women-owned MSMEs in India. The general improvement in credit availability through the DPF operation was expected to positively contribute to addressing women entrepreneurship issues. Increased availability of credit for the MSMEs within the overall program aimed to complement other GoI initiatives to address the issue.

Moreover, past studies showed that women entrepreneurs had limited understanding and confidence towards accessing the schemes promoted by the DPL. The NCGTC/SIDBI intended to conduct awareness and knowledge programs on new schemes and initiatives. Finally, the DPL had measures aimed at de-risking lending by banks and NBFCs, while leveraging fintech/DFS to incentivize payments and faster lending processes will be also critical in bringing women entrepreneurs under the coverage of formal financing channels. Finally, a gender analysis that will be conducted as part of the PSIA study aimed to help study gender issues in the MSME sector and formulate recommendations to effectively operationalize the necessary prior actions.

d. Other

The liquidity facilities also helped in reducing borrowing costs for the NBFC sector. An increase in yields for NBFC issuances in April-June 2020 led to a sharp decline in issuance of bonds and commercial paper (CPs) by NBFCs. The volume of CPs issued by NBFCs in April-June 2020 was three time lower than the volume in April-June 2019. The liquidity facilities by the government and RBI helped reduce the short- and medium-term funding costs for NBFCs. The average yields for CPs issued by NBFCs declined from 6.50 percent in April 2020 to 3.98 percent in August 2020.

10. Quality of ICR

Rationale

The ICR is comprehensive, well written, and consistent with the Bank guidelines. It provides a detailed narrative of the program context and the achieved results and is generally evidence-based and internally consistent. The results orientation and quality of analysis were supported by the latest data, tables and annexes that cover key areas of the program interventions. The ICR had minor analytical weaknesses as follows: (i) there was room for streamlining the articulation among the PDO/PAs and the results framework, (ii) the ICR used indistinctly the pillars and the PDO, especially under the efficacy section. In principle, the efficacy section analysis should have focused on the achievement of the specific program development objectives, and (iii) the coverage of the program supervision was insufficient, but additional material was provided by the Bank team upon request. Overall, the quality of ICR is rated Substantial.

a. Rating

Substantial

11. Ratings

Ratings	ICR	IEG	Reason for Disagreement/Comments
Outcome	Satisfactory	Satisfactory	
Bank Performance	Satisfactory	Satisfactory	
Relevance of Results Indicators	---	Satisfactory	
Quality of ICR	---	Substantial	

12. Lessons

The ICR identified a number of lessons learned (pages 23-24), but this review has endorsed two of them which are summarized and paraphrased below:

DPL addressing emergency situations need to exert caution and ensure that actions, measures and reforms adopted do not create potential distortions to credit and risk management. The government and the RBI implemented a series of emergency credit and liquidity facilities on a significant scale to address the needs of the MSME and NBFC sector. These facilities avoided potential distortions to credit allocation by having clearly defined eligibility criteria that served only those firms which were stressed due to Covid-19 but were otherwise viable. All the liquidity facilities had clearly defined sunset clauses which were adhered to during implementation. The guarantees by the government and state-owned guarantee funds were also funded separately with no funding from the permanent guarantee facility for MSMEs, and the temporary guarantee schemes will expire as funds under emergency facilities are repaid.

Emergency government schemes have to be designed carefully to ensure equity among potential beneficiaries. in the context of this operation, the emergency credit line used its eligibility criteria of funding existing borrowers who were not in default to prevent the proliferation of “zombie” firms. But at the same time, there was no support for MSMEs which did not already have borrowings from the formal financial sector. These firms typically have low levels of formality and were severely affected by the impact of Covid-19. Lending to firms which had no prior linkages with the banking sector dropped sharply during April-June 2020, and the emergency response by the government did not address this issue. Similarly, for the NBFC sector, most of the liquidity from the government’s emergency measures was channeled to a small number of highly rated NBFCs which already had access to funding from capital markets, while hundreds of smaller NBFCs which could not access capital markets were ineligible for support from the government’s liquidity facilities due to rating requirements and other issues.

13. Project Performance Assessment Report (PPAR) Recommended?

No