Report Number: ICRR0021915

1. Project Data

Project ID P151544	**Project Name** MSME Innovation and Inclusion Project	
Country India	**Practice Area(Lead)** Finance, Competitiveness and Innovation	
L/C/TF Number(s) IBRD-84710	**Closing Date (Original)** 31-Mar-2020	**Total Project Cost (USD)** 265,375,414.54
Bank Approval Date 24-Feb-2015	**Closing Date (Actual)** 31-Mar-2019	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	500,000,000.00	0.00
Revised Commitment	265,375,414.54	0.00
Actual	265,375,414.54	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Project Objectives and Components

a. Objectives

The single project development objective was "to improve access to finance of Micro, Small and Medium Enterprises (MSMEs) in manufacturing and service sectors from early to growth stage, including through innovative financial products" [Loan Agreement (LA), p.5]. The statement of the project objective in the Project appraisal Document (PAD) on p.5 is identical, and remained unchanged throughout the period of project implementation.

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Will a split evaluation be undertaken?

No

d. Components

Component 1: Spurring Early Stage and Risk Capital Financing (appraisal cost estimate of US$163.6 million, of which US$148.7 million was IBRD loan, actual IBRD loan of US$27.55 million). This component was designed to support early stage debt (startup and venture debt) and risk capital financing to MSMEs. Around a third of the component was expected to be utilized for debt financing to startups and early stage MSMEs, while two thirds of the component was to be utilized for risk capital financing to MSMEs, including supporting innovative risk capital products such as mezzanine debt capital.

Component 2: Supporting Service Sector Financing Models (appraisal cost estimate of US$220 million, of which US$200 million was IBRD loan, actual IBRD loan of US$109.97 million). This component aimed to support products offered by Small Industries Development Bank of India (SIDBI) and Participating Financial institutions (PFIs) tailored for the service sector. The component included (i) the introduction and scale-up of innovative models of financing with customized appraisal parameters that relied on business viability and cash flow assessments, and the support of innovative products such as asset-light loans and franchisee financing.

Component 3: Supporting Finance to Manufacturing MSMEs (appraisal cost estimate of US$165 million, of which US$150 million was IBRD loan, actual IBRD loan of US$154.40 million). This component aimed to support various manufacturing sector MSME financing products, including support to sustainable improvements in manufacturing MSMEs through loan extension services and pilots of cluster financing.

Parallel Technical Assistance (TA), (appraisal cost estimate of US$5 million, actual IBRD loan unknown): The integrated TA was designed to support implementation of the three components and achievement of the PDO. It was to support SIDBI and the PFIs in the development of innovative financial products, services and partnerships targeting underserved MSMEs, including leveraging digital finance models. The TA also included various capacity building activities such as strengthening the credit appraisal methods of SIDBI and PFIs, and support to a beneficiary survey and communication and dissemination efforts.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

- **Cost:** The total project cost estimated at appraisal was US$550.0 million, with actual project disbursed amount of US$291.91 million, or 53 percent of the approved amount. (ICR, page 2 of Data Sheets and Annex 3, page 48)
- **Financing:** The project was funded by an IBRD loan of US$500.0 million. However, only US$291.91 million was disbursed, with the undisbursed balance cancelled, as the loan lost its competitiveness on the domestic financial market.

- **Borrower Contribution:** The Borrower commitment at appraisal was in the amount of US$50.0 million, and the IBRD loan was guaranteed by the Government of India. Disbursed Borrower contribution amount is unknown.
- **Dates:** The project was approved on February 24, 2015 and made effective on June 26, 2015. The project was restructured and closed on March 31, 2019, due to the cancellation of the undisbursed portion of the loan, ahead of the initial closing date set on March 31, 2020,

3. Relevance of Objectives

Rationale

The Project Development Objective (PDO) was in line with the country's priorities and the Bank's Country Partnership Strategy (CPS). The Five-Year Plan of India (2012-17) identified the critical role of MSMEs in supporting sustained growth and job creation, and recognized the urgent need to improve their access to finance. The project was in line with the CPS (FY13-17) and contributed to the first area of engagement - integration - by increasing access to finance for MSMEs, particularly in manufacturing, and contributing to the sector's growth, and to the third area of engagement - inclusion-.

