

# INTEGRATED SAFEGUARDS DATA SHEET

## CONCEPT STAGE

**Report No.:** ISDSC1074

**Date ISDS Prepared/Updated:** 05-Dec-2014

**Date ISDS Approved/Disclosed:** 08-Dec-2014

### I. BASIC INFORMATION

#### A. Basic Project Data

<b>Country:</b>	India	<b>Project ID:</b>	P151544
<b>Project Name:</b>	MSME Growth Innovation and Inclusive Finance Project (P151544)		
<b>Task Team Leader:</b>	Niraj Verma		
<b>Estimated Appraisal Date:</b>	05-Jan-2015	<b>Estimated Board Date:</b>	24-Feb-2015
<b>Managing Unit:</b>	GFMDR	<b>Lending Instrument:</b>	Investment Project Financing
<b>Sector(s):</b>	SME Finance (100%)		
<b>Theme(s):</b>	Micro, Small and Medium Enterprise support (80%), Other Financial Sector Development (20%)		
<b>Financing (In USD Million)</b>			
Total Project Cost:	550.00	Total Bank Financing:	500.00
Financing Gap:	0.00		
<b>Financing Source</b>			<b>Amount</b>
Borrower			50.00
International Bank for Reconstruction and Development			500.00
Total			550.00
<b>Environmental Category:</b>	F - Financial Intermediary Assessment		
<b>Is this a Repeater project?</b>	No		

#### B. Project Objectives

16. The proposed PDO is: ‘to improve access to finance of startups and MSMEs in manufacturing and service sectors including through innovative financial products’.

17. By doing so, the project aims to contribute to a broader overarching development objective of fostering inclusive economic growth, including through coverage of low income states and first

generation and other early stage entrepreneurs, and increasing jobs. Funded MSMEs are expected to be formal sector firms.

### **C. Project Description**

The project aims to contribute to a broader overarching development objective of fostering inclusive economic growth, including through coverage of low income states and first generation and other early stage entrepreneurs, and increasing jobs. The PDO is proposed to be achieved through implementation of three project components and a parallel technical assistance (TA):

**Component 1: Spurring early stage finance:** Component 1 will support pioneering early stage debt financing (including angel and venture debt) where angel investment has already been provided. This specifically addresses one of the key recommendations, amongst others, identified in the Mitra Committee (2012) to develop and scale up debt offerings in order to build a pipeline of startups that will contribute to a vibrant entrepreneurial ecosystem in India.

**Component 2: Supporting service sector financing models:** Component 2 will provide funding for direct financing by SIDBI and refinancing to Participating Financial Institutions (PFIs) to introduce new models of financing and financial products that improve the collateral requirements using asset-light models of financing and are hence tailored to the needs of the services sector (for example non fund based products; financing against movable assets).

This component could also support the scale up of financing models to service sector firms through improved credit appraisal criteria. This could leverage industry associations for specific sector knowledge and to reduce information asymmetries and credit risk. Cluster centric financing models based on tested and tried models of cluster financing and development (including through financing links fostered with industry associations) could be explored, building on SIDBI's past experience with industry associations. In addition, a particular focus on franchisee financing would be explored as the franchising industry in India is expected to quadruple between 2012 and 2017 contributing to almost 4 percent of India's GDP in 2017 from a current estimated 1.4 percent of GDP. The industry is also expected to create job opportunities for an additional 11 to 14 million people by 2017, contributing to the overall India's objective of 10-15 million jobs per year for the next decade. If achieved the industry will account for almost 10 percent of the total estimated workforce. Further, scaling up and developing further the existing models of service sector financing that SIDBI has been piloting, will also be supported

**Component 3: Supporting finance to manufacturing MSMEs:** Component 3 will support access to finance of MSMEs in the manufacturing sector, in line with SIDBI new focus on manufacturing. Through (mainly) indirect financing through SIDBI and other financial intermediaries the component will complement bank lending to the sector. By increasing the flow of competitive credit to manufacturing MSMEs, the project will contribute to improved competitiveness of the MSMEs and job creation, in line with the importance accorded to the sector by the GoI.

Models of cluster financing/vendor financing and development could be among the financing models supported under this component. In addition, synergies with banks/institutions that have a predominant presence in identified clusters would be developed. Particular attention will be to expand manufacturing activity in financially underserved areas, including low income states, and in doing so links will be fostered with other sub-national ongoing work.

This component could also facilitate Loan Extension Services to MSMEs. In that light, the lending

activities under this component would be supplemented with Loan Extension Services (LES), where each loan appraisal could go through a quick opportunity assessment for overall improvement of the unit. These services would tap a wide range of improvements including energy efficiency, cleaner production, lean management, and so forth, which would contribute to increase MSMEs competitive advantage.

Parallel technical assistance to PFIs: Efforts will be made to include coordinated financing of technical assistance funds to support capacity building particularly in areas of research and development on early stage financing models and PFI (including SIDBI) capacity building in credit appraisal and new product development. This component will be funded through parallel but coordinated development partner funding from partners – discussions have been initiated with partners such as GiZ (German agency for technical cooperation that was part of the Bank led previous SME financing project with SID BI and currently has an existing TA engagement with SIDBI) and IFC. Support will also be provided for implementation support to SIDBI.

