



# Completion Report

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Project Number: 48352-003  
Technical Assistance Number: 8787  
August 2017

## India: Support to Scheme of Fund for Regeneration of Traditional Industries

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TA Number, Country, and Name:			Amount Approved: \$225,000	
TA 8787-IND: Support to Scheme of Fund for Regeneration of Traditional Industries			Revised Amount: Not Applicable	
Executing Agency: Ministry of Micro, Small and Medium Enterprises (MMSME)		Source of Funding: TASF-OTH	Amount Undisbursed: \$68,196.08	Amount Utilized: \$156,803.92
TA Approval Date:  12 Dec 2014	TA Signing Date:  12 Dec 2014	Fielding of First Consultant:  16 Oct 2015	TA Completion Date Original: 31 Dec 2015	Actual: 31 Mar 2016
			Account Closing Date Original: 30 Jun 2016	Actual: 15 Apr 2016
<b>Description</b>				
<p>The Scheme of Fund for Regeneration of Traditional Industries (SFURTI) was approved in 2005 by the Government of India to support traditional industries with the objective to: (i) provide employment to rural artisans and entrepreneurs, (ii) improve competitiveness through skill and technology enhancement, and (iii) improve marketability of products. SFURTI was implemented by the Ministry of Micro, Small, and Medium Enterprises (MMSME). It was extended from 1 Aug 2014 for a period of three years, after incorporating certain modifications as suggested by the independent evaluation recommendations, to directly benefit around 800 clusters with around 400,000 beneficiaries across India, of which at least 70% were women. The modified scheme supported common facility centers for energy, warehousing, and raw materials, as well as training, capacity, and product development. The scheme was designed to enhance marketability of products, upgrade skills through improved technology and processes, and public–private partnership arrangements.</p> <p>The project preparatory technical assistance (PPTA) was requested by the government to support the preparation of a strong business case for private sector participation. For this purpose, the PPTA targeted preparation of a market assessment for products developed by traditional industry clusters and the potential for encouraging private sector participation in various modalities through: (i) identification of opportunities for integration of cluster special purpose vehicles (SPVs) with existing value chains and establishing their viability, (ii) determining if the size, scale, and scope of activities planned under the scheme were appropriate for the desired objectives, (iii) making more explicit the role of the various stakeholders and the business case for each stakeholder, taking into consideration the social and gender issues that bear on the target beneficiaries, and (iv) the potential for synergies with complementary initiatives.</p>				
<b>Expected Impact, Outcome, and Outputs<sup>1</sup></b>				
<p>The expected impact of the TA was an appropriately-designed project that would support SFURTI. The expected outcome of the TA was a well-prepared business case for a proposed project for SFURTI that would reflect gender-based and market-related sector challenges. For this purpose, viable options were to be explored for developing a sustainable business model which would hold the potential for catalyzing private sector investments. The intended outputs of the PPTA were: (i) identification of viable options for cluster SPV operations in traditional industries and (ii) studies on cluster SPVs.</p>				
<b>Delivery of Inputs and Conduct of Activities</b>				
<p>The PPTA was to be implemented over a one year period (January–December 2015) jointly by the South Asia Public Management, Financial Sector and Trade Division (SAPF) and India Resident Mission (INRM). The TA engaged four individual national consultants to work intermittently for a total of 16.5 person-months for the following positions: (i) rural and traditional industries specialist (ii) business strategy and marketing specialist, (iii) public-private partnership specialist, and (ii) finance and private sector development specialist. The consultants worked with MMSME, Khadi and Village Industries Commission (KVIC) and Coir Board.</p> <p>All consultants were engaged in accordance with ADB’s Guidelines on the Use of Consultants. The recruitment of consultants was delayed due to negotiation issues. It took time for Credit Rating Information Services of India Limited (CRISIL), the firm representing the individual consultants, and Operations Services and Financial Management Division to agree on the contract offer. Moreover, the recruitment of the finance and private sector specialist had to be re-initiated for the second-ranked candidate due to unsuccessful negotiation with the first-ranked candidate. There were also delays on the part of the executing agency to provide the network operations center to commence TA</p>				

<sup>1</sup> The TA was processed in 2014 as an SSTA that had its own Design and Monitoring Framework. The DMF, with performance updates, is attached as Appendix.

implementation and recruitment. The consulting work commenced only in October 2015 and the implementation period was extended from 31 December 2015 to 31 March 2016. Finally, three consultants were represented by CRISIL viz. rural and traditional industries specialist, business strategy and marketing specialist, and public-private partnership specialist (referred to as 'the study team' hereafter). The finance and private sector development specialist was recruited separately. The four individual consultants were rated 'excellent' in the overall performance evaluation conducted after the completion of the TA.

