PROJECT INFORMATION DOCUMENT (PID)
ADDITIONAL FINANCING

Report No.: PIDA25317

Project Name	Addl. Financing - Scaling Up Sustainable and Responsible Microfinance (P155601)
Parent Project Name	India: Scaling Up Sustainable and Responsible Microfinance (P119043)
Region	SOUTH ASIA
Country	India
Sector(s)	Microfinance (100%)
Theme(s)	Rural non-farm income generation (10%), Other social protection and risk management (20%), Micro, Small and Medium Enterprise suppor t (50%), Financial Consumer Protection and Financial Literacy (6%), Other Financial Sector Development (14%)
Lending Instrument	Investment Project Financing
Project ID	P155601
Parent Project ID	P119043
Borrower(s)	SIDBI
Implementing Agency	
Environmental Category	F-Financial Intermediary Assessment
Date PID Prepared/Updated	02-Jun-2015
Date PID Approved/Disclosed	02-Jun-2015
Estimated Date of Appraisal Completion	02-Jun-2015
Estimated Date of Board Approval	08-Sep-2015
Appraisal Review Decision (from Decision Note)	The review did authorize the team to appraise and negotiate

I. Project Context

Country Context

Financial Inclusion in India, has primarily been largely designed and implemented by the banking system, as a result of government mandate. Other diverse stakeholders including technology service providers, self-help groups (SHGs)/community organizations, government programs have played a supporting role. Since the 1990s, microfinance institutions (MFIs) have played an increasing role in delivery of financial services to the doorstep of hitherto excluded customers. Between 2005 and 2010, Indian microfinance was among the fastest growing microfinance sectors in the world. Due to a complexity of factors including rapid growth rates fuelled by private equity investments and substantial debt from banks alongside increasing rivalry between the MFIs and state run SHG model, the year 2010 saw the biggest crisis in Indian microfinance. The liquidity crunch forced several MFIs to revise their business plan and cut down on the growth targets. Consequently, the financial performance of the MFIs showed signs of stress across all key parameters related to growth, portfolio at risk, margins which translated into operational and financial losses. It was only the continued support of SIDBI and the public sector commercial banks (albeit in a much more cautious way than before) that prevented a complete funding withdrawal and attendant disaster in the sector.

The parent project – “Scaling Up Sustainable and Responsible Microfinance Project” (P119043) supports India’s efforts to enhance access to financial services for the poor. This has remained a long-term challenge in India, despite numerous initiatives to improve access to the financially underserved segments. A significant portion of India’s population remains unserved by India’s well developed formal banking sector. The microfinance sector bridges this “access gap” by providing thrift, credit, and other customized financial services to the under-served with the aim of improving living standards and raising incomes.
A significant achievement of the parent project is the introduction of the responsible finance initiative. Responsible Finance spearheaded by SIDBI under the World Bank funded project linked MFI funding to performance criteria and actions revolving around greater transparency, responsible expansion, accountability, growth in under-served areas, disclosure, and good governance in the microfinance sector, thereby contributing to a responsible finance initiative, Under the parent project 30 MFIs with nearly 16 million clients have been supported (of which 1.4 million received funding from the Bank’s loan). Most of the clients of the MFIs – and, as a result, most of the recipients of financing under the Bank’s loan – are women. 82 percent of them are in underserved areas (defined in the parent project as areas outside the five southern states of Telangana, Andhra Pradesh, Karnataka, Kerala, and Tamil Nadu which accounted for more than 70 percent of the microfinance sector previously).

The parent project has also helped SIDBI provide innovative financing through equity/quasi-equity investments in MFIs totaling about US$5 million to help the long-term financing needs of MFIs.

The proposed additional financing (P155601) for this well-performing project will help sustain SIDBI’s ongoing successful efforts in the microfinance sector and lock-in the gains from the parent project so that the positive momentum built up thus far is entrenched and further capitalized upon.

Sectoral and institutional Context

Access to financial services for India’s poor remains a key development challenge, as a significant part of the population is under-served by the formal banking sector, The microfinance sector, which bridges the “access gap” by providing thrift, credit, and other customized financial services to the under-served, with the aim to help raise incomes and improve living standards, has been growing exponentially in India. This growth has contributed to reducing the gap between the unmet demand for and supply of financial services for under-served households and microenterprises. However, two overarching challenges remain: (i) a large unmet demand for financial services by India’s under-served segments, particularly in states where market penetration has been extremely low; and (ii) rapid expansion, which introduces the dual challenge of maintaining good-quality growth while promoting responsible finance among MFIs.

The parent project has consistently performed well and latest project implementation ratings are Highly Satisfactory for Progress towards Achievement of PDO and Satisfactory for Implementation

Progress. (The project has been rated Moderately Satisfactory or higher on both PDO and Implementation Progress throughout its implementation period). The parent project has achieved impressive results and has met or surpassed all targets in its results indicators. Progress on all four PDO indicators that relate to the leverage of project funding by other resources, targeting of project funding to underserved areas, sustainability of operations of funded MFIs and data transparency (all responsible finance dimensions), exceeds targets. Performance on most intermediate indicators is also strong. There is evidence of significant improvements in responsible lending practices, better disclosure of interest rates, better structured grievance redress mechanisms, enhanced credit reporting, etc. now being in place, clearly demonstrating that the progress on more customer friendly practices has led to positive actions on the ground.

II. Proposed Development Objectives

A. Current Project Development Objectives – Parent

The objective of the project is to scale up access to sustainable microfinance services to the financially excluded, particularly in under-served areas of India, through, among other things, introduction of innovative financial products and fostering transparencyand responsible finance.

III. Project Description

Component Name

Component I: Scaling up funding for Microfinance Institutions (MFIs)

Comments (optional)

SIDBI will increase the amount it provides as innovative quasi-equity/equity finance up to 40 per cent of the overall financing.

Component Name

Component II: Strengthening responsible finance

Comments (optional)

SIDBI will continue to support key sector development and responsible finance efforts

Component Name

Component III: Capacity Building and monitoring

Comments (optional)

SIDBI will undertake an impact evaluation in 2018 - after the proposed mid-term review of the additional financing in 2017 – using the baseline data generated under the parent project to assess the impact of the project along economic, financial, income, welfare,and social performance dimensions. Under the support for the communications strategy, SIDBI will hire a communications expert to help ensure that the benefits and lessons learned from this intervention are shared with the wider microfinance sector.

IV. Financing *(in USD Million)*

Total Project Cost:	300.00	Total Bank Financing:	200.00
Financing Gap:	0.00		
For Loans/Credits/Others			**Amount**

Borrower	100.00
International Bank for Reconstruction and Development	200.00
Total	300.00

V. Implementation

The implementation arrangements under the proposed additional financing would remain the same as for the parent project. SIDBI will continue to be responsible for implementation. SIDBI is well placed to implement the project and experience with SIDBI's implementation of the parent project has been satisfactory. The Operations Manual currently in place for the implementation of the parent project will continue for the additional financing as well. Funds flow arrangement would be the same as before, as would the safeguards framework. Arrangements for continued monitoring and evaluation of outcomes and results will be discussed and finalized during discussions with SIDBI.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	**Yes**	**No**
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04		x
Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12		x
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)

VII. Contact point

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