



# Draft Design and Monitoring Framework

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Project Number: 43158  
October 2009

## IND: Proposed Loan and Partial Credit Guarantee for the Micro, Small, and Medium Enterprise Development Project

A design and monitoring framework is an active document, progressively updated and revised as necessary, particularly following any changes in project design and implementation. In accordance with ADB's public communications policy (2005), it is disclosed before appraisal of the project or program. This draft framework may change during processing of the project or program, and the revised version will be disclosed as an appendix to the report and recommendation of the President.

**Asian Development Bank**



## DESIGN AND MONITORING FRAMEWORK

<b>Design Summary</b>	<b>Performance Targets and/or Indicators</b>	<b>Data Sources and/or Reporting Mechanisms</b>	<b>Assumptions and Risks</b>
<p><b>Impact</b> MSMEs in India realizing their full potential, thereby contributing to economic growth and poverty reduction—especially among women microentrepreneurs</p>	<ul style="list-style-type: none"> <li>• 5% increase in number of MSMEs established over the next 3 years (figures to be broken down by gender) (2008 baseline: 12.8 million MSME units)</li> <li>• 5% increase in MSME sector employment over the next 3 years (figures to be broken down by gender) (2008 baseline: 42 million people employed in the MSME sector)</li> </ul>	<ul style="list-style-type: none"> <li>• Periodic reports from the Planning Commission</li> <li>• Project-specific information and data collected</li> <li>• Economic reports and official statistics of the GOI and other international development agencies</li> </ul>	<p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>• Continued strong commitment by GOI for reforms</li> <li>• Global economy recovers from the financial crisis</li> </ul> <p><b>Risk</b></p> <ul style="list-style-type: none"> <li>• Weakened implementation of reforms</li> </ul>
<p><b>Outcomes</b> Improved MSME access to commercial financing, capacity building services and market opportunities, thereby fostering MSME growth, competitiveness, and employment creation.</p>	<ul style="list-style-type: none"> <li>• 10% growth in number of MSMEs receiving term financing through this project starting from 2010 (2008 baseline for Indian banking sector: 17%)</li> <li>• 20% increase in direct lending to MSMEs by SIDBI and the PFIs and overall increase in their MSME portfolio (FY2008 baseline for SIDBI: 37%)</li> <li>• At least one successful commercial debt finance or bond issue in international capital market by an Indian commercial public sector bank (2008 baseline: Nil)</li> <li>• Number of successful applications by low-income women entrepreneurs at SIDBI and SFMC branches increased annually by 20% year (2008 baseline: 5 million)</li> </ul>	<ul style="list-style-type: none"> <li>• Economic reports and official statistics of the GOI and other international development agencies</li> <li>• Quarterly reports from SIDBI and all PFIs</li> <li>• Reports by international rating agencies on SIDBI and all PFIs</li> <li>• Central Bank statistics</li> <li>• Proceedings from national and state-specific workshops (carried out under the CBG)</li> </ul>	<p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>• Macroeconomic stability</li> <li>• Commitment to reforms</li> <li>• Project design can be implemented</li> <li>• Commitment of SIDBI and SIDBI partners to further advance gender and socially-inclusive approaches</li> </ul> <p><b>Risks</b></p> <ul style="list-style-type: none"> <li>• Lenders fail to develop effective loan application processes and the supporting technical skills required for a sustainable commercial MSME lending system</li> <li>• Indian MSMEs remain too small to become real engines of growth and cannot contribute sufficiently to job creation</li> <li>• Resistance to reforms from vested interests</li> <li>• ADB credit enhancement may not</li> </ul>