The PDO was still in congruence with the World Bank's Country Partnership Framework (CPF) FY18-22 at project closure. The project directly supported the second focus area of the CPF, "Enhancing Competitiveness and Enabling Job Creation," whose key objective was to "increase resilience of the financial sector and financial inclusion" by providing financing and technical assistance to facilitate funding to underserved MSMEs. The project also indirectly contributed to the first CPF focus area, "Promoting Resource Efficient Growth," by providing MSMEs with necessary capital to improve the efficiency of their production processes. The 2018 Systematic Country Diagnostic (SCD, 2018) put Indian MSMEs at the center stage of sustained economic growth and creation of well-paid jobs. Outstanding MSME loans were still low by middle-income country standards, and the MSME financing gap was still a key barrier to MSMEs expansion and job creation. Access to credit was central to the Indian authorities, and the 2019 Report of the Expert Committee on MSMEs from the Reserve Bank of India (RBI) identified high risks, high operational cost, and low access as the main barriers to MSME financing (ICR, para 14). Given the enormity of the MSMEs' financing needs, the appropriate approach to address the issue was to provide credit to MSMEs through a mix of risk capital, debt, and innovative financing resources."

The project aimed to improve access to finance by addressing challenges facing the underserved MSMEs. Entrepreneurship and business creation by MSMEs were especially crucial for large-scale employment generation and productivity growth. The growth of the MSME sector had been severely constrained by lack of access to finance. It was estimated that about 87 percent of MSMEs did not have access to finance and were self-financed. Financial institutions limited their exposure to the sector due to a perceived high level of risk, information asymmetries, high transaction costs and the lack of collateral. Bank loans to MSMEs represented only 15 percent of all bank loans, and MSMEs lacked alternative sources of financing. These financial constraints hampered the competitiveness of MSMEs and slowed job creation and economic growth. The project aimed to address the challenges faced by underserved segments, including the early stage and startups MSMEs in the services and manufacturing sectors.

Rating
Substantial

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective
To improve access to finance of MSMEs in manufacturing and service sectors from early to growth stage, including through innovative financial products.

Rationale
Theory of change

At appraisal, there was no explicit theory of change, but at the ICR phase, the project team constructed one that can be summarized as follows:

- The approach was to use innovative lending methods to reach underserved MSMEs, and create a demonstration effect in the wider economy;
- The expected outputs arising from the project activities included: (a) enhanced credit appraisal methods and procedures, (b) the launching of innovative financial products and partnerships, and (c) the delivery of a large number of credits to MSMEs;
- The project's results chain was built on the assumption that delivering credit to MSMEs operating in the service and manufacturing sectors and providing parallel technical assistance supporting the development of new financial products would lead to improved access to finance by MSMEs;
- Prior to this project, the Government of India had initiated The Fund of Funds for Startups (FFS) to support and boost the startups for economic and innovative developments. The FFS intended to disburse INR100 billion indirectly to startups (US$1.5 billion) by 2025. SIDBI was operating as the Fund manager for the FFS, with the funding provided by the Government of India. The ICR did not factor in as a project achievement the private sector financing that was crowded in using FFS resources and thus was not considered as an outcome of this operation;
- The expected long-term outcome would be an increased support to firm growth and job creation.

Project's efficacy is portrayed by the outputs generated by the project and the direct and indirect oucomes achieved as summarized below**:**

Outputs

<u>Fully Achieved</u>:

- Key outputs related to early stage and risk capital financing were: (i) a strategy and blueprint to "augment SIDBI's roles in the startup to growth stage segment was prepared; (ii) extensive implementation support aimed to produce a comprehensive end to end automated process for the Fund of Funds for Startups (FFS) operation, (iii) tailored marketing campaigns and analytical work were conducted to inform the operation of the FFS, and (iv) SIDBI’s Startup Mitra portal, an automated loan-origination platform exclusively for startups, and the portal registered more than 13,925 startups, 121 incubators and 92 investors as of October 2018;

