



Program Information Documents (PID)

Appraisal Stage | Date Prepared/Updated: 13-Jan-2021 | Report No: PIDA237196



BASIC INFORMATION

A. Basic Program Data

Country India	Project ID P172226	Program Name Raising and Accelerating MSME Performance	Parent Project ID (if any)
Region SOUTH ASIA	Estimated Appraisal Date 25-Jan-2021	Estimated Board Date 25-Feb-2021	Practice Area (Lead) Finance, Competitiveness and Innovation
Financing Instrument Program-for-Results Financing	Borrower(s) Republic of India	Implementing Agency Ministry of Micro, Small and Medium Enterprises	

Proposed Program Development Objective(s)

Strengthen MSME performance through sustainable and innovative market-based services at Central level and in selected States.

COST & FINANCING

SUMMARY (USD Millions)

Government program Cost	810.00
Total Operation Cost	810.00
Total Program Cost	810.00
Total Financing	810.00
Financing Gap	0.00

FINANCING (USD Millions)

Total World Bank Group Financing	500.00
World Bank Lending	500.00
Total Government Contribution	310.00

Decision

The review did authorize the team to appraise and negotiate



B. Introduction and Context

Country Context

1. India's Gross Domestic Product (GDP) growth has slowed in the past three years, and the COVID-19 outbreak is expected to have a significant impact. Growth has moderated from an average of 7.4 percent during FY15/16-FY18/19 to an estimated 4.2 percent in FY19/20. The growth deceleration was due mostly to unresolved domestic issues (impaired balance sheets in the banking and corporate sectors), which were compounded by stress in the non-banking segment of the financial sector, and a marked decline in consumption on the back of weak rural income growth. Against this backdrop, the outbreak of COVID-19 and the public health responses adopted to counter it have significantly altered the growth trajectory of the economy, which is now expected to contract sharply in FY20/21. On the fiscal side, the general government deficit is expected to widen significantly in FY20/21, owing to weak activity and revenues as well as higher spending needs. However, the current account balance is expected to improve in FY20/21, reflecting mostly a sizeable contraction in imports and a large decline in oil prices. Given this, India's foreign exchange reserves are expected to remain comfortable.

2. Although India has made remarkable progress in reducing absolute poverty, the COVID-19 outbreak has reversed the course of poverty reduction. Between 2011-12 and 2017, India's poverty rate is estimated to have declined from 22.5 percent to values ranging from 8.1 to 11.3 percent. Recent projections of GDP per capita growth rate indicate that as result of the pandemic, poverty rates in 2020 have likely reverted to estimated levels in 2016. The extent of vulnerability is reflected in labor market indicators from high frequency surveys. Data from the Centre for Monitoring Indian Economy (CMIE), shows urban households are facing greater vulnerabilities: between September-December 2019 and May-August 2020, the proportion of people working in urban and rural areas has fallen by 4.2 and 3.8 percentage points respectively. Approximately, 11 and 7 percent of urban and rural individuals, identifying themselves to be employed in the recent period, have performed zero hours of work in the past week. Short-term employment outlook is contingent on whether these temporarily unemployed workers can fully re-enter the labor force. Overall, the pandemic is estimated to have raised urban poverty, creating a set of new poor that are likely to be engaged in non-farm sector and receive at least secondary or tertiary education, as compared to existing poorer households who are predominantly rural with lower levels of education.

Sectoral and Institutional Context

3. Central to the agenda of productivity growth and job creation, particularly of good quality jobs, is the Micro Small and Medium Enterprises (MSME) sector. Micro enterprises and SMEs employ a large fraction of non-farm employment in India. Around 77 percent of the non-farm employment is in firms with less than ten workers while firms with over 100 workers employ around 10 percent of the non-farm workers.¹ They play a pivotal role in broader sector competitiveness, with the potential to provide specialization to the value chain in the form of inputs and support activities. The firm landscape in India is dominated by small firms who do not grow with age. Around 94.6 percent of firms have less than 5 workers and the share of larger establishments is negligible.² India's stunted firm dynamics has been highlighted as a key area of concern in the India Systematic

¹ Gol. Sixth Economic Census (2012-13)

² Furthermore, 99 percent of the firms have less than 10 workers – Calculations from Sixth Economic Census (2012-13)



Country Diagnostic (SCD).³ These skewed patterns of size and growth impose huge productivity costs.⁴ Most MSMEs are unproductive and lacking in dynamism, which has constrained the sector's competitiveness and suppressed growth and job creating potential.⁵ This has been exacerbated due to the COVID-19 pandemic. Enhancing productivity and increasing the domestic and export market reach of Indian MSMEs is key to job creation and remains an urgent national economic priority for the Government of India (GoI).

4. Short term measures to provide immediate relief to MSMEs in the COVID-19 pandemic will need to be followed by interventions to support recovery and build resilience of the MSME sector. India will need to intensify efforts to support Micro, Small and Medium Enterprises (MSMEs) to raise productivity levels, generate jobs and accelerate economic transformation. An online survey comprising 46,525 responses from various industry groups indicated that 35 percent of MSMEs reported that their enterprises were beyond recovery while 32 per cent of MSMEs said recovery would take over six months.⁶ In May 2020, the Government announced the "Atmanirbhar Bharat" economic package of INR 20 trillion to fight the COVID-19 pandemic in India, which included measures for MSMEs. While these measures provide the much-needed liquidity support to MSMEs as an immediate response, the recovery phase will need to focus on helping firms return to their pre-crisis production/employment levels as well as lay the foundations for longer-term productivity-driven growth.

5. The challenges facing policy interventions and initiatives to strengthen MSME competitiveness broadly into three categories. These are: (i) addressing market failures that underpin the limited numbers of MSMEs accessing the services that can provide the solutions for productivity improvement and growth; (ii) achieving the level of outreach and broader impact from programs and services in order to support sustained and systemic change to MSME sector productivity – including closing gender gaps impacting women-headed businesses and promoting more environmentally sustainable investments; (iii) improving national and state level capacity and coordination arrangements to develop and implement impactful and cost-effective policies and programs.

PforR Program Scope

6. The GoI program – "MSME competitiveness – A post COVID Resilience and Recovery Programme" (MCRRP) - is a five-year \$3.4 billion nationwide initiative that is a response to the call for a medium-term strategy to support an increased MSME sector dynamism and productivity-driven growth path. The MCRRP will strengthen the MSME sector eco-system through a series of institutional, policy and program actions across the following eco-system entry points: (1) dissemination of knowledge; (2) access to finance; (3) access to technology; (4) creation of common facility infrastructure; (5) facilitating access to markets; (6) policy and governance for facilitation and ease of doing business. The over-arching MCRRP strategy is to partner more closely with states to facilitate greater scale and quality of impact of MSME support interventions.

7. The proposed Raising and Accelerating MSME Performance (RAMP) Program is a well-defined subset of the government program and is carved out of the MCRRP by: (a) results area; (b) geographical area with the selection of priority states. The Program is designed around two broad Results Areas (RAs) and four cross cutting themes in line with the government MCRRP. The two result areas are (i) Strengthening Institutions and the Governance of the MSME program; (ii) Support for Firm Capabilities and Access to Markets, and Access to

³ World Bank. 2018. "India - Systematic Country Diagnostic: Realizing the Promise of Prosperity." Washington, D.C.

⁴ In aggregate terms, only 33 percent of the current gap in output per worker between India and the United States is accounted for by the gap in their human and physical capital levels; the rest is due to the difference in their "total factor productivity" (TFP) levels. See C.I. Jones, Chapter 1 - The Facts of Economic Growth, Editor(s): John B. Taylor, Harald Uhlig, Handbook of Macroeconomics, Elsevier, Volume 2, 2016, Pages 3-69

⁵ GoI 2019. "Economic Survey of India"

⁶ The survey was conducted in the last week of May 2020 by the All India Manufacturers' Organization. See "One in three small businesses close to winding up, says survey", Indian Express, June 2020, <https://indianexpress.com/article/business/coronavirus-lockdown-msme-businesses-winding-up-6438024/>. The findings of the survey are echoed in the IFC COVID-19 Business Pulse Survey conducted online in May-June 2020 in India



Finance. The four recurring themes across interventions in the two RAs include – (a) gender i.e., improving outcomes for women entrepreneurs through improved access to finance and MSME support programs; (b) greening i.e., supporting the adoption of Resource Efficiency and Cleaner Production (RECP) practices by MSMEs; (c) technology i.e., use of technology platforms to effectively deliver MSME support services at scale; and (d) private sector i.e., the key role of the private sector in delivering services to MSMEs. The PforR will through the two Results Areas (RAs) support MCRRP entry points 1-3, 5, 6. The PforR will focus on support to Five participating states – Gujarat, Maharashtra, Punjab, Rajasthan, Tamil Nadu.

8. RA#1: Strengthening Institutions and Governance of the MSME program. This will target results at the Central and State levels to address the institutional capacity and coordination constraints. It comprises three components – (1) Implementing Federal MSME institutional reform agenda; (2) Integrating digital technology platforms; (3) Accelerating MSME sector State-Central collaboration

9. RA#2: Support to Firm Capabilities and Access to Markets, Access to Finance. The interventions will aim to use technology-driven solutions and leverage platform approaches to achieve economies of scale and better outreach of quality market-based, private sector service provision in the areas of firm capabilities and access to finance. RA2 comprises four components – (1) Enhancing firm capabilities schemes; (2) Strengthening the receivable financing market for MSMEs; (3) Enhancing effectiveness of Credit Guarantee Trust for Micro and Small Enterprises (CGTMSE) and gender and greening delivery; (4) Reducing the incidence of delayed payments.

C. Proposed Program Development Objective(s)

Program Development Objective(s)

10. The PDO: Strengthen MSME performance through sustainable and innovative market-based services at Federal level and in selected States.

11. The following Key Performance Indicators (KPIs) are proposed to measure progress towards this PDO:

- Improved firm performance from utilizing schemes - measured by CLCS-TU and linked schemes uptake (TReDS, CGTMSE and Samadhaan sourced-ODR).
- Increased access to finance for female-headed businesses - measured by the volume of credit guarantees.
- Increased access to finance for green investments - measured by the volume of credit guarantees.
- Increased MSME access to factoring – measured by the value of invoices discounted on the TReDS platform.
- Increased resolution rate for delayed payments – measured by the number of MSMEs able to unblock payments via ODR platforms accessed via the MoMSME Samadhaan portal.

D. Environmental and Social Effects

12. Overview: An Environmental and Social Systems Assessment (ESSA) of the RAMP program was undertaken to review the capacity of existing national government systems to plan and implement effective measures for environmental and social impact management of the program, and determine if any measures would be required to strengthen them. Due to COVID-19 and the on-going travel restrictions, the Bank team undertook a limited ESSA informed by review of existing documents, virtual interviews with Government officials and industry representatives, and online consultations with key stakeholders including CSOs.

13. Methodology: The ESSA process adopted a mixed-methodology approach in which the team analyzes the E&S effects, including indirect and cumulative effects, of activities associated with The Program; analyzes the borrower's systems for managing the identified E&S effects, including the review of practices and the



performance track record; compares the borrower's systems - laws, regulations, standards, procedures, and implementation performance against the core principles and key planning elements to identify any significant differences that could affect Program performance; and recommends measures to address capacity and performance on policy issues and specific operational aspects relevant to managing the Program risks such as staff training, implementing institutional capacity building programs, developing and adopting internal operational guidelines. The ESSA team consulted the designated personnel at the MoMSME and state nodal agencies (Punjab E&S representative as a strategic and representative example) to assess the level of environmental regulatory compliance among the MSME units and the track record for compliance.

14. Stakeholder engagement and consultations: The ESSA was developed in consultation with the MoMSME and participating states. The draft ESSA report has been disclosed by MoMSME (on November 24, 2020) as well as the World Bank (on December 2, 2020) for receiving feedback from government officials, industry associations, non-governmental organizations, civil society organizations, MSME associations and other relevant stakeholders. Additionally, virtual consultations with nodal officials and district-level representatives from participating states i.e. Maharashtra, Punjab, Tamil Nadu, Rajasthan and Gujarat were organized on December 3rd, 2020. The Ministry also organized virtual/phone-based consultations with NGOs, CSO, think-tanks and business associations.