The performance of MMSME, KVIC and Coir Board was satisfactory. They provided necessary help to the consultants. All disbursements under the TA were made in accordance with ADB's Technical Assistance Disbursement Handbook. ADB's performance was also satisfactory. ADB conducted one mission before initiating the TA (May 2014), and two missions after signing the TA. However, no mission was conducted after the consultants were fielded.

#### **Evaluation of Outputs and Achievement of Outcome**

The two TA outputs and outcome on the preparation of a business case for a proposed project were achieved. However, based on the findings of the business case, no ensuing loan was developed.

The study team visited nine existing and upcoming clusters in four zones (South, West, East and North-East) to get a ground level perspective of the existing scenario and possibilities of further interventions. These clusters represented key promising industries including food processing, textiles (khadi), forestry (honey), cane & bamboo products, bell metals and coir products. The study team also interacted with other key stakeholders like corporate social responsibility (CSR) foundations, e-commerce players, government departments (MSME, Directorate General of Foreign Trade), private entrepreneurs and non-governmental organization to get a perspective of the past performance and prospects of SFURTI. The finance and private sector development specialist visited five clusters in the South Zone with coir, steel and wooden furniture, indigo and cashew as the main products.

The consultants submitted the inception report, mid-term (or interim) report, draft final report, and final report as envisaged. The reports included case studies on individual clusters with an analysis of options for formation of cluster SPVs. Gender composition and impact was covered. The analysis also provided guidance on scaling up, including: (i) product/technology development, (ii) capacity building/skill development, (iii) marketing support, (iv) institutional structure, and (v) financing support. Each possible intervention was analyzed for a possibility of private sector participation either directly on commercial basis, or through CSR. It was concluded that it was unlikely that private sector would be willing to fund clusters on commercial basis unless options were considered for interest subsidization, guarantees, pooled CSR contributions, and realignment of financing terms of monetary financial institutions. This was because of the limited scale of operation and low profit margins in the traditional industrial clusters. Private sector interest to provide strategic professional management assistance or in deploying dedicated resources for cluster operations was found to be subdued, as was as the desirability of equity investment by private sector in a cluster. The report of the finance and private sector development specialist pointed out certain limitations to accessing bank finance in the revised SFURTI scheme, and suggested options to enhance funds availability to clusters, particularly through full or partial guarantee support.

Thus, the reports satisfactorily covered the desired outputs of the TA: (i) identification of viable options for cluster SPV operations in traditional industries and (ii) studies on cluster SPVs.

The TA presented a business case for SFURTI by highlighting the success factors and challenges for existing clusters including the hard, soft and thematic interventions; financing options including guarantees and a pooled CSR fund; and opportunities for scaling up through marketing support. The TA also analyzed the gender composition and gender impact of the clusters that were visited. For example, it was noted that women artisans comprise about 80% of the labour force in coir industries, and more than 90% in khadi clusters such as Mukalmua. Thus, the expected outcome of a well-prepared business case for a proposed project for SFURTI that would reflect gender-based and market-related sector challenges was achieved. However, the findings of the business case noted that the sector had operational challenges, and there were concerns on commercial viability and sustainability of interventions without some kind of financial support through subsidies, guarantees or pooled CSR mechanism. Therefore, it was concluded that the sector was not conducive for private sector investment in equity or on commercial basis. The structural issues in the sector have resulted in slow utilization of the total fund under the scheme. Out of the total outlay of ₹1,494.4 million under the scheme, only ₹303 million could be utilized in the first two years of the scheme launch.<sup>2</sup>

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<sup>2</sup> My MSME. Scheme of Fund for Regeneration of Traditional Industries. [http://msme.nic.in/MyMsme/Reg/COM\\_SfurtiForm.aspx](http://msme.nic.in/MyMsme/Reg/COM_SfurtiForm.aspx)

The expected impact was an appropriately-designed project that would support the government SFURTI program in India. The TA highlighted the limitations and it was concluded that the sector was not conducive for ADB's intervention. Consequently, no project was developed for further support by ADB.