- Key outputs in the service and manufacturing sector financing were: (i) the Udyami Mitra (UM) portal, a digital MSME lending aggregator and matchmaking platform was launched; (ii) 151 eligible lenders, including commercial banks, Small Finance Banks (SFBs), Non-bank Financial Companies (NBFCs) and fintech companies, as well as more than 250,000 MSMEs, were on the platform together with certified credit counselors, credit bureaus and MSME assistance agencies, and (iii) a contactless lending platform built on the learning from the UM portal and was launched in 2018;
- Innovative products and partnerships were launched and scaled up by SIDBI and will be further replicated by other financial institutions to improve access to finance. SIDBI improved its working capital facility, including quicker processing and multiple collateral options, through a single window for customers. SIDBI also piloted a co-lending scheme with the SFBs to provide term loans to underserved micro and small enterprises in areas where SIDBI previously could reach, as well as a trade finance scheme for retailers and wholesalers;
- Products tailored to underserved MSMEs such as franchises, MSME vendors and MSME dealers were designed, along with capacity building to carry out the transactions. Franchisee financing, supply chain financing with automated solutions and securitization are in the pipeline and ready to be piloted as soon as market conditions improve. Co-lending schemes with NBFCs are also currently being further developed, based on initial inputs to the schemes by the project;
- Credit appraisal methods in the service sector have benefited from the training on cash flow-based lending for asset light business, end-to-end process enhancement and the digital lending platforms including the Udyami Mitra portal and the contactless lending;
- Three schemes/products were introduced under the manufacturing sector against a target of 4 as follows: (i) SIDBI Loan for Purchase of Equipment for Enterprise (SPEED), (ii) SMILE Equipment Finance SPEED, and (iii) co-lending model with Small Finance Banks;
- While no formal schemes dedicated to women were introduced (against a target of 2 schemes), 19 percent of the MSMEs end beneficiaries under the World Bank credit line were women-owned/managed MSMEs, 4 percentage points higher than the average in SIDBI's portfolio and almost twice larger than the 11 percent share of women-owned/managed MSMEs in India;
- The target for SIDBI and PFI officials trained (cumulative and by gender) was exceeded, reaching 342 against a target of 150, and trainings include sessions on early stage and risk capital financing and cash flow-based financing for asset light business in service sector;
- The target for improved collaboration for information sharing with external partners was achieved, as new partnerships including the co-lending scheme with Small Finance Banks and partnerships with Original Equipment Manufacturers were established, and enhancement to digital lending platforms including the Udyami Mitra portal and the contactless lending platform were undertaken with Project support to facilitate information sharing between SIDBI and external partners.

- ***Partially achieved:***

- The number of total MSMEs extended risk capital under the credit line was partially achieved, reaching 82 against a target of 260 and a baseline of 0, because SIDBI's direct lending towards early stage and risk capital financing was suspended by the SIDBI management following the decision to support the early stage and risk capital financing ecosystem mainly through the FFS;

- The target for the total service sector MSMEs under the credit line was partially achieved, reaching 175 against a target of 300, and a baseline of 0, as the increasing cost of SIDBI's foreign exchange borrowing including the IBRD loan slowed disbursement since Year 3;
- The target of the number of women-owned or managed MSME beneficiaries under the credit line was partially achieved, reaching 205 against a target of 325, as the increasing cost of SIDBI's foreign exchange borrowing including the IBRD loan slowed disbursement since Year 3 of Project implementation;
- The target of MSMEs (other than early stage) in Low Income States benefitting from the line of credit was partially achieved, reaching 201 against a target of 320, as the increasing cost of SIDBI's foreign exchange borrowing including the IBRD loan slowed disbursement since Year 3 of Project implementation;
- The target for the volume of disbursed amount from the lines of credit to SME was partially achieved, reaching a disbursement ratio of 53 percent. The closure target was US$425 million, or 85 percent of the US$500 million IBRD loan. Disbursement was fast in the first two years of the Project, but volatile foreign exchange rate market, ample domestic liquidity, and increasing concessional funding sources from the Government of India to SIDBI made the cost of the foreign exchange commercial borrowing including the IBRD financing unattractive.

