



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 07-Apr-2022 | Report No: PIDC33854



BASIC INFORMATION

A. Basic Project Data

Country India	Project ID P177985	Project Name Catalyzing Private Financing for Sustainable Recovery and Growth (P177985)	Parent Project ID (if any)
Region SOUTH ASIA	Estimated Board Date Jun 29, 2022	Practice Area (Lead) Finance, Competitiveness and Innovation	Financing Instrument Development Policy Financing
Borrower(s) Republic of India	Implementing Agency Department of Financial Services, Ministry of Finance.		

Proposed Development Objective(s)

To catalyze sustainable private sector financing for India’s economy, with the focus on infrastructure and MSMEs.

Financing (in US\$, Millions)

SUMMARY

Total Financing	750.00
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DETAILS

Total World Bank Group Financing	750.00
World Bank Lending	750.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

India’s ability to rebound from the pandemic and to realize its ambitious growth targets depends on having a deep



and efficient financial system, capable of meeting the country's large investment needs and catalyzing inclusive and sustainable growth. Over the past several years the Government of India (GoI) has pursued a reform agenda with the goal of strengthening capital markets to attract long-term financing, increasing the efficiency and stability of the financial sector, and deepening financial inclusion. The GoI reforms in the capital market space include enabling new financing instruments, streamlining the regulatory environment to enable capital market liquidity, and attracting institutional investors to finance India's development needs. The GoI has also been making efforts to ensure that the financial sector is more efficient and resilient through the continued restructuring of Public Sector Bank (PSBs), strengthening the oversight of non-bank financing companies (NBFCs), and taking measures to address Non-Performing Assets (NPAs). To make the financial sector more inclusive, a series of steps have been taken to enhance access to finance for Micro, Small & Medium Enterprises (MSMEs) and households (especially women), including enabling fintech providers and de-risking lending.

Despite these reform initiatives, there are substantial – and increasing - financing gaps that still exist. Credit growth has been declining since 2019, with the trend worsened by the impact of the pandemic. MSME credit has been particularly affected, declining by 2.6 percent in September 2021 (YoY), as compared to 7.1 percent growth in March 2019. The share of private sector finance of infrastructure has been falling, from 37 percent of total infrastructure financing in 2008 to 25 percent in 2019, while the annual infrastructure finance gap in India is estimated at 4 percent of GDP.

India is one of the most vulnerable countries to climate change. The Global Climate Risk Index 2021 ranks India as the 7th most impacted nation. The country is expected to experience increasing climate variability with hazards such as floods, droughts, cyclones, etc. projected to increase in frequency and intensity, which will adversely impact human development, economic growth, and resources. The mounting impacts of climate change also pose substantial risks to the financial system's stability and could lead to massive economic losses, including losses incurred by MSMEs and damages to infrastructure. Thus, any investments in enhancing finance for development must account for the impacts of climate change and ensure mitigation of such impacts.

Mobilizing green and resilient financing is a high priority for India's financial sector, and the commitment to issue sovereign green bonds to mobilize resources for green infrastructure is an important part of this strategy. Sustainable infrastructure development is at the center of the GoI's current program, as the sector is considered critical to achieve India's growth ambitions. The setting up and capitalization of a new national Development Financial Institution (DFI) to catalyze infrastructure financing, the launch of the Gati Shakti scheme to create a digital platform promising integrated planning across ministries, and the issuance of India's first sovereign green bond reflect this focus.

The GoI is taking measures to support the important MSME sector, and in particular women owned MSMEs which were disproportionately impacted by COVID-19. Since the onset of the pandemic, the GoI has taken extensive policy measures to ensure that the MSME sector can recover from the challenges posed by COVID-19. The operations of existing Credit Guarantee Trust for MSEs (CGTMSE) were expanded and the new Emergency Credit Line Guarantee Scheme (ECLGS) was launched in 2020. These measures are being revamped and expanded further, to support MSMEs in the recovery phase. The government also established a dedicated credit guarantee scheme for MFIs, to encourage on-lending to small borrowers (mostly women), affected by the pandemic.

Relationship to CPF

The DPL is aligned with the key objectives identified in the WBG FY18-22 Country Partnership Framework (CPF). The operation contributes to the Pillar 1 "Resource Efficient Growth" and the Pillar 2 "Enhancing Competitiveness and Enabling Job Creation" by enabling an ecosystem where the critical sectors of Infrastructure and MSMEs will be able to



thrive and lead to more employment generation. In addition, the DPL will support the de-risking of commercial investments in sustainable projects, innovative products such as green bonds, and strengthening of ESG frameworks.