For each component, consultations with banks, industry associations, financing institutions and other stakeholders will be conducted to ensure stakeholder inputs to the project and applicability, as well as to leverage partnerships to maximize scale up.

#### **D. Project location and salient physical characteristics relevant to the safeguard analysis (if known)**

The Project will cover MSME industries across India. Specific locations of these industries will be known once firms are identified by SIDBI as part of project implementation. The project will not support any MSME operations that would result in: (i) land acquisition and displacement of people (loss of assets, loss of livelihoods); (ii) adverse impacts on indigenous people (IP) collectively present and/or attached to the MSME area of operation; and (iii) forced labor or child labor. Hence, land acquisition and physical and economic displacement as well as impacts on IP is not anticipated. Environmentally sensitive locations are not expected to be encountered and the majority of the MSMEs supported under the project are expected to be located in designated industrial zones/areas or in areas where commercial enterprises operate from. Further, a majority of MSMEs under the project are expected to be service sector firms. In any case the sensitivities will be determined as part of project implementation on a case to case basis as part of PFI's on lending appraisal process.

#### **E. Borrowers Institutional Capacity for Safeguard Policies**

The borrower, Small Industries Development Bank of India (SIDBI) in the past has implemented SME Finance and Development Project (SMEFDP) financed by the World Bank. As part of this project, SIDBI has streamlined the safeguards management mechanisms in to lending appraisal mechanisms. In addition, SIDBI has streamlined the environmental credit risk management mechanism in to their lending programs. Through the previous project, SIDBI has also taken credible initiatives to build the capacity of loan officers. As part of the preparation of the current project, the project team will assess the status of SIDBI's capacity in managing safeguards risks.

#### **F. Environmental and Social Safeguards Specialists on the Team**

Sita Ramakrishna Addepalli (GENDR)

Sangeeta Kumari (GSURR)

Varun Singh (GSURR)

## **II. SAFEGUARD POLICIES THAT MIGHT APPLY**

<b>Safeguard Policies</b>	<b>Triggered?</b>	<b>Explanation (Optional)</b>
Environmental Assessment OP/ BP 4.01	Yes	The project is expected to extend the loans to MSME manufacturing sector through SIDBI as the financial intermediary (for both direct and indirect financing with participating financial institutions). The project is expected to cover range of industries which may include polluting industries with environmental impacts. All the industries are located in designated industrial areas (or located where site clearance, consent for establishments is ensured by pollution control boards). The regulatory mechanism has clear mandate on location of industries which prevents industries in natural habitat areas. While these systems are in place to address the environmental impacts, there is a need to address environmental risks from FI perspective. SIDBI already has corporate environmental management systems adopted as part of the previous project (SMEFDP) support by the Bank. The current status of these systems need to be reviewed and fine-tuned to suit the environmental safeguards risk management for the current project. As part of the screening by SIDBI, complying with ESMF provisions (prior to sanctioning sub-loans), will ensure that exclusion of lending for polluting MSME units located near Natural Habitats, critically polluted areas, and any other sensitive ecological areas and reflected in the updated ESMF.
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/ BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	The project will be supporting service and manufacturing enterprises that typically would operate from designated industrial estates/zones across the country or be located in areas where commercial enterprises operate from. The project will not be working with individual(s) or communities but formal sector MSMEs which are the primary beneficiary and stakeholder of this project. The nature, size and specific

		locations of individual MSME sub-projects exclude the possibility of locating them randomly and as such IPs are not found in the sub-project areas. Hence, the project is not anticipated to have impacts on indigenous people, their lands, culture, livelihood or way of life.
Involuntary Resettlement OP/BP 4.12	No	The Project will cover MSME industries across India. Specific locations of these industries will be known once firms are identified by SIDBI as part of project implementation. However, majority of the SMEs supported under the project are expected to be located in designated industrial zones or in areas where commercial enterprises operate from.  No compulsory land acquisition, displacement of people or communities from private or public lands or any negative impacts on livelihoods will be permissible under the project. Hence, land acquisition and physical and economic displacement is not anticipated.
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/BP 7.60	No	

### III. SAFEGUARD PREPARATION PLAN

**A. Tentative target date for preparing the PAD Stage ISDS:** 15-Dec-2014

**B. Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing<sup>1</sup> should be specified in the PAD-stage ISDS:**

In the past, SIDBI as part of “SME Finance and Development Project” financed by the Bank has developed an Environmental and Social Risk Management Framework (ESMF) and has adopted for streamlining SIDBI’s lending processes for addressing the safeguards related risks, as well as other social issues related to labor. As part of the project preparation, the current status of safeguards management will be reviewed including the applicability of old ESMF for the current project. This process would also identify the necessary updates required to meet the current project's safeguards management requirements, including exclusion and screening checklists (land, IPs), implementation capacity and monitoring and reporting systems. SIDBI will share the revised ESMF for Bank’s clearance and disclose it before appraisal.

### IV. APPROVALS

Task Team Leader:	Name: Niraj Verma
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<sup>1</sup> Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.

<b><i>Approved By:</i></b>		
Regional Safeguards Coordinator:	Name: Francis V. Fragano (RSA)	Date: 08-Dec-2014
Practice Manager/ Manager:	Name: Henry K Bagazonzya (PMGR)	Date: 08-Dec-2014