Not Achieved:

- No MSMEs benefitted from loan extension services because disbursement under this sub-component was curtailed partly due to the slow disbursement since year 3 and early cancellation of undisbursed balance;
- The indicator for the total number of PFIs supported under the credit line was missed (none against a target of 8) as the World Bank credit line was disbursed through SIDBI's direct lending business;
- The volume of loans extended to MSMEs using innovative methods including franchising finance under the credit line was missed, as innovative lending methods were still being developed in the early years of Project implementation. As these new lending methods materialized and market conditions changed, the World Bank funding became too costly, disbursement slowed and the undisbursed balance was cancelled, reducing the capacity for the Project team to quickly expand lending using these innovative tools through World Bank financing.

Outcome

Direct outcomes from the credit line support

- An in-principle approval can be issued to approved borrowers within 59 minutes of the online loan application, and MSMEs can choose the most cost-effective loan from a list of financial institutions that provide in-principle approvals. The loan can be sanctioned/disbursed within 5-7 working days after in-principle approval;
- The average time for processing credit for startups in SIDBI's direct lending business was cut in half in the early years of the Project, reached 2.89 months against a target of 1 month, and a baseline of 6 months, but progress was interrupted as the lending towards early stage and risk capital financing was suspended by SIDBI management following the decision to focus more on indirect lending through the Fund of Funds for Startups;

- The target for the total number of MSMEs beneficiaries under the credit line was significantly achieved at 80 percent of the closing date target, reaching 1,061 against a target of 1,320. The increasing cost of the foreign exchange borrowing by SIDBI including the IBRD loan led to slow disbursement since Year 3 of project implementation;
- The target for the outstanding MSME loan portfolio in risk capital financing including startups at the closing date was achieved at 24 percent of the target, reaching US$61.53 million against a target of target is US$260 million. This indicator only captures SIDBI's direct lending towards the early stage / startup sector and does not include funding disbursed to start-ups by the Fund of Funds for Startups (FFS) in the amount of US$258 million by June 2019;
- The target for the outstanding MSME loan portfolio in the service sector was achieved at 19 percent of the closing date target. This indicator only captures SIDBI's direct lending towards the service sector and does not include SIDBI's indirect lending business as well as the private sector financing crowded-in through the digital lending platforms. The indicator fell below the target because (i) SIDBI's direct lending increasingly focused on the manufacturing sector given the concessional funding for the SIDBI Make in India Loan for Enterprise (SMILE) scheme, which provided the majority funding for SIDBI's direct lending business and in line with the GoI's Make in India vision, and (ii) new lending tools were being developed in the early years of project implementation.
- The target for the outstanding MSME loan portfolio in the manufacturing sector was significantly achieved at 92 percent of the closing date target, reaching US$946.15 million against a target of US$1033.00 million, and a baseline of US$497.00 million. This indicator only captures lending in SIDBI's direct lending business and does not include SIDBI's indirect lending as well as private sector financing crowded in through the digital lending platforms;
- The target for the turnover of startups supported through the project was achieved at 52 percent of the closing date target. This indicator was deemed to be not useful during Project implementation as it incentivizes lending to larger firms;

Indirect outcomes from the FFS

Following the fluctuations on the domestic and international financial markets, the conditions of the World Bank's credit line were no longer competitive, and the undisbursed balance was canceled. Using cheaper Government's resources and the new lending tools that were developed in the early years of project implementation, the private sector was crowded in using the FFS, and the outcomes below were achieved:

- The FFS invested up to 35 percent in alternative investment funds (AIFs), grew quickly under project support, with outstanding disbursement to 48 AIFs at US$480 million by June 2019, up from 26 AIFs and around US$200 million one year earlier. More than half of the funds (INR 16.8 billion, US$258 million) had benefited 251 startups as of June 2019. Industry stakeholders have recognized the strong crowding-in effect of the FFS, with many private investors considering the FFS as the “anchor” investor and only followed FFS to invest in the AIFs.
- The project supported SIDBI’s pioneering Udyami Mitra (UM) digital portal, and the learning from the UM portal has crowded in US$1.9 billion of private sector financing for MSMEs with a reduction in turnaround time and credit cost. By June 2019, 151 eligible lenders, including commercial banks, SFBs, NBFCs and fintech companies, as well as more than 250,000 MSMEs, were on the platform together with certified credit counselors, credit bureaus and MSME assistance agencies;
- By June 2019, 45,265 new loans, worth INR 127 billion (US$1.9 billion), have been sanctioned on the contactless lending platform, making it the largest online lender in India. The contactless lending

platform enabled more efficient matching between lenders and MSME borrowers and significantly reduced turnaround time and credit cost, leveraging fintech solutions and data analytics tools.

