

Ex-Ante Evaluation
Private Sector Investment Finance Division,
Private Sector Partnership and Finance Department, JICA

1. Name of the Project

Country: Republic of India

Project: Promotion of small and medium-sized enterprises through impact investment

Signing Date: December 24, 2021

2. Background and Necessity of the Project

(1) Current State and Issues in India and the purpose of the project

Although, the rapid economic and population growth continues in India, job creation has not kept pace, with an unemployment rate of 5.27% in 2019, the highest among other South Asian countries, making the creation of new jobs a key challenge for sustainable socio-economic growth.

The SMEs play an important role in job creation with 63.38 million enterprises (2020), accounting for 31% of GDP, 45% of exports and generating 124 million jobs (2018), or approximately 25% of the working population. On the other hand, the SMEs face financing challenges, with a financial gap of USD 1,349 billion, or 50% of GDP, in 2017, combined loans and equity investments required. Within the gap, the lack of equity investments as risk money is estimated at USD 283 billion (2017), and is one of the factors that make it difficult for SMEs to prospect their operations that involve aggressive risk-taking, such as developing new businesses. IFC estimates that of the USD 283 billion SME funding gap, USD 60 billion could be matched by investors' risk appetite, and that USD 44 billion is to be a funding gap due to a lack of capital providers, excluding USD 16 billion that could be sourced from retained earnings or founders.

It has been pointed out as one of the reasons of the lack of capital that there are limited number of SME funds taking the relatively high risks associated with investment in SMEs through risk diversification. In order to promote investment in SMEs, the Government of India has introduced the Small Industries Development Bank of India (SIDBI) and Self Reliant India whose main target is to support SME sector.

Under these circumstances, the project will support the expansion of SMEs through investment in an impact investment fund for SMEs operated by SBICAP Ventures Limited ('SVL'), a step-down subsidiary of State Bank of India (SBI), the largest state-owned bank in India. It aims to promote job creation, particularly in sectors that contribute to addressing climate, social and environmental issues in the country.

(2) Japan and JICA's Policy and Operations in the SMEs Sector

Japan's Country Assistance Policy for India (March 2016) sets the strengthening of industrial competitiveness as a pillar of its policy, and states that it will work to provide assistance that contributes to increasing employment, improving productivity and development of managerial human resources. The JICA Country Analysis Paper for India (March 2018) also positions the development of productive industries and sustainable and inclusive growth as priority issues, and this project is in line with these analyses and policies.

In addition, JICA has been working on providing loans to SMEs in low-income states through "SME Support Project" of the PSIF, and has been planning to support SMEs financially through "SME and Energy Efficiency Support Project (Phase 1-3)" of the ODA Loan to SIDBI, who is also one of the LP investors the Fund.

This project will support SMEs engaged in projects that contribute to solving social and environmental challenges, and will expand and complement existing JICA initiatives.

(3) Other Donors' Activity: None in particular

3. Project Description

(1) Project Objective

The objective of this project is to improve access to finance for SMEs in India whose businesses are to solve social and environmental issues in the country through investments in impact investment funds, thereby contributing to poverty reduction and sustainable economic growth in the country.

(2) Project Site / Target Area

Entire India (excluding disputed areas)

(3) Project Component

(i) Investment amount: INR 2,140 million

(ii) Outline of the Project Plan: Through investments in Neev Fund II, JICA supports mainly SMEs engaged in businesses that contribute to solving climate, environmental and social challenges in India and embedding ESG practices in SMEs. It also promotes business alliances between Indian investee companies and Japanese companies.

(4) Project Implementation Structure

(i) Investee: SVL-SME Fund

(ii) Executing Agency: SBICAP Ventures Limited (SVL)

(iii) Eligible investee companies: SMEs that contribute to climate change mitigation and environmental and social sustainability, such as renewable energy, sustainable agriculture, urban transport, water and sanitation in order to improve the environment, promote employment, reduce poverty, improve livelihoods and promote social and financial inclusion.

- (5) Environmental and Social Consideration / Cross-sectional Issues /Gender Categorization
- 1) Environmental and Social Consideration
 - (i) Category: FI
 - (ii) Reason for Categorization: The project is designed to provide financing to financial intermediaries. Sub-projects can not be specified prior to JICA's approval for financing, and they may have environmental impacts under the JICA guidelines for environmental and social considerations (April 2010).
 - 2) Cross-sectional Issues
 - (i) Climate change mitigation and adaptation : The project contributes to climate change mitigation and adaptation, as it invests in a fund in which SMEs that contribute to such an area are also included in the investment scope.
 - (ii) Poverty reduction: Poverty reduction is to be promoted through the support to SMEs engaged in job creation as well as financial inclusion especially in the agricultural sectors.
 - 3) Gender categorization: GI (gender mainstreaming needs survey/analysis project)

Reason: The Fund has a policy of the impact investment including the gender perspectives.
- (6) Other Important Issues: None in particular

4. Targeted Outcomes

(1) Quantitative Effects

	Baseline (Actual value in 2021)	Target (2031) [Expected value at the end of the fund]
Number of jobs created	N/A	6,885 people
Number of direct beneficiaries	N/A	430,000 people
Mobilization amount	N/A	USD 235M

As a reference, development impact indicators, which are planned to be set for each investee, will be monitored annually in ESG reports to be submitted by JICA.

(2) Qualitative Effects:

- Improvement of accessibility to financial support for SMEs that contribute to solving social and environmental challenges
- Elaboration of the internal ESG policies of portfolio companies

5. External Factors

- (1) Prior Conditions: None in particular

(2) External Factors: None in particular

6. Lessons Learned from Past Projects

(1) Evaluation Findings of Similar Past Projects

The four lessons learned from the Regional Business Development Fund Project, an overseas investment and finance project for India, were

- (i) the formulation of fund manager replacement standards,
- (ii) request for the compilation of reports that enable accurate evaluation of development effects,
- (iii) the preparation of a long list of entities targeted for investment, and
- (v) the importance of confirmation as to taxation on JICA.

(2) Lessons for the Present Project

In light of the four lessons specified above, examinations confirmed the following points:

- (i) it has been agreed with the fund if one of the key persons ceases to be involved, a successor will be appointed with approval from majority investors to enable further investments;
- (ii) it has been agreed that the results of the impact indicators listed above shall be documented in the ESG report and submitted to JICA each year;
- (iii) JICA received a long list of potential investment targets and the profitability and probability of exit of each investment has been verified; and
- (iv) a financial consultant was engaged to conduct a tax due diligence, which confirmed that the risk of JICA being identified by the tax authorities is very low.

7. Evaluation Results

As described above, this project is consistent with India's development challenges and development policy as well as Japan's cooperation policy. Its necessity is recognised, its plan is appropriate, and it is fully expected to achieve goals in the plan. Therefore, the significance of support it provides through overseas investment and finance is high.

8. Plan for Future Evaluation

(1) Indicators to Be Used: As listed in Section 4

(2) Timing: Ex-post evaluation when the fund is terminated