

**INTEGRATED SAFEGUARDS DATA SHEET
APPRAISAL STAGE**

Report No.: ISDSA1147

Date ISDS Prepared/Updated: 26-Dec-2014

Date ISDS Approved/Disclosed: 31-Dec-2014

I. BASIC INFORMATION

1. Basic Project Data

Country:	India	Project ID:	P151544
Project Name:	MSME Growth Innovation and Inclusive Finance Project (P151544)		
Task Team Leader(s):	Niraj Verma,Mihasonirina Andrianaivo,Rosanna Chan		
Estimated Appraisal Date:	30-Dec-2014	Estimated Board Date:	24-Feb-2015
Managing Unit:	GFMDR	Lending Instrument:	Investment Project Financing
Sector(s):	SME Finance (100%)		
Theme(s):	Micro, Small and Medium Enterprise support (80%), Other Financial Sector Development (20%)		
Is this project processed under OP 8.50 (Emergency Recovery) or OP 8.00 (Rapid Response to Crises and Emergencies)?			No
Financing (In USD Million)			
Total Project Cost:	550.00	Total Bank Financing:	500.00
Financing Gap:	0.00		
Financing Source			Amount
Borrower			50.00
International Bank for Reconstruction and Development			500.00
Total			550.00
Environmental Category:	F - Financial Intermediary Assessment		
Is this a Repeater project?	No		

2. Project Development Objective(s)

The project development objective is to improve access to finance of MSMEs in manufacturing and service sectors from early to growth stage, including through innovative financial products.

3. 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.

4. 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.

5. Environmental and Social Safeguards Specialists

Sangeeta Kumari (GSURR)

Sita Ramakrishna Addepalli (GENDR)

Varun Singh (GSURR)

6. Safeguard Policies	Triggered?	Explanation (Optional)
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. The project is expected to cover range of industries which may include polluting industries with environmental impacts. While all the industries considered for sub-loans shall have to comply with environmental regulations, there is a need to address environmental risks from FI perspective. In this regard, the project will follow Environmental and Social Risk Management Framework (ESMF) to as an instrument to minimize the risks.
Natural Habitats OP/BP 4.04	No	SIDBI will ensure that exclusion of lending for polluting MSME units located near Natural Habitats, critically polluted areas, and any other sensitive ecological areas.

Forests OP/BP 4.36	No	The project will not lead to any impacts affecting forests.
Pest Management OP 4.09	No	The project will not finance any activities which would require pest management.
Physical Cultural Resources OP/BP 4.11	No	The potential MSMEs proposed to be financed under the project will be located either in designated industrial areas and/or sites duly consented under different regulations including pollution control. The project will not adversely affect any Physical Cultural Resources.
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	

II. Key Safeguard Policy Issues and Their Management

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

The proposed lending activities under the project would almost be in the brown field units, with few exceptions of green-field projects. In this context, the environmental issues include: (a) the current status of target sectors vis-à-vis environmental performance from the regulatory and reputational risks point of view; (b) the environmental impacts of proposed investments in the form of production scaling up or technology up gradation; and (c) environmental impacts in case of greenfield projects – although the new units under MSME sector can only be established in prior-recognized industrial estates or non-agricultural lands in industrial / commercial areas or naturally developed clusters except for a few service sector projects which could be on commercial properties. These issues, if not ascertained by SIDBI during loan appraisal, could potentially lead to credit, environmental, regulatory, as well as reputational risks. Importance of such issues would vary from credit risk perspective depending on type and nature of MSME sectors vis-à-vis pollution potential. However, potential large scale and/or significant environmental impacts are not expected.

No safeguard issues associated with compulsory acquisition/transfer of land, economic displacement of people or impacts on IPs (scheduled tribes) are anticipated. Project strategies will result in improved opportunities, awareness, networking and financing for women entrepreneurs in the start up, manufacturing and service sectors MSMEs. Implementation of ESMF capacity building interventions will improve awareness of social legislations applicable to the MSME sector, especially those related to workers health, safety and hygiene, and child labor.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:

Potential indirect and/or long term impacts are not expected due to the proposed on lending activities under the project.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.

The project is expected to support sub-loans to MSMEs through the Financial Intermediary. As part of the project design, relevant care has been factored to screen the sub-loans to minimize risks and/or adverse impacts.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.