Design Summary	Performance Targets and/or Indicators	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
			overcome international capital market access barrier
<p><b>Outputs</b></p> <ol style="list-style-type: none"> <li>1. Enhance credit delivery through SIDBI and PFIs in the MSME sector</li> <li>2. Increase of SME productive and managerial capacity and related new jobs created for new markets</li> <li>3. PFI will increase their MSME portfolio through the use of ADB's PCG</li> <li>4. Greater capacity of low-income women microentrepreneurs to access financial resources, services and market opportunities in the project area.</li> </ol>	<ul style="list-style-type: none"> <li>• MSME credit to total net credit of banks increases from 8% in 2008 to 13% in 2012 (2008 baseline: 8% of net bank credit)</li> <li>• 30% of the proceeds under the loan to SIDBI will be earmarked for lending to qualified women micro and small entrepreneurs</li> <li>• Measured cost and time among MSME sectors to identify impact in terms of lowered business cost and higher benefit from critical SIDBI MSME investments that remove key competitiveness constraints</li> <li>• Lending on commercial terms by the PFIs to their MSME clients will expand by at least the amount of financing mobilized under the ADB PCG (2008 baseline: Nil)</li> <li>• Number of successful applications by low-income women entrepreneurs at SIDBI/SFMC branches in selected states increased (20% year from baseline 2010)</li> <li>• Number of new MSME entrants assisted by project, disaggregated by sex (20% from baseline: 2010)</li> <li>• Percentage of ownership</li> </ul>	<ul style="list-style-type: none"> <li>• Economic reports and official statistics of the GOI and other international development agencies</li> <li>• Periodic reports from the Planning Commission</li> <li>• Quarterly reports from SIDBI and all PFIs</li> <li>• Quarterly reports from all PFIs</li> <li>• Information and data collected</li> <li>• Proceedings from national and state-level workshops</li> </ul>	<p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>• Availability of counterpart staff</li> <li>• Availability of data</li> <li>• Adequate resources to undertake studies</li> <li>• Cooperation of other development partners</li> <li>• Commitment of SIDBI and SIDBI partners to further advance gender and socially-inclusive approaches</li> </ul> <p><b>Risks</b></p> <ul style="list-style-type: none"> <li>• The proceeds from the ADB loan and raised through the PCG are provided to SIDBI and the PFIs which, in turn, lend inappropriately to MSMEs without proper due diligence leading to a high level of NPLs</li> <li>• MSMEs are inherently vulnerable to economic downturns which could adversely affect their financial condition and performance</li> <li>• Restricted availability of and access to information</li> <li>• Absence of reliable data</li> <li>• Staff changes in EA/IA weaken coordination of CBG activities</li> </ul>

Design Summary	Performance Targets and/or Indicators	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
	of businesses/sector disaggregated by gender		
<p><b>Activities with Milestones (SIDBI loan and PCG Facility)</b></p> <p><b>1. Access to credit (continuous but not later than Q1 2010)</b></p> <p>1.1 Disbursement of \$50 million loan to SIDBI</p> <p>1.2 Issue of at least one ADB guaranteed loan or bond in the international capital markets</p> <p>1.3 SIDBI and the PFIs relend the proceeds raised through this intervention to MSMEs</p> <p><b>2. Project supervision and administration</b></p> <p>2.1 Establish project steering committee (Q1 2010)</p> <p>2.2 Establish project implementation units (Q1 2010)</p> <p>2.3 Conduct reviews (starting in QII 2010):</p> <ul style="list-style-type: none"> <li>• Project steering committee meetings (once in 2 months)</li> <li>• ADB review missions (once in 6 months)</li> </ul> <p>2.4 Prepare and submit (starting in QII 2010):</p> <ul style="list-style-type: none"> <li>• Project steering committee monitoring reports</li> <li>• Project steering committee review reports</li> <li>• Project steering committee completion report</li> </ul> <p><b>Activities with Milestones (CBG)</b></p> <p>1. Collect and analyze baseline data (month 1–3)</p> <p>2. Carry out comprehensive capacity development initiatives targeting SIDBI/SFMC staff, partner MFIs, and women's microentrepreneurs (including financial literacy and business development services) (month 3–34)</p> <p>3. Develop financial services for low-income women entrepreneurs (month 3–34)</p> <p>4. Carry out effective monitoring and evaluation of social/gender-related results (month 34–36)</p>			<p><b>Inputs</b></p> <p><b>ADB</b></p> <ul style="list-style-type: none"> <li>• \$50 million loan to SIDBI</li> <li>• PCG facility of \$400 million</li> </ul> <p><b>SIDBI</b></p> <ul style="list-style-type: none"> <li>• Counterpart staff</li> <li>• Office accommodation</li> <li>• Administrative services</li> <li>• Facilitation for meetings</li> <li>• Participation in tripartite meetings</li> </ul> <p><b>GOI</b></p> <ul style="list-style-type: none"> <li>• Facilitation for meetings</li> <li>• Participation in tripartite meetings</li> </ul> <p><b>Inputs</b></p> <ul style="list-style-type: none"> <li>• \$4,000,000 for (proposed) CBG financing by the JFPR</li> </ul>

ADB = Asian Development Bank, BDS = business development service, CBG = Capacity Building Grant, EA = executing agency, GOI = Government of India, IA = implementing agency, JFPR = Japan Fund for Poverty Reduction, MFI = microfinance institution, MSME = micro, small, and medium enterprise, NPL = nonperforming loan, OCR = ordinary capital resources, PCG = partial credit guarantee, PFI = participating financial institution, ROAA = return on average asset, ROAE = return on average equity, SFMC = SIDBI Foundation for Microcredit, SME = small and medium enterprise, SIDBI = Small Industries Development Bank of India.