Rating
Modest

OVERALL EFFICACY

Rationale

Fully and partially achieved outputs supported by this operation contributed significantly to the transformation of the landscape of the financial infrastructure supporting the access to finance by MSMEs. Direct outcomes of the operation were substantive in the following areas: (i) significant time reduction in loan approval and processing of credit for startups, (ii) the number of MSMES beneficiaries under the credit line, and (iii) the outstanding MSMEs loan portfolio in the manufacturing sector. However, key outcomes were missed including (i) the outstanding MSME loan portfolio in risk capital financing including startups, (ii) the outstanding MSME loan portfolio in the service sector.

The significant change in the domestic financial market that made the credit line resources unattractive and the cancellation of the undisbursed amount should be considered as a case of *force majeure,* and caused underperformance in achieving three important outcomes related to (i) the outstanding MSME loan portfolio in risk capital financing including startups, (ii) the outstanding MSME loan portfolio in the service sector, and (iii) the turnover of startups supported through the project.

Partly reflecting the results achieved during the first years of project implementation, indirect outcomes were achieved and could make up for the above-mentioned missed outcomes as follows: (i) the FFS disbursed US$480 million to 48 Alternative Investment Funds (AIFs) by June 2019, and more than half of the funds had benefited 251 startups as of June 2019; (ii) the project supported SIDBI's pioneering Udyami Mitra (UM) digital portal, and the learning from the UM portal has crowded in private sector financing for MSMEs with a reduction in turnaround time and credit cost, and (iii) the contactless lending platform launched in the context of FFS's support enabled more efficient matching between lenders and MSME borrowers and significantly reduced turnaround time and credit cost, leveraging fintech solutions and data analytics tools. However, the attribution of the indirect outcomes to the project was not established in the ICR write-up.

In all, the overall efficacy of the project is rated as Modest, due to the fact that key outcomes identified at appraisal were missed.

Overall Efficacy Rating **Primary Reason**

Modest	Insufficient evidence

5. Efficiency

Economic efficiency: Overall, the assumptions and methodology used to calculate the project's economic efficiency were sound, and the results feasible.The economic analysis compared the projected value addition to MSMEs under the project to the counterfactual firm performance without the project. The economic model estimated the direct benefits of project financing through the increased turnover and the value added of MSMEs and compared it to the case where the limited access to finance constrains the firm's growth. The internal rate of return (IRR) for the early stage and risk capital financing was low at 7 percent, following the largely slow disbursement for this component. The IRR for the services sector financing reached 23 percent, as the disbursement was fast in the early years of the project, allowing firms to grow quickly early on. The IRR for the manufacturing sector was the highest at 32 percent, as more than 90 percent of the allocated funds were disbursed in the first two years of the project. Computing together the IRR for the three components, the overall IRR was estimated at 20 percent.

Implementation and admnistrative efficiency: Despite the early partial cancellation of the loan due to changes in market conditions, the credit line succeeded to reach out to the targeted underserved segments, through the implementation of innovative lending methods and the crowding-in of finance from the private sector. SIDBI launched the contactless lending platform, which has become the largest online lending marketplace for MSMEs in India. Existing lending practices were improved and new products and partnerships were implemented to bring finance to underserved MSMEs**.** On the low side, frequent changes in SIDBI PIU staff and top management led to delays in certain key decisions, including the extent and scope of the project restructuring.

Overall, as indicated in the ICR (paragraph 27), "while the project improved access to finance for targeted underserved MSMEs and supported SIDBI in implementing innovative lending methods and crowding-in private sector financing, the partial cancellation of the financing component, albeit due to changes in market conditions, as well as the frequent organization changes in SIDBI, reduced the efficiency of the project, leading to a Modest rating."