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Key Results

The targeted results of the Pillar 1 are: (i) launch of a credit enhancement product by National Bank for Financing Infrastructure & Development (NaBFID); (ii) increase in bond issuance in the infrastructure sector; (iii) mobilization of private financing for infrastructure through higher volumes of units issued by National Highway Authority of India (NHAI) Infrastructure Investment Trust (InvIT); and (iv) increase in volume of Residential Mortgage-Backed Securities (RMBS) transactions, supporting housing finance. **The targeted result of Pillar 2** is the increase in volume of sovereign green bond issuance. And the **targeted results of Pillar 3** are an increase in volume of guarantee covers under credit guarantee schemes, increase in volume of guarantee covers under credit guarantee schemes towards loan accounts of women entrepreneurs, and total lending by the micro-finance institutions (MFI) sector to MSMEs, including women-owned MSMEs.

Concept Description

The operation supports the Gol's reform program in three broad areas: i) Catalyzing long-term private sector financing for India's infrastructure and housing needs; ii) Enhancing the financial sector's ability to mobilize green financing; and iii) Enabling access to credit for MSMEs, including women entrepreneurs, through risk sharing mechanisms. The DPL is a continuation of the World Bank's support to the critical sectors provided under the Emergency MSME Response DPL (2020) and the Raising and Accelerating MSME Productivity (RAMP) project (approved in 2021). Overall, the policy package supported by this DPL will be pivotal to sustaining India's post-COVID-19 recovery, and also ensuring that sustainable financing for infrastructure and MSMEs translates into growth and job creation.

Under Pillar 1, prior actions support the Gol in catalyzing long term private sector finance, namely by: (i) Capitalizing and operationalizing the newly set up NaBFID to enable it to effectively leverage private sector financing to help close the infrastructure gap in India and support India's ambitious infrastructure plans (ii) leveraging private sector financing and enhancing efficiency through the National Monetization Pipeline (NMP) to finance infrastructure investments including under the National Infrastructure Pipeline (NIP), as well as launching innovative instruments such as InvITs. (iii) Enhancing access to sustainable long term funding to housing finance companies and others (in particular for affordable housing) through securitization, by issuing revised guidelines on securitization that incentivize mortgage securitization, and the launch of a securitization platform to increase volume of issuances and investor participation, with the broader goal of supporting the government's Housing for All agenda.

Under Pillar 2, prior actions support development of the markets for green finance by: (i) supporting issuance of the sovereign green bonds and (ii) enhancement of the Environment, Social, and Governance (ESG) disclosure framework for top 1,000 listed companies, mutual funds, and rating agencies.

Under Pillar 3, prior actions support improving access to credit for MSMEs and women entrepreneurs by: (i) revamping the CGTMSE scheme to expand coverage and channel additional credit of Rs. 2 trillion to MSMEs over the next few years.; (ii) facilitating additional lending of up to Rs. 500 billion by March 2023 to sectors most affected by successive waves of Covid; and (iii) implementation of a new credit guarantee scheme for micro-finance institutions.



Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

The PSIA for this project will have quantitative and qualitative components to examine the welfare impact of credit provision to MSMEs and their employees in response to COVID-19. Under Pillar 3 of the DPL the policy actions aim to preserve flows of finance to MSMEs during Covid-19 and lay foundations for a stronger financing ecosystem as India shifts to the recovery phase. The quantitative analysis assesses retrospectively how the impact of the nation-wide lockdowns implemented at the onset of the pandemic on business income and consumption, and assesses whether MSMEs that received financing through the Gol’s credit guarantee schemes, and their employees, were able to maintain higher levels of private consumption and examine whether the effects of credit were heterogeneous depending on the types of MSME. The qualitative component will be based on stakeholder engagement and consultations with relevant stakeholders.

Environmental, Forests, and Other Natural Resource Aspects

The reforms supported under the DPL are expected to have positive effects on the country’s environment and natural resources. Under Pillar 1, PA1 and PA2 are expected to facilitate the unlocking of capital in support of COP26 and NDC commitments, leading to positive environmental effects. However, there might be indirect environmental effects, including on forests as a result of some of the downstream infrastructure investments that are currently not covered under GOI EIA policy. Under Pillar 2, issuing Indian sovereign green bonds would increase opportunities for institutional investors to support climate-smart investments. Moreover, enhanced ESG disclosure guidelines for companies and MFs will enable the financial sector to attract more capital towards sustainable goals and support regulators in introducing green finance taxonomy consistent with global standards. Under Pillar 3, considering the MSME sector compliance with regulatory framework is moderate, there could be low negative environmental impacts.

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APPROVAL

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