#### **Overall Assessment and Rating**

Overall, the TA is considered *less than successful*. The TA was *less than relevant*. The TA was aligned with Government of India's objective of supporting the SFURTI program and was aligned with ADB's strategic agenda on inclusive and sustainable economic growth. However, this TA failed to consider the lessons from the significantly-delayed Khadi Reform and Development Program.<sup>3</sup> Particularly, the project observed that the market was not ready for private sector participation to address the efficiency and productivity issues in the traditional khadi sector. It was reflected in the lukewarm response to the process for identifying private partners for marketing organizations and the central silver plants.

The TA was meant to explore the feasibility of and viable options for private sector investment in cluster SPVs. The TA was *effective* since these objectives were met through the intended outputs that were delivered. The TA was *efficient* in delivering the outputs. Despite the delay in recruitment of consultants, the TA was completed with only a three-month delay, and within 70% of the approved budget. The savings were mainly in the cost of consultants, training expenditure and contingencies. The TA is however *unlikely sustainable* because there was no strong business case to be developed further into concepts for ADB support.

#### **Major Lessons**

Traditional industries can make a significant impact in employment and economic growth in rural areas. Their export potential also remains largely unexploited. However, these industries do not have the scale advantages to attract professional manpower, technological innovation, working capital finance, and marketing support. ADB's previous support to the sector through the Khadi Reform and Development Program had identified these limitations, and those lessons would have been useful. Thus, it is important to build on the lessons in previous relevant ADB programs/ TAs for an improved design of a TA.

Traditional industries in India subsist on large subsidies, and are supported by strong vested interests. More fundamental reforms may be necessary before private sector can show interest in investment. This would require strong ownership by the government, including identification of a strong champion for reforms.

Interventions like the provision of a guarantee fund and a pooled CSR fund would enable easier working capital finance to these clusters, and should help them improve their margins. These clusters can also tie-up with large retail chains and e-commerce companies to showcase and sell their products.

#### **Recommendations and Follow-Up Actions**

The sector has a good developmental and gender impact. Continued involvement of ADB with India on structures for MSME sector is important, and can encompass traditional industries in its scope. ADB can also assist through knowledge dissemination and technical assistance.

ADB = Asian Development Bank; CRISIL = Credit Rating Information Services of India Limited; CSR= Corporate Social Responsibility; KVIC = Khadi and Village Industries Commission; MMSME = Ministry of Micro, Small, and Medium Enterprises; OSFMD = Operations Services and Financial Management Division; PPTA = project preparatory technical assistance; SAPF = South Asia Public Management, Financial Sector and Trade Division; SFURTI = Scheme of Fund for Regeneration of Traditional Industries; SPV = special purpose vehicle; TA = technical assistance.

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<sup>3</sup> ADB. 2008. *Khadi Reform and Development Program*. Manila.

## DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Performance
<p><b>Impact</b> Appropriately designed project that supports the government SFURTI program in India</p>	<p>SFURTI project that supports the development of commercially-viable business and product lines approved by the government by June 2017</p>	<p><b>Less than successful.</b> The TA was aligned with Government of India's objective of supporting the SFURTI program and with ADB's strategic agenda on inclusive and sustainable economic growth. However, the market was not ready for private sector participation to address the efficiency and productivity issues in the traditional khadi sector.</p>
<p><b>Outcome</b> A well-prepared business case for a proposed project for SFURTI that reflects gender-based and market-related sector challenges</p>	<p>Concept paper for the ensuing SFURTI project prepared by end of 2015</p>	<p><b>Effective.</b> The outcome was achieved, however the findings of the business case noted that the sector had operational challenges, and concerns on commercial viability and sustainability of interventions without financial support through subsidies, guarantees or pooled CSR mechanism. Therefore, it was concluded that the sector was not conducive for private sector investment in equity or on commercial basis.</p>
<p><b>Outputs</b></p> <ol style="list-style-type: none"> <li>1. Viable options for cluster SPV operations in traditional industries identified</li> <li>2. Studies on cluster SPVs completed</li> </ol>	<p>Gender responsive and traditional rural industry analysis and business plan completed by end of 2015</p> <p>By end of 2015 (for all indicators): Report on PPP initiatives for rural industries completed</p> <p>Financial feasibility studies for rural industries completed</p>	<p><b>Efficient.</b> The intended outputs were delivered efficiently.</p>

ADB = Asian Development Bank, CSR = corporate social responsibility, PPP = public-private partnership, RRP = Report and Recommendation of the President, SFURTI= Scheme for Fund for Regeneration of Traditional Industries, SPV = special purpose vehicle.

Source: Asian Development Bank.