As part of project preparation, SIDBI has reviewed the applicability of its Environmental and Social Risk Management Framework (ESMF) which was developed for the now completed SME Finance and Development Project (SMEFDP) financed by the Bank. Leveraging the past experience, SIDBI confirmed the safeguards management for the current project through a risk based approach by updating the ESMF. The key components of the updated ESMF include: (a) identification and preparation of positive list of MSME sectors with reference to their respective pollution potential and environmental regulatory requirements in to three risk categories – low, medium, and high; (b) defining the environmental due diligence as well as management requirements for each risk category; (c) integration of these requirements in to SIDBI's credit risk management; and (d) implementation, monitoring and supervision support including institutional capacity aspects.

Further, the updated ESMF also internalized: (a) waste minimization, pollution prevention, and cleaner production approaches; (b) environmental assessment provisions; (c) occupational health and safety aspects. The limitations noted as part of updating the ESMF include: (a) many of the environmental management retrofits may not be feasible as the project will be mostly covering

brown field units with less than one percent of greenfield units in the project portfolio; (b) while the loan processing will include Loan Extension Services as part of the TA to promote cleaner production and energy efficiency, it would not be practically plausible to confirm to WBG emission guidelines; and (c) limitations of WBG's EHS guidelines, especially in the context of lower order of production levels which are much less than the threshold levels defined under EHS guidelines.

SIDBI in the past, as part of implementation of SMEFD Project has adequately streamlined the business processes to integrate safeguards management in to credit risk management mechanisms. As a result, the relevant measures are built in to the regular lending procedures including loan application processing, risk assessment, appraisal and loan sanction process, loan disbursement and portfolio management. The overall implementation and coordination will be managed by a SIDBI officer supported by an E&S specialist (ESS). To facilitate project implementation a detailed Operations Manual (OM) is being prepared. The OM includes details on the implementation arrangements, including the principles of the appraisal processes that will be followed, fiduciary and safeguards arrangements (which are also defined in the ESMF), etc.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

MSMEs in the manufacturing and services sector will be the primary beneficiaries and stakeholders of the Project. In addition, SIDBI and the PFIs will be beneficiaries of the accompanying technical assistance to support their capacity and growth into the financing activities that the project supports. For each component, consultations with banks, industry associations, financing institutions and other stakeholders has been conducted to ensure stakeholder inputs to the project and applicability, as well as to leverage partnerships to maximize scale up.

Draft ESMF has been disclosed on SIDBI's website and to its field regional offices for discussion and feedback. SIDBI has taken feedback on the ESMF from its field offices and stakeholders in finalizing the ESMF. Awareness building activities on ESMF would be conducted in regional offices and SME clusters.

B. Disclosure Requirements

Environmental Assessment/Audit/Management Plan/Other	
Date of receipt by the Bank	12-Dec-2014
Date of submission to InfoShop	29-Dec-2014
For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors	
"In country" Disclosure	
India	15-Dec-2014
<i>Comments:</i>	
If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP.	
If in-country disclosure of any of the above documents is not expected, please explain why:	

C. Compliance Monitoring Indicators at the Corporate Level

OP/BP/GP 4.01 - Environment Assessment	
Does the project require a stand-alone EA (including EMP) report?	Yes [] No [<input checked="" type="checkbox"/>] NA []
The World Bank Policy on Disclosure of Information	
Have relevant safeguard policies documents been sent to the World Bank's Infoshop?	Yes [<input checked="" type="checkbox"/>] No [] NA []
Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?	Yes [<input checked="" type="checkbox"/>] No [] NA []
All Safeguard Policies	
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes [<input checked="" type="checkbox"/>] No [] NA []
Have costs related to safeguard policy measures been included in the project cost?	Yes [<input checked="" type="checkbox"/>] No [] NA []
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes [<input checked="" type="checkbox"/>] No [] NA []
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes [<input checked="" type="checkbox"/>] No [] NA []

III. APPROVALS

Task Team Leader(s):	Name: Niraj Verma, Mihasonirina Andrianaivo, Rosanna Chan	
Approved By		
Regional Safeguards Advisor:	Name: Francis V. Fragano (RSA)	Date: 31-Dec-2014
Practice Manager/Manager:	Name: Thyra A. Riley (PMGR)	Date: 31-Dec-2014