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Report No: PAD1951

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US$100 MILLION

TO THE

REPUBLIC OF INDIA

FOR A

# TAMIL NADU RURAL TRANSFORMATION PROJECT

November 8, 2017

Agriculture Global Practice
South Asia Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective 7/14/2017)

| | | |
|---|---|---|
| Currency Unit | = | Indian Rupee (Rs) |
| Rs 64.47 | = | US$1 |
| US$ | = | SDR 1 |

FISCAL YEAR

April 1 – March 31

| | |
|---|---|
| Regional Vice President: | Annette Dixon |
| Country Director: | Junaid Kamal Ahmad |
| Senior Global Practice Director: | Juergen Voegele |
| Practice Manager: | Shobha Shetty |
| Task Team Leader: | Samik Sundar Das, Izabela Leao |

## ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| AAVIN | Tamil Nadu Co-op Milk Producers' Federation Ltd |
| AMUL | Anand Milk Union Limited |
| ASPIRE | Scheme for Promoting Innovation and Rural Entrepreneurship |
| BIP | Block Investment Plan |
| BPL | Below Poverty Line |
| BPMU/BU | Block Project Management Unit/ Block Unit |
| CAA&A | Controller of Aid, Accounts and Audit |
| CBO | Community Based Organization |
| CII | Confederation of Indian Industry |
| CLG | Common Livelihood Group |
| CPLTC | Community Professional Learning and Training Center |
| CP | Community Professional |
| CPS | Country Partnership Strategy |
| DDS | District Diagnostic Study |
| DGS&D | Directorate General of Supplies and Disposals |
| DIP | District Investment Plan |
| DPMU | District Project Management Unit |
| ECP | Enterprise Community Professional |
| EFA | Economic and Financial Analysis |
| EG | Enterprise Group |
| ESMF | Environmental and Social Management Framework |
| FICCI | Federation of Indian Chambers of Commerce and Industry |
| FM | Financial Management |
| GDP | Gross Domestic Product |
| GIS | Geographic Information System |
| GoI | Government of India |
| GoTN | Government of Tamil Nadu |
| GRM | Grievance Redressal Mechanism |
| GRS | Grievance Redress Service |
| GSDP | Gross State Domestic Product |
| HDI | Human Development Index |
| HR | Human Resources |
| IBRD | International Bank for Reconstruction and Development |
| ICT | Information and Communications Technology |
| IFAD | International Fund for Agriculture Development |
| IFC | International Finance Corporation |
| IFR | Interim Financial Report |
| IPF | Investment Project Financing |
| IRR | Internal Rate of Return |
| M&E | Monitoring and Evaluation |
| MFIs | Micro-finance Institutions |
| MGP | Matching Grant Program |
| MIS | Management Information System |
| MoU | Memorandum of Understanding |
| MSE | Micro and Small Enterprise |

| | |
|---|---|
| MSME | Micro, Small, and Medium Enterprise |
| MUDRA | Micro Units Development & Refinance Agency Ltd |
| NABARD | National Bank for Agriculture and Rural Development |
| NBFC | Non-Banking Financial Company |
| NEEDS | New Entrepreneur-cum-Enterprise Development Scheme |
| NGO | Non-Governmental Organization |
| NMSE | Nano, Micro, and Small Enterprise |
| NPL | Non-performing Loan |
| NPV | Net Present Value |
| NRLM | National Rural Livelihoods Mission |
| NRLP | National Rural Livelihoods Project |
| OSF | One Stop Facility |
| P-RAMS | Procurement Risk Assessment Management System |
| PC | Producer Collective |
| PDO | Project Development Objective |
| PFI | Participating Financial Institution |
| PG | Producer Group |
| PGP | Participatory Growth Plan |
| PLF | Panchayat-Level Federation |
| PMEGP | Prime Minister's Employment Generation Programme |
| PMU | Project Management Unit |
| PPP | Public Private Partnership |
| PPSD | Project Procurement Strategy Document |
| PVP | Pudhu Vaazhvu Project |
| RRB | Regional Rural Bank |
| SC | Scheduled Caste |
| SEWA | Self-Employed Women’s Association |
| SFAC | Small Farmers’ Agribusiness Consortium |
| SLBC | State-Level Banker’s Committee |
| SHG | Self-help Groups |
| SORT | Systematic Operations Risk-rating Tool |
| SPMU | State Project Management Unit |
| ST | Scheduled Tribe |
| STEP | Systematic Tracking of Exchanges in Procurement |
| TDP | Tribal Development Plan |
| TNEPRP | Tamil Nadu Empowerment and Poverty Reduction Project |
| TNPVP | Tamil Nadu Pudhu Vaazhvu Project |
| TNPVS | Tamil Nadu Pudhu Vaazhvu Society |
| TNTRM | Tamil Nadu Rural Transformation Marketplace |
| TNRTP | Tamil Nadu Rural Transformation Project |
| TNRTS | Tamil Nadu Rural Transformation Society |
| ToR | Terms of Reference |
| TSA | Technical Support Agency |
| UYEGP | Unemployed Youth Employment Generation Programme |
| VCA | Value Chain Analysis |
| VIP | Village Investment Plan |
| VPRC | Village Poverty Reduction Committee |

**INDIA**
**Tamil Nadu Rural Transformation Project (TNRTP)**

**CONTENTS**

**PAD DATA SHEET**

*India*

*Tamil Nadu Rural Transformation Project (TNRTP) (P157702)*

**PROJECT APPRAISAL DOCUMENT**

*SOUTH ASIA*

*0000009243*

Report No.: PAD1951

| Basic Information | | |
|---|---|---|
| Project ID<br>P157702 | EA Category<br>B - Partial Assessment | Team Leader(s)<br>Samik Sundar Das,Izabela Leao |
| Financing Instrument<br>Investment Project Financing | Fragile and/or Capacity Constraints [ ] | |
| | Financial Intermediaries [ X ] | |
| | Series of Projects [ ] | |
| Project Implementation Start Date<br>01-Dec-2017 | Project Implementation End Date<br>30-Nov-2023 | |
| Expected Effectiveness Date<br>31-Mar-2018 | Expected Closing Date<br>30-Nov-2023 | |
| Joint IFC<br>No | | |

| Practice Manager/Manager | Senior Global Practice Director | Country Director | Regional Vice President |
|---|---|---|---|
| Shobha Shetty | Juergen Voegele | Junaid Kamal Ahmad | Annette Dixon |

| | | | |
|---|---|---|---|
| Borrower: Department of Economic Affairs Govt. of India | | | |
| Responsible Agency: Department of Rural Development, Government of Tamil Nadu | | | |
| Contact: | Hans Raj Verma | Title: | Additional Chief Secretary |
| Telephone No.: | 91-44-25670769 | Email: | ruralsec@gov.tn.in |

| Project Financing Data(in USD Million) | | | | | |
|---|---|---|---|---|---|
| [ X ] | Loan | [ ] | IDA Grant | [ ] | Guarantee |
| [ ] | Credit | [ ] | Grant | [ ] | Other |

| | | | |
|---|---|---|---|
| Total Project Cost: | 142.80 | Total Bank Financing: | 100.00 |
| Financing Gap: | 0.00 | | |

| Financing Source | Amount |
|---|---|
| Borrower | 42.80 |
| International Bank for Reconstruction and Development | 100.00 |
| Total | 142.80 |

**Expected Disbursements (in USD Million)**

| Fiscal Year | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 0000 | 0000 | 0000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Annual | 3.00 | 12.00 | 22.00 | 25.00 | 25.00 | 13.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Cumulative | 3.00 | 15.00 | 37.00 | 62.00 | 87.00 | 100.00 | 100.00 | 0.00 | 0.00 | 0.00 |

## Institutional Data

**Practice Area (Lead)**

Agriculture

**Contributing Practice Areas**

Finance & Markets, Gender, Jobs, Trade & Competitiveness

**Proposed Development Objective(s)**

The Project Development Objective (PDO) is to promote rural enterprises, access to finance, and employment opportunities in selected blocks (administrative units below the district, henceforth referred to as blocks) of Tamil Nadu.

**Components**

| Component Name | Cost (USD Millions) |
|---|---|
| Rural Enterprise Ecosystem Development | 45.90 |
| Enterprise Business Plan Financing | 38.50 |
| Skills and Job Opportunities | 29.00 |
| Project Management, Results Monitoring and Implementation Support Systems | 29.10 |

**Systematic Operations Risk- Rating Tool (SORT)**

| Risk Category | Rating |
|---|---|
| 1. Political and Governance | Moderate |
| 2. Macroeconomic | Moderate |
| 3. Sector Strategies and Policies | Substantial |
| 4. Technical Design of Project or Program | Substantial |
| 5. Institutional Capacity for Implementation and Sustainability | Substantial |
| 6. Fiduciary | Moderate |

| | |
|---|---|
| 7. Environment and Social | Moderate |
| 8. Stakeholders | Substantial |
| 9. Other | Low |
| **OVERALL** | Substantial |

## Compliance

**Policy**

| | |
|---|---|
| Does the project depart from the CAS in content or in other significant respects? | Yes [ ] No [ X ] |
| Does the project require any waivers of Bank policies? | Yes [ ] No [ X ] |
| Have these been approved by Bank management? | Yes [ ] No [ X ] |
| Is approval for any policy waiver sought from the Board? | Yes [ ] No [ X ] |
| Does the project meet the Regional criteria for readiness for implementation? | Yes [ X ] No [ ] |

| Safeguard Policies Triggered by the Project | Yes | No |
|---|---|---|
| Environmental Assessment OP/BP 4.01 | X | |
| Natural Habitats OP/BP 4.04 | X | |
| Forests OP/BP 4.36 | X | |
| Pest Management OP 4.09 | X | |
| Physical Cultural Resources OP/BP 4.11 | | X |
| Indigenous Peoples OP/BP 4.10 | X | |
| Involuntary Resettlement OP/BP 4.12 | | X |
| Safety of Dams OP/BP 4.37 | | X |
| Projects on International Waterways OP/BP 7.50 | | X |
| Projects in Disputed Areas OP/BP 7.60 | | X |

**Legal Covenants**

| Name | Recurrent | Due Date | Frequency |
|---|---|---|---|
| Project Implementation | | 14-Mar-2018 | |

**Description of Covenant**

Tamil Nadu to vest the overall responsibility for implementation of Project activities in Tamil Nadu Rural Transformation Society (TNRTS); and TNRTS to vest the responsibility for the implementation of the Project activities within each District Society governed by the Governing Body and Executive Committee and chaired by the District Collector.

| Name | Recurrent | Due Date | Frequency |
|---|---|---|---|
| Steering Committee | | 14-Mar-2018 | |

**Description of Covenant**

Tamil Nadu, through TNRTS, to establish and maintain a high level Steering Committee (SC), chaired by the Chief Secretary, Government of Tamil Nadu (GoTN), and comprising of the Principal Secretaries from relevant line departments, for the purpose of providing directions and guidance to the TNRTS for Project implementation; providing oversight over the Matching Grant Program operations; reviewing and monitoring the Project and leveraging its integration with regular programs of the GoTN to ensure its sustainability; and performing other functions as acceptable to the Bank.

| Name | Recurrent | Due Date | Frequency |
|---|---|---|---|
| Advisory Committee | | 14-Jun-2018 | |

**Description of Covenant**

Tamil Nadu, through TNRTS, to establish and maintain an Advisory Committee, comprising of individual representatives with expertise in relevant thematic areas with responsibilities that include providing strategic advice to the Governing Body and Executive Committee on the policy formulation and implementation of the Project, and providing a networking platform to showcase to the external stakeholders and build partnerships when required.

| Name | Recurrent | Due Date | Frequency |
|---|---|---|---|
| State Project Management Unit | | 14-Jun-2018 | |

**Description of Covenant**

Tamil Nadu, through TNRTS, to establish and maintain, a State Project Management Unit (SPMU) headed by a full time Chief Executive Officer responsible for the implementation and monitoring of the Project in coordination with the District Project Management Unit (DPMUs).

| Name | Recurrent | Due Date | Frequency |
|---|---|---|---|
| District Project Management Units | | 14-Jun-2018 | |

**Description of Covenant**

TNRTS to establish and maintain the Block Project Management Unit (BPMU), headed by a Block Team Lead and a team working on planning, value chain strengthening and enterprises, skills and accounts and monitoring; for providing support to the community professionals at the block and cluster level. TNRTS to further ensure that within the BPMU, the Project activities shall be implemented by the community professionals, which are responsible for: (i) forming and strengthening of the producer groups; (ii) identifying of target beneficiaries; (iii) ensuring inclusion into the group enterprises; (iv) identifying of youth for skilling; and (v) providing community level financial management.

| Name | Recurrent | Due Date | Frequency |
|---|---|---|---|
| Safeguards | X | | CONTINUOUS |

**Description of Covenant**

Tamil Nadu and TNRTS to carry out the Project in accordance with the Environmental and Social Management Framework (ESMF), the Tribal Development Plan (TDP), and any other instruments to be prepared pursuant to the appropriate screening of Activity/Business Plans, and/or grants proposals.

| Name | Recurrent | Due Date | Frequency |
|---|---|---|---|
| Start-up fund grants | X | | CONTINUOUS |

**Description of Covenant**

| |
|---|
| Tamil Nadu and TNRTS to ensure that start-up fund grants are made in accordance with the eligibility criteria and procedures detailed in the Project Implementation Plan to be adopted by TNRTS. |

| Name | Recurrent | Due Date | Frequency |
|---|---|---|---|
| Matching Grants | X | | CONTINUOUS |

| **Description of Covenant** |
|---|
| Tamil Nadu and TNRTS to ensure that matching grants are made in accordance with the eligibility criteria and procedures detailed in the Matching Grant Program Manual; and the financial institutions selected to implement the matching grant program enter into loan agreements with the beneficiaries for the provision of the grant under terms and conditions set forth in the Matching Grant Program Manual, the Loan Agreement and the Project Agreement. |

| Name | Recurrent | Due Date | Frequency |
|---|---|---|---|
| Fund Manager | X | | CONTINUOUS |

| **Description of Covenant** |
|---|
| TNRTS to hire and enter into a contract with a financial institution or firm as Fund Manager under terms of reference acceptable to the Bank to act as the transaction manager of the Matching Grants Program. |

| Name | Recurrent | Due Date | Frequency |
|---|---|---|---|
| Retroactive financing | X | | CONTINUOUS |

| **Description of Covenant** |
|---|
| No withdrawal shall be made for payments made prior to the date of signing of the Loan Agreement, except for withdrawals up to USD 20,000,000 for payments made on or after July 1, 2017 until the Project effectiveness date, or June 30, 2018, whichever is earlier, for eligible expenditures under the Project (except for matching grants under component 2 of the Project). |

**Conditions**

| Source Of Fund | Name | Type |
|---|---|---|
| | | |

**Description of Condition**

## Team Composition

**Bank Staff**

| Name | Role | Title | Specialization | Unit |
|---|---|---|---|---|
| Samik Sundar Das | Team Leader (ADM Responsible) | Senior Rural Development Specialist | Senior Rural Development Specialist | GFA06 |
| Izabela Leao | Team Leader | Rural Development Specialist | Rural Development & Labor | GFA06 |
| Balagopal Senapati | Procurement Specialist (ADM Responsible) | Senior Procurement Specialist | Procurement Specialist | GGO06 |

| | | | | |
|---|---|---|---|---|
| Manvinder Mamak | Financial Management Specialist | Sr Financial Management Specialist | Senior Financial Management Specialist | GGO24 |
| Adarsh Kumar | Team Member | Senior Agribusiness Specialist | Senior Agribusiness Specialist | GFA06 |
| Albert Sole Canut | Team Member | Senior Private Sector Specialist | Senior Economist | GTC06 |
| Anupam Joshi | Environmental Safeguards Specialist | Senior Environmental Specialist | | GEN06 |
| Anupam Joshi | Social Safeguards Specialist | Senior Environmental Specialist | Senior Environmental Specialist | GEN06 |
| Blanca Amado | Economic & Financial Analysis | Economist | Economist | FAO |
| Charu Lata Sharma | Team Member | Consultant | Consultant | FAO |
| Geeta Alex | Team Member | Program Assistant | Program Assistant | SACIN |
| Hanif Anilmohamed Rahemtulla | Team Member | | Senior Operations Officer | EACPF |
| Jacqueline Julian | Team Member | Operations Analyst | Operations Analyst | GFA06 |
| John Prakash Badda | Team Member | Program Assistant | Program Assistant | GFA06 |
| Raj Ganguly | Team Member | Senior Agribusiness Specialist | Senior Agribusiness Specialist | GFA06 |
| Ramachandran R. Mohan | Social Safeguards Specialist | Consultant | Consultant | GWA06 |
| Rocio Mariela Malpica Valera | Counsel | Senior Counsel | Legal | LEGES |
| Sandra Broka | Team Member | Senior Agriculture Economist | Senior Rural Finance Specialist | GFA05 |
| Shouvik Mitra | Team Member | Consultant | Consultant | FAO |
| Shruti Gaur | Team Member | Consultant | Consultant | FAO |
| Varalakshmi Vemuru | Social Safeguards Specialist | Senior Social Development Specialist | Gender and Women | GSU07 |
| Victor Manuel Ordonez Conde | Team Member | Senior Finance Officer | Disbursements | WFALA |
| Vikas Kanungo | Team Member | Consultant | ICT | GTI09 |
| Yuvaraj Galada | Team Member | Consultant | CFS & CSS | FAO |
| **Extended Team** | | | | |

| Name | Title | Office Phone | Location |
|---|---|---|---|
| | | | |

**Locations**

| Country | First Administrative Division | Location | Planned | Actual | Comments |
|---|---|---|---|---|---|
| India | Tamil Nadu | Tamil Nadu | | X | |

**Consultants (Will be disclosed in the Monthly Operational Summary)**

| | |
|---|---|
| Consultants Required? | Consultants will be required |

# I. STRATEGIC CONTEXT

## A. Country Context

1. **India has been amongst the fastest growing economies in the past decade** – from 2006/7 to 2016/17 average annualized growth was 7.3 percent[1] and is expected to grow at the same rate for the next few years. A country with a billion plus population, is also improving significantly in its Human Development Index (HDI) index[2] (33 percent growth from 2008–16) and poverty reduction (1.5 percentage points 2005–10). India is set to be the country with the youngest demographic by 2020, but it is yet to take full advantage of its demographic dividend potential. Labor force growth rate (≈ 2.3 percent) has been higher than the employment growth rate (≈ 1.5 percent), and addressing the aspirations of youth remains a major challenge.[3] Globalization, liberalization and connectivity have unbundled opportunities as well as aspirations among the youth leading to a burgeoning youth workforce – both urban and rural – that is eager to grow with the country's economic development.

2. **Agriculture continues to be vital, with 17.4 percent share in gross domestic product (GDP) and nearly 48.9 percent of the rural population dependent on it for livelihood[4].** The sector has received a renewed focus with the Government of India's (GoI's) major agenda to "double farmers' income" through productivity enhancement, intensification and diversification. The opportunities in the agribusiness sector are growing with the changing consumer basket and increasing demand for diversified and nutritious foods. Small producers have the opportunity to directly participate in this value chain if they are provided with appropriate infrastructure, technology and information. Agro-processing and related manufacturing sectors have the potential to offer a viable alternative for employment to the local rural labor force, thereby presenting an opportunity for people to participate in productive, non-farm activities, without needing to migrate to urban areas.

3. **The micro, small and medium enterprise (MSME) sector contributes 37.5 percent of the country's GDP and is the second highest employer with over 32 million units and more than 80 million work force.**[5] The sector has its challenges with more than 50 percent of units being in the unorganized sector and over 80 percent of the organized units being unregistered. The prominent challenges are lack of access to finance, technology adoption and skilled manpower. Of the overall financial demand of Rs 32.5 trillion, Rs 22.5 trillion is met by own sources or informal sources.[6] Formal financial institutions contribute merely 22 percent of the total demand. Despite the huge pool of human resources in India, MSMEs struggle to find the required skilled labor at affordable wages. Some points of concern are that: (a) investment in infrastructure, technology and manufacturing practices is increasing but is not sufficient; (b) MSMEs find it difficult to learn and adopt new technologies which leads to ineffective upstream and downstream market linkages; and (c) the development of skilled manpower remains a major concern.

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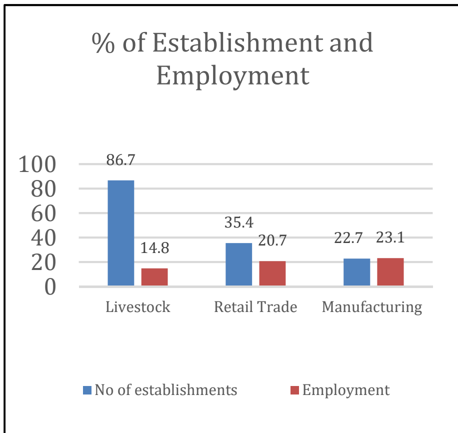
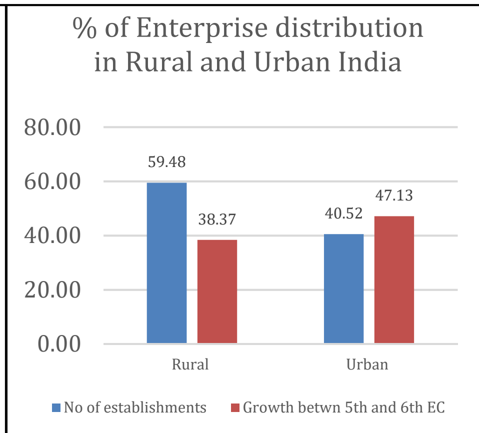
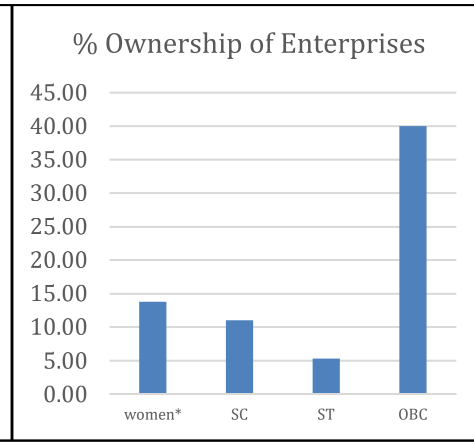
[1] CEIC and Central Statistics Office
[2] United Nations HDI index (0.467 in 2008 and 0.625 in 2016)
[3] India Economic Survey 2014-15
[4] CEIC and Central Statistics Office
[5] MSME annual report 2014-15
[6] International Finance Corporation – MSME finance in India - 2012

4. **Enterprise development leads to sustainable growth universally**. In the middle- income countries of the world – the MSME sector contributes to 70 percent of the GDP and 95 percent of the employment whereas in India the MSME sector contributes only around 38 percent of the total GDP. As per the sixth economic census[7], enterprise establishment has increased from 41.25 million to 58.5 million[8] with 60 percent enterprises in rural areas. However, the growth rate of rural enterprises (38 percent) has been marginally lower than urban enterprises (41 percent). The workforce and entrepreneurs' participation is highly skewed with only 14 percent women-led enterprises – of which 80 percent are self-financed. There has been a significant growth in agri-establishments (92 percent of which are in rural areas) – with livestock related enterprises leading the pack.




| | |
|---|---|
| **Livestock has 86% share in total agri establishments* | **Women includes women from SC/ST/OBC women.* |

5. GoI has increased its focus on MSMEs as this sector is key to the success of the "Make in India" program and has the potential to cater to the aspirations of India's progressive youth. While several new initiatives have been launched in this regard (such as "Start-up India", "Stand-up India", Micro Units Development & Refinance Agency Ltd. (MUDRA), Scheme for Promoting Innovation and Rural Entrepreneurship (ASPIRE)), for inclusive growth it is necessary to enhance the participation of 70 percent of the rural population at this opportune time. Over two-thirds of India's population resides in rural areas, and is alienated from much of the benefits of economic reforms, resulting in forced migration and unorganized urbanization. "Rural MSMEs and those based outside of the large cities, offer a viable alternative for employment to local labor, hence presenting an opportunity for people to participate in productive, non-farm activities, without needing to migrate to urban areas".[9] Promotion of these enterprises and increasing their success rate depends on the provision of an enabling environment, including infrastructure, technology, access to affordable finances from formal sources, customized financial products, business development services, continuous business and technical support services, market development and intelligence, as well as skilled manpower and equipped entrepreneurs. Efforts are needed to complement GoI initiatives and create a sustainable and inclusive rural enterprises ecosystem.

[7] India Economic Survey 2014-15
[8] Sixth economic census: it provides count of establishments including the ones in unorganized sectors.
[9] International Finance Corporation (IFC) – MSME finance in India, 2012.

## B. Sectoral and Institutional Context

6. Tamil Nadu is the second largest state economy of India with US$161.1 billion in gross state domestic product (GSDP) in 2014–15 and during 2006-07 to 2016-17, its gross state domestic product (GSDP) grew at 7.4 percent per year[10]. The state has the highest number of business enterprises (11 percent) and stands second in total employment[11] (10 percent) in India, with a population share of only about 6 percent. Nevertheless, this economic growth is not equally distributed, both geographically and by population group. The average per capita GDP for the state in 2016-17 is Rs 170, 929[12] (US$2,600), but half of its districts had lower incomes. The poverty ratio in the state as of 2011–12 was 11.3 percent – rural poverty ratio was 15.8 percent with 5.9 million people living below the poverty line and urban poverty ratio was 6.5 percent with 2.3 million people living below the poverty line. Tamil Nadu is the most urbanized state in India with about 48 percent of its population living in urban areas, indicating a much higher urbanization rate than the national average of 31.16 percent[13].

7. Among the economic sectors, agriculture continues to be important for the state economy, as it provides both livelihood and food security, with 35.2 percent[14] of the population employed in agriculture. In recent years, the state's agriculture sector has grown modestly at less than 3 per cent per year. The state is set to embark on a second green revolution with a mission to improve agricultural production by addressing productivity gap and investments in value addition. The ultimate goal is to increase the farmers' per capita income two to three times by 2017.

8. The MSME sector contributes 10 percent to the state's GDP and is the second largest employer in the state, next only to agriculture. The MSME sector is prominent in terms of employment, industrial production, and exports. Tamil Nadu accounts for the largest number of MSMEs in the country (11 percent) with 1.3 million registered units, producing over 8,000 varieties of products with a total investment of more than US$4.79 billion. Growth of rural enterprises is however decreasing. As per the sixth economic census, the growth of rural enterprises establishments in Tamil Nadu has only been 0.75 percent against 10 percent growth for the country. The efforts for promoting and improving the ecosystem for rural enterprise development have been absent. Besides issues in technical and business support services, finance continues to be a constraint, especially for women entrepreneurs with only 2–3 percent having access to finance from government or formal financial institutions in Tamil Nadu. Data from State-Level Banker's Committee (SLBC) shows that lending to MSMEs was US$10 billion equivalent during 2015–16, whereas the current unfunded demand amounts to at least US$60 billion equivalent.[15] For further contextual analysis on access to finance for micro and small enterprises (MSEs) in Tamil Nadu, refer to Annex 5.

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[10] CEIC and Central Statistics Office

[11] The organized sector employment share is a meager 7 percent in the state. The workforce participation rate for women is 41.8 percent in rural areas and 21.8 percent in urban areas relative to a much higher 60 percent and 58.4 percent, respectively, for men. The challenge is to increase female labor force participation across sectors, in both rural and urban areas.

[12] CEIC and Central Statistics Office

[13] Vision Tamil Nadu 2023

[14] National Sample Survey Report, Key Indicators of Employment and Unemployment in India (table S35)

[15] Bank team estimates based on information available from SLBCs and extrapolation from the IFC study on MSME finance in India. As the MSME sector continues to grow, additional funding will be required.

9. This project builds on the government's and ongoing World Bank-supported Tamil Nadu Empowerment and Poverty Reduction Project (TNEPRP)[16] and National Rural Livelihoods Project (NRLP), which support the National Rural Livelihoods Mission (NRLM). Launched in 2004 and 2011 respectively, the TNEPRP and the NRLP are supporting the empowerment of the poor and improving their livelihoods by developing, strengthening, and synergizing pro-poor community institutions/groups; enhancing skills and capacities of the poor (especially women, youth, differently-abled, and the vulnerable); and financing productive, demand-driven investments in economic activities. The focus of the TNEPRP and the NRLP has been to reduce the vulnerability of below poverty line (BPL) households (categorized as poor and ultra-poor households), build their social and institutional capital, and increase their capacity to participate in and benefit from economic activities. With respect to higher order/value-added/commercial-scale economic activities, programs such as the TNEPRP and the NRLP have recently initiated work on mobilization of rural producer households into producer collectives (PCs). The purpose of aggregating rural producer households into PCs is to ensure that they effectively participate and sustainably benefit from the rapidly expanding infrastructure facilities, industrial development, and market access in the state.

10. Key challenges for sustainably integrating rural households into higher-level income opportunities for wealth creation are: (a) human resource and capacity gaps in existing promotional agencies and implementing departments to coordinate and facilitate business promotion and development services; (b) lack of start-up capital and predictable business service support and overall access to finance; (c) weak management capacity within existing producer groups (PGs) and businesses promoted by individual entrepreneurs and enterprises; (d) asymmetry in prices and business information; and (e) lack of coordinated planning and resource mobilization for promotion of farm or off-farm producer linked business enterprises, individual entrepreneurship, and value chain development. The other important impediments are the lack of responsiveness and sustained engagement of buyers or private players with producers, because of lack of compliance with requirements demanded by markets, small volumes, and low production efficiency, leading to high transaction costs. In addition, private players do not have proficiency to engage with the dispersed individual producers, PCs, and downstream enterprises that lack market orientation.

11. Furthermore, support to women entrepreneurs and women-led enterprises under the proposed project builds on TNEPRP and global experience, which shows that women face significant constraints in starting enterprises or advancing the nano/micro units into small/medium enterprises. Key challenges include: (a) social and cultural barriers to take up economic enterprise beyond individual-level livelihoods; (b) poor access to capital and lack of knowledge about available finance options, advantages and disadvantages of available options, costs of various options, and benefits of borrowing; (c) lack of knowledge and access to productive resources and technology which limits women enterprises to agriculture and services sectors; (d) limited skills related to relevant technology, leadership, market, and financial aspects which are critical for running successful and profitable enterprises; (e) poor knowledge and access to markets beyond the local areas with no/limited reach to regional, state, national, and international markets because of limited understanding of branding, marketing channels, and newer platforms including e-marketing; (f) largely informal businesses with no registration, which limits outreach; and (g) poor

[16] TNEPRP closed on June 30, 2017.

knowledge and access to professional networks and associations critical for business expansion, knowledge sharing, and potential tie-ups and partnerships.

### C. Higher Level Objectives to which the Project Contributes

12. The main objective of the World Bank Group's Country Partnership Strategy (CPS) for FY2013-17 (Report No. 76176-IN), discussed by the Executive Directors on April 11, 2013, is to support poverty reduction and boost shared prosperity in India. The proposed project is aligned with all three broad engagement areas of the India CPS: (a) integration, (b) transformation, and (c) inclusion. Under integration, the project plans to create jobs by supporting the development of end-to-end business skills in communities for setting up enterprises and nurturing them through incubation systems. The project will directly achieve Outcome 1.3, focusing on demand-driven skills for productive employment by equipping rural youth with skills training and connecting young people to jobs. With respect to the transformation engagement, one of the main thrusts of the project will be on developing value chains using end-to-end investments in selected commodities and facilitating access to finance to support enterprises in agriculture and allied sectors, thus contributing to productivity and profitability (Outcome 2.4).

13. The ongoing TNEPRP and NRLP have already worked on promoting livelihoods, providing access to credit, and developing skills among the youth. The proposed project will build on existing investments and institutional capital to bring further income increase and inclusive growth in rural areas, thus contributing to Outcome 3.6. The inclusion pillar of the CPS will be addressed through special focus on women, in promoting women entrepreneurs and enhancing female labor participation. The project will also work toward promoting and facilitating financial services to producers, entrepreneurs, and enterprises by creating customized financing facility and linkages with formal financial institutions, thus directly contributing to Outcome 3.7. The project is also aligned with findings of the Systematic Country Diagnostic (under preparation) regarding the importance of accelerating inclusion for growth and promoting rural employment.

14. Furthermore, the proposed project objective will contribute to the vision for development outlined in the country's Twelfth Five-Year Plan (financial year 2013–17), which sets ambitious growth targets and calls for faster, sustainable, and more inclusive growth focusing on poverty reduction, group equality, regional balance, empowerment, environmental management, and employment. Similarly, the proposed project will support the plan's focus on the private sector by fostering various public–private partnership (PPP) models to achieve a higher level of sustainable economic growth, which will benefit all sections of society in the project blocks.

## II. PROJECT DEVELOPMENT OBJECTIVES

### A. PDO

15. The Project Development Objective (PDO) is to promote rural enterprises, access to finance, and employment opportunities in selected blocks of Tamil Nadu.

16. The project would achieve the project PDO by: (a) creating an enabling environment to promote and strengthen enterprises, and creating jobs in targeted areas through identifying market and value-chain strengthening opportunities; (b) mobilizing and aggregating rural producers (from self-help group (SHG) households) into Producer Collectives (PCs); (c) enhancing access to

finance through development of appropriate financial products and linkages with formal financial institutions; (d) financing of business plans of PCs and enterprises linked to value chain opportunities; (e) developing an institutional architecture for efficient delivery of business development and financial services; (f) upgrading skills in selected self-employment occupations and enhancing access to wage-employment jobs in growth clusters; and (g) forging partnerships with key stakeholders (public/private/research/academia) and leveraging expertise of partners to engage in specific win-win opportunities to ensure sustainability of project initiatives.

## B. Project Beneficiaries

17. The TNRTP will be operational in 26 districts[17] specifically focusing on 120 non - TNEPRP blocks and 3,994 village panchayats of Tamil Nadu. The project will have 411,620 direct beneficiaries. The project will work with targeted households that are already part of SHGs, of which 325,000 households will be organized into enterprise groups (EGs), PCs, and Producer groups (PGs). The project will support around 6,620 individual enterprises; 80,000 youth (40,000 through convergence with existing flagship government skilling schemes and 40,000 through community-based skilling provision).

18. The project implementation will be rolled out in a phased manner – 26 blocks will be taken up for implementation in all project districts in the first eight months, followed by 52 blocks by the end of 12 months, and the remaining 42 blocks by the end of 18 months from initiation of project implementation.

19. The project will focus on households represented by women as the unit of planning. The project will target households which possess basic level of assets, resources, and skills that can be invested in to enable income increase from value-added economic opportunities. The project will also build on the institutional platforms created and nurtured under the NRLP and the TNEPRP in the form of SHGs, Panchayat-Level Federations (PLFs), and the MaKaMai[18] at the block and district levels. In this context, all project beneficiary households will have SHG membership (self or family member). Capable and willing SHG members who can leverage the business ecosystem created by the project will benefit from support for individual enterprises, membership of PCs, and/or skills for self or wage employment.

**Table 1. Mapping of Beneficiary/Other Stakeholders to Project Components**

| Component | Subcomponent | Beneficiary/Other Stakeholders |
|---|---|---|
| **Component 1: Rural Enterprise Ecosystem Development** | Subcomponent 1.a: Inclusive Strategic Investment Analytics and Planning | The participants are: various government departments, trade associations at the district and state levels, organizations like the Confederation of Indian Industry (CII) and Federation of Indian Chambers of Commerce and Industry (FICCI), commercial banks and microfinance institutions (MFIs)/non-banking financial companies (NBFCs), private sector players at the state and district levels, and finally, community members at |

[17] Districts names: Coimbatore, Cuddalore, Dindigul, Erode, Kancheepuram, Karur, Krishnagiri, Madurai, Nagapattinam, Namakkal, the Nilgiris, Pudukottai, Ramanathapuram, Salem, Sivagangai, Theni, Thiruvallur, Thiruvannamalai, Thiruvarur, Thoothukudi, Tirunelveli, Tiruppur, Trichy, Vellore, Villupuram, and Virudhunagar.
[18] MaKaMai is the local name for the Community Professionals Learning and Training Centers (CPLTC) promoted as community-owned service institutions with cluster and block-level institutions federated at the district level.

| | | |
|---|---|---|
| | | the village level who contribute to validate findings and develop the growth map. Within the community, women and disadvantaged sections will play a critical role to chart out their own enterprise growth plan. |
| | Subcomponent 1.b: Enterprise Development Support Services | The actual beneficiaries will be the various types of individual enterprises (nano, micro, small) working in alignment with existing and promoted prioritized commodities, as well as collective enterprises (mainly the EGs and PCs). Apart from the project promoted enterprise beneficiaries, services will also be open to other enterprises in the ecosystem. |
| | Subcomponent 1.c: Enterprise Promotion, Value Chain Strengthening and Partnerships | The beneficiaries will be individual enterprises (nano, micro, small) working in alignment with existing and promoted prioritized commodities as well as collective enterprises like EGs, PCs, and PGs. The enterprises and PC members will mostly be drawn from the SHG members in the village, with special focus on tribal and vulnerable groups, who are interested to graduate to the next level of income enhancement.<br>The other participants in strengthening this initiative will be the technical support agencies (TSAs), market players, banks, and other types of financial institutions (such as, insurance providers and NBFCs), fair trade agencies, retail stores, supermarkets, hypermarkets, and others. |
| **Component 2: Enterprise Business Plans Financing** | Subcomponent 2.a: Facilitating Business Plan Financing | All types of individual enterprises (nano, micro, small) working in alignment with existing and promoted prioritized commodities as well as collective enterprises like EGs, PGs, and PCs are direct beneficiaries of this subcomponent's interventions.<br>The other participants are the participating financial institutions (PFIs) and the fund management agency. |
| | Subcomponent 2.b: Innovation Promotion | The beneficiaries will be innovators, tribal households, artisans, and community members involved in specific innovation pilots. |
| **Component 3: Skills and Job Opportunities** | Subcomponent 3.a: Pre- and Post- Training Services to Enhance Employment Outcomes | Youths, both male and female, with certain cutoff education qualifications and eligibility criteria required for various government jobs and employment schemes. The participants will be government agencies and the various partner implementing agencies of these schemes. |

| | | |
|---|---|---|
| | Subcomponent 3.b: Community-Based Training and Skilling Provision | Artisans and workers involved in specific trade (or interested in that particular trade) will inculcate/upgrade their skill sets. Master artisans and master crafts persons working as resource persons are the major participants. Locally, trade associations, banks, and other financial institutions will also participate. |
| | Subcomponent 3.c: Entrepreneurship Development | Producers/rearers/artisans from the PGs will be the primary beneficiary of which some will graduate to provide specialized services to the larger set of producers.<br>Knowledge institutions, agriculture universities, government departments involved in agriculture, livestock, fisheries, Krishi Vigyan Kendra, and others. |

20. The TNRTP will specifically ensure that eligible households from socially and culturally disadvantaged groups[19] are able to harness their existing assets, skills, and resources for greater incomes with the TNRTP investments that help to: (a) break their entry barriers to value-added economic activities; (b) enhance access to finance, markets, technology, and related support services; (c) grow and graduate current economic activities to value-added ones with higher returns; (d) ensure fuller/greater participation in economic decision-making process; and (e) mitigate risks related to economic activities.

21. Institutional beneficiaries will include different departments, financial institutions (such as commercial banks, NBFCs, MFIs, and so on), resource agencies, market actors, and business associations.

### C. PDO Level Results Indicators

22. The key performance indicators will be:

- Percentage of enterprises (individual and collective) with ongoing operations after two years of project support;
- Percentage of enterprises (individual and collective) supported by the project leveraging funds from financial institutions;
- Project beneficiaries engaged in self or wage employment following training facilitated by the project (number); and
- Project direct beneficiaries (number) of which percentage of female beneficiaries.

## III. PROJECT DESCRIPTION

### A. Project Components

23. Given the complex set of challenges and issues that the earlier sectoral and institutional analyses inferred, it becomes imperative that the component design addresses multiple aspects in

[19] Scheduled castes (SC) and scheduled tribes (STs), persons with disability, destitute, and others.

a sequential as well as crosscutting manner. Hence, the following combination of specific and intertwined strategies is proposed for implementation of project components.

**(a) Approach and targeting**

- **Integrated approach to rural enterprise promotion and development for rural wealth creation.** The project will provide access to a comprehensive package of business development services, skills, and access to finance for emerging rural enterprises.

- **Graduate households to move toward prosperity.** The strategy to identify households to participate in the project is based on certain criteria, such as households that possess basic level of assets, resources, and skills so that they can be invested in to enable income increases from value-added economic opportunities.

- **Foster inclusiveness in planning, implementation, and monitoring.** Proactive measures will be instituted to ensure participation and representation of socially disadvantaged sections[20] in the community in different phases of the project life cycle.

- **Proactive emphasis on women entrepreneurs and women-led enterprises.** Given that women-owned businesses are seen to significantly underperform compared to those owned by men, the proposed project has adopted a proactive approach to enable women to build businesses that can generate employment by addressing the key constraints related to business advisory services, training for enterprises and entrepreneurship development, access to finance, access to markets and networks, and legal aspects and registration. Women-led enterprises will also serve as potential avenues for enhancing the women labor force (see Annex 7 for a more detailed analysis).

**(b) Methodology**

- **Analytics-based participatory growth plans.** In the project locations, inclusive analytical planning exercises that are matched with economic reality and potential sources of comparative advantage will be undertaken. Investment plans will be prepared by beneficiary communities to identify project activities and investments to strengthen key prioritized value-chains. These investment plans will be the basis for promoting and facilitating the enterprises in selected value chains.

- **Market-based enterprise promotion aligned with value-chain analysis.** A value-chain analysis (VCA) will be conducted to provide insights on prioritized commodities/subsectors and obtain a deeper understanding of the opportunities and challenges to develop strategies for enterprise promotion. The essence will be to build consensus among local stakeholders around shared challenges and facilitate a discussion on how local capabilities can match market-based opportunities in different priority products.

[20] Major focus will be on the participation of tribal, women, and other vulnerable sections of the community.

- **Pilot and learn before scaling-up of less proven strategies and processes.** As this is conceived as a transformative project, there will be many proposed strategies and processes that would require proof of concept before they can be scaled-up. Hence, the approach would be to pilot and learn before scaling-up. The project design is included with some predetermined pilots but is also flexible to scope out innovative ideas and provide space for experimentation and learning through an intervention like the development market place.

**(c) Interventions**

- **Focus on strategic skilling for achieving employment outcomes.** Skills training approaches will be aligned to: investments made through other components of the project and use intervention strategies that target the youth (with a special focus on women) in accessing training provided by existing GoI schemes; develop and deliver training to build skills of service providers, entrepreneurs, and producer households in targeted value chains; and improve access to skills training in rural areas, by developing local village-level training of delivery capacity in sectors with local employment demand.

- **Accelerate access to finance for various segments of MSEs and PCs.** Provision of financial services to focus on establishing a better-working, and transparent approach for accessing financial services (such as using information and communications technology (ICT)) and also to mainstream MSE and PC lending through the financial sector, outside of GoI programs. The project will build capacity of future borrowers through extensive capacity-building programs, facilitate market access through linking them to prioritized value chains/subsectors, and leverage project-supported financial instruments to facilitate access to borrowing from the formal financial sector.

- **Convergence and partnership approach for resource optimization and strategic alliances.** Steps to institutionalize memoranda of understanding (MoUs) with ongoing programs will be undertaken to ensure that public resources and technical expertise are leveraged optimally. Similarly, strategic alliances with key stakeholders (public/private/research/academia/financial institutions/corporate social responsibility (CSR)