Efficiency Rating

Modest

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal	✓	26.00	100.00 ☐ Not Applicable

ICR Estimate	✓	20.00	53.00 ☐ Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The relevance of objective was substantial given its congruence with the country's priorities and the strategies of the World Bank in India. Efficacy was modest: while the project generated directly achieved outcomes, the attribution of the indirect outcomes resulting from the crowded-in finance from the private sector using the project's financial instruments and platforms was not established in the ICR. Efficiency was modest, resulting in a moderately unsatisfactory rating of the overall project outcome.

a. Outcome Rating

Moderately Unsatisfactory

7. Risk to Development Outcome

There are two major risks to development outcome as detailed below:

(i) Asset quality and inadequate risk management: The ICR (paragraph 50) reported that "the gross NPL ratio in the India banking sector rose from 4.3 percent in 2015 to 11.2 percent in 2018". If not properly addressed, the fast-increasing NPL ratio and the deteriorating asset quality in the banking sector could result in banks and financial institutions markedly slowing down lending, thus reducing the availability of private sector financing for MSMEs. The deterioration in asset quality and inadequate risk management measures imposed some risk to project outcomes.

(ii) Sustainability and viability of MSMEs: The project's outcomes will be sustained only if the beneficiary MSMEs remain viable and profitable in the long run. While new financial instruments and platforms were designed and brought to bear in expanding finance to the MSMEs, similar or parallel efforts to strengthen the business environment of the MSMEs performance and viability were not as successful. For instance, while the Doing Business ranking of India did improve from the 100th rank in 2018 to 63th in 2019 out of 190 economies, there are areas whereby India is still lagging behind like (i) enforcing a contract (159th), registering property (154th) and (iii) starting a business (136th). Outcomes achieved under this operation will be maintained if the business environment is progressively favorable to MSMEs.

8. Assessment of Bank Performance

a. Quality-at-Entry

The project's design combined a credit line and technical assistance, in application of lessons learned from other lines of credit and previous IBRD operations jointly implemented with the apex financial institution (SIDBI). The project team relied on trust funds from the FIRST and IFC to support the integrated TA. The significant gap in debt financing for early stage and risk capital financing was identified through analytical work and market consultations, and the project design hence focused on the gap in debt financing to the early stage segment. Such design was also motivated by SIDBI's comparative advantage in debt financing.

The project's design leveraged SIDBI's role as the apex development bank in India to oversee project implementation. SIDBI was well positioned to develop and demonstrate new products and markets, and create new ways to reach underserved segments and crowd-in private sector financing. To maximize outcomes, the project design targeted a wide range of underserved MSMEs in the early stage in the service and manufacturing sectors. Through analytical work and market consultations with stakeholders, the WB team identified underserved MSMEs in the above sectors and underlying market failures. Given the wide focus, the project also left certain flexibility as to the exact products in order to better align with SIDBI's evolving strategic priorities and to allow for testing and piloting (ICR, p.26-27).

Economic and financial analyses were carried out during project appraisal, and singled out the growth benefits for MSMEs in comparison with the counterfactual without project. Financial analyses included a financial review of the apex financial institution, and several commercial banks and participating institutions which passed the eligibility test under the World Bank Policy OP10.00. Moreover, key risks to project implementation were identified and rated moderate, based on the previously demonstrated capacity during the collaboration between SIDBI and the World Bank over the last 10 years. However, the risks arising from the fluctuations of domestic and international financial markets were not discussed, and when they hit, they could not be mitigated.

Quality-at-Entry Rating
Moderately Satisfactory

b. Quality of supervision

The project was managed by a coordinated team of the WB and IFC advisory staff that leveraged the respective expertise and convening power of each institution. The team used an innovative approach to resolve the bottlenecks in releasing one of the IFC trust funds, and in onboarding the TA funding to support SIDBI in the implementation of the innovative lending methods.

The WB team provided proactive support through a total of eight implementation support missions, in coordination with the WBG country team in Delhi and Mumbai. Training sessions were organized and various senior experts in early stage financing and MSME financing, including a project implementation and data analytics firm comprising of several senior staff. Video conferences were conducted regularly, including a scheduled monthly call with the SIDBI PIU. The WB team also demonstrated flexibility to changing needs and opportunities, such as leveraging digital infrastructure development.

However, the resource allocation (US$150 million) towards Component 1 ended up being overambitious given that SIDBI's direct lending towards the startup and early stage segment was still at a pilot stage. A smaller allocation would have been more appropriate. During project implementation, the project supported both debt and equity financing through the FFS, which was in line with the PDO but slightly different from what had been envisaged at design. FFS enhanced SIDBI's contribution and multiplied the benefits to the startup and early stage MSMEs although it was not captured by the PDO indicators.

Given the slower-than-envisioned disbursement under Component 1 and the deficiencies in certain results indicators to capture real progress of the project, the WB team proposed a project restructuring to (a) make modifications to the results framework to better reflect the outcomes of the project, and (b) reallocate funding from Component 1 to Components 2 and 3. But the restructuring of the results indicators was eventually not processed, following SIDBI's opting to cancel the undisbursed balance of the credit line, due to the rising costs of foreign exchange borrowing.

The WB task team worked proactively together with the WB Treasury and presented alternative financing instruments, including local currency financing options. However, after reviewing all options, SIDBI management concluded that the cost of WB financing was comparatively higher than alternative funding sources and decided to cancel the undisbursed balance. The GoI's cancellation request was received in March 2019 by the WB , which approved a level 2 restructuring.

Quality of Supervision Rating
Moderately Satisfactory

Overall Bank Performance Rating
Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design
There was a results framework in the Annex 1 of the PAD which aimed to track generated outputs and outcomes in a systematic and timely manner. The framework identified (i) five PDO indicators and 15 intermediate outcomes indicators, which had baselines in 2014, with annual cumulative targets for the duration of the project, and (ii) the institution responsible to for data collection.

Most indicators were appropriate to track the progress toward the project outcome and objective. However, there was room for improvement for the PDO indicators to better capture the private sector financing mobilized by the project, instead of focusing narrowly on SIDBI's outstanding loan portfolio in its direct lending business. Moreover, the PDO results indicators at the design stage focused mostly on SIDBI's direct lending business and did not fully capture the intended outcomes of the project. Also a beneficiary survey was planned (but not implemented, as discussed below) to monitor the final impact of the project, in particular on financial access and on MSME growth and employment creation.

b. M&E Implementation

The PIU within SIDBI regularly reported key project data using its management information system (MIS), which was strengthened with the project support. In particular, SIDBI implemented tagging of loans to women owned/managed businesses and loans made in low-income states. Data outside the results framework were also collected by the WB team to evaluate the efficacy of the project, such as data on new lending methods using the Fund of Funds for Startups and the digital lending platforms. The WB team also initiated frequent market consultations with key stakeholders during project implementation to understand progress and key challenges. The designed beneficiary survey was not carried out due to delays in the onboarding of funding from IFC's SME Global Facility as well as the subsequently slower pace of disbursement and early cancellation of the undisbursed balance.

c. M&E Utilization

Data and information related to project performance was regularly analyzed to track any discrepancy from identified targets. The ambitious targets in the results framework helped SIDBI to move fast on new and innovative products and partnerships. Following the slower pace of disbursement in early stage and risk capital financing compared to faster disbursement in the manufacturing sector, a project restructuring was proposed by the WB team, which determined during project midterm to reallocate more project financing towards the service and manufacturing sectors and revise the results indicators. However, the restructuring ultimately did not take place due to a delay by SIDBI in submitting the restructuring request despite frequent follow-ups by the WB task team, leading to the cancellation of the remaining undisbursed balance.

M&E Quality Rating

Modest

10. Other Issues

a. Safeguards

At appraisal, environmental and social risks were rated as moderate. The project was not classified in any category and only one safeguards policy was triggered: Environmental assessment (OP/BP 4.01). The environmental safeguards management at the SIDBI corporate level included the following measures: "(a) integration of environmental risk management aspects into the overall credit risk management mechanism; (b) adoption of environmental sustainability and gender inclusion principles as part of SIDBI's corporate policies; and (c) integration of Resource Efficiency and Cleaner Production initiatives as part of its lending programs" (ICR, paragraph 43). Moreover, SIDBI had strong internal arrangements for grievance redressal, which relied on a web-based and branch-based system to channel complaints. At project closure, the overall environmental safeguards performance was upgraded by the project's safeguards team from Moderately Unsatisfactory to Moderately Satisfactory.

b. Fiduciary Compliance

Financial management: SIDBI had a framework in place to carry out the project's financial management functions and a credit policy for loan appraisals and end-use monitoring of project funds. The financial reports were prepared were regularly submitted to the WB for financial monitoring and disbursement claims. The project accounts were annually annually by an external auditor, submitted to the WB on time, and found to be satisfactory.

Procurement: As the project was a financial intermediary project, the sub-borrowers of SIDBI followed private sector commercial practices using an Operational Manual developed by SIDBI with WB's guidance. Trainings were organized for SIDBI officials to create awareness about the impact of goods procurement on the success of sub-projects. A database was also developed to capture procurement-related information during project implementation. Procurement operations were found to be satisfactory until the project closure.

c. Unintended impacts (Positive or Negative)

Beyond the indirect outcomes presented under Section 5, which arose from the financing from the crowded-in private sector using the FFS, the ICR did not report any other unintended impacts.

d. Other

The ICR did not raise any other issues.

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Unsatisfactory	Moderately Unsatisfactory	
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	
Quality of M&E	Modest	Modest	
Quality of ICR	---	Substantial	

12. Lessons

This review supports the four lessons filtered from the experience of the project implementation, which are rephrased below:

(i) The potential for declining competitiveness of IBRD's credit lines needs to be discussed at project appraisal, and risk mitigation measures should be identified and activated in case of risk materialization. The cost of the IBRD credit line became uncompetitive for SIDBI due to the Government's guarantee fee and the foreign exchange rate movements, which were further compounded by the introduction of domestic concessional funding sources. The cost of the IBRD credit line was inclusive of the hedging cost and the sovereign guarantee fee and turned unattractive to institutions like SIDBI, and prompted the cancelation of the undisbursed credit line.

(ii) Using improved data analytics and innovative lending methods can help overcome the bottlenecks in expanding lending to MSMEs. MSMEs in different sectors and countries suffer from common types of market failures. Using common lending methods including fintech solutions and improvement in data analytics can help reduce transaction costs and overcome information asymmetries in order to improve access to finance for MSMEs across different sectors and countries. This project targeted MSMEs in both manufacturing and service sectors from early to growth stage and effectively leveraged complementarities in serving the MSMEs across different sectors, building on common lending methods including the fintech and digital lending platforms.

(iii) When designing a project, the design of the results framework needs to better articulate intermediate outcomes and the PDO indicators. In designing the project's results framework, the PDO results indicators focused narrowly on SIDBI's direct lending business. To fully capture the project's impact in terms of improving the MSME financing ecosystem, the PDO indicators that measure performance related to the crowding in of private sector financing should have been identified at appraisal. Focusing the results indicators too much on a development of financial institutions' direct lending business was inadequate when designing a project with an intended impact of crowding in the private sector.

(iv) Synergy between the debt market and equity investment is key to the scaling-up of lending to MSMEs: The strategy and blueprint to revive lending towards the startup sector provided under this project pointed out that the development of the venture debt market requires a vibrant ecosystem of venture equity investment. Strong synergy exists between the development of the venture debt market and a vibrant ecosystem of equity investment.

13. Assessment Recommended?

Yes

Please Explain

The MSMEs sector is an important component of the Indian setting in which the World Bank is contributing to shared growth and poverty alleviation through different instruments. Moreover, most development instruments generate their impact after a certain number of lags, and this is the case for this operation for which the planned survey on project impact could not be conducted. A PPAR of this operation and other projects targeting the MSMEs would shed light on the long-term impact of these operations

14. Comments on Quality of ICR

The ICR is well-written and comprehensive. Efficacy and overall project performance were supported by adequate evidence, including (i) a constructed theory of change as there was none at appraisal, and (ii) outcome achievements resulting directly from the SIDBI's lending business, and those that arose indirectly from private sector financing for MSMEs that was crowded in using innovative financial products. Efficiency was supported by an update of the economic analysis carried out in the PAD, although the financial analysis was not revisited at project closure. This review agrees with the lessons, which were derived from the experience of the project's implementation. The quality of ICR is rated as substantial.

a. Quality of ICR Rating
Substantial