15. Findings: The assessment found that:

- **Environmental legislation and institutional structures for environmental and pollution management are in place at the national and state level.** Therefore, procedures and clearances required for environmental protection are well defined. Existing legislation also helps minimize or mitigate possible adverse impacts on natural habitats, archaeological sites and cultural resources. However, environment specific capacity building activities are presently insufficient and nodal environmental officers find it challenging to ensure required compliance with such legislation. The existing due diligence mechanisms of the MoMSME and of participating state governments will be strengthened by introducing a 'Strategy to Strengthen Environmental and Social Management'.
- **From a social perspective, the Program is likely to have overall positive social impacts in geographies where investments are planned to be made.** The assessment reviewed the social policies and procedures (both at National and State level) and found them to be adequate. The assessment finds an enabling policy and legal framework that will promote decentralized planning, implementation and monitoring, active participation and safeguarding the interests of vulnerable sections (women, scheduled caste and scheduled tribe communities) be it through targeting or membership in local governance institutions or in community level groups. However, due to vast inter-state variations and the urgent need to strengthen last-mile service delivery, challenges were observed, although impact of the identified social benefits overweighs the program related social risks.
- **Grievance Redressal Mechanism relevant to RAMP:** The ESSA notes that the Champions portal operational at the national level provides a robust, pre-existing institutional architecture for continued engagement with direct project beneficiaries and timely redressal of grievances. However, strengthening the reach of these feedback systems and facilitating two-way information flows/feedback loops across recipient states will require development of a roadmap in agreement with the state implementation agencies. As a PforR operation, the project will exclude activities that have large-scale land related impacts. This criterion will be included in the screening mechanism for investments via RAMP-supported schemes as well as through the SPIUs.
- **Key risk mitigation measures and inputs to the Program Action Plan for social and environmental aspects include** a) Labor management and Occupational Health and Safety oversight; b) strengthening/convergence of state-level MIS systems; c) strengthening of feedback/Grievance Redressal Mechanism (GRM) at the state



and district-level; d) land management; e) awareness and training programs targeting women entrepreneurs; f) MoMSME to lead the preparation of the - Strategy to Strengthen Environment and Social Management' and coordinate this with the states; and g) MoMSME to strengthen the institutional and technical mechanisms to deliver integrated and connected online services for MSMEs by integrating M&E with E&S due diligence for performance tracking.

16. Risk Rating: The Environment and Social Risk Rating of the proposed operation is *Moderate*. The proposed operation will include technical assistance and technology-enhancing interventions to existing MSMEs. The anticipated negative E&S impacts are relatively small in scale and temporary. In addition, some enhanced access to technology-based interventions, trainings and targeted interventions designed for women entrepreneurs are likely to result in positive E&S outcomes as well. Institutional strengthening of MSME related agencies and technology upgrades in the MSMEs participating in the program will result in overall human and environmental wellbeing and reduce risks of environmental pollution arising from manufacturing operations.

17. Recommendation: The national and state governments have well-developed environmental and social legislation, though the implementation setup to address potential environmental challenges of the RAMP Program i needs to be strengthened. To address this, the ESSA Team recommends the development of a strategy document - 'Strategy to Strengthen Environment and Social Management'. This strategy document will seek to outline the a) communication, behavior change and capacity building plan around E&S aspects; and b) the risk screening and management mechanism associated with MCRRP operations. The strategy document will also include action-oriented recommendations on occupational health and safety issues (OHS) to be integrated in the SIPs. The document will outline the activities, tasks, lead roles and responsibilities of the N/SPIUs with the support and guidance of MoMSME and the State nodal agencies. The document will seek to strengthen the E&S screening and monitoring criteria for MCRRP schemes and outline the training curriculum required to strengthen capacity of nodal E&S officers to assist industry units to achieve E&S compliance. The proposed communication and capacity building plan will also enable E&S nodal officers to adopt an alternative approach and serve as facilitators alongside their compliance enforcement roles. This is likely to have positive spillover impacts and improve compliance through collaboration and contribute to institutional strengthening. These training and capacity building initiatives will have defined milestones and timelines along with the necessary resource allocations. The strategy will also incentivize development of consolidated MIS systems disaggregated by gender and social groups. The strategy will be prepared by the NPIU and will be implemented throughout the program, starting from effectiveness.

18. Citizen Engagement: The project seeks to enhance citizen outreach and engagement across a number of areas. Firstly, it supports development and implementation of a decentralized state-level MSME SIP through a consultative process with local MSMEs and other key stakeholders. Secondly, it supports partnerships with local organizations in states to conduct outreach to enhance awareness of and access to core MSME support interventions, with a special focus on outreach to women entrepreneurs. Lastly, it strengthens citizen feedback mechanisms across core competitiveness interventions of MOMSME through online portals, including strengthening and introducing clear service standards for the existing GRM.

E. Financing

Program Financing (Template)

Sources	Amount (USD Million)	% of Total
Counterpart Funding	310.00	38.27



Borrower/Recipient	310.00	38.27
International Bank for Reconstruction and Development (IBRD)	500.00	61.73
Total Program Financing	810.00	

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Borrower/Client/Recipient

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Implementing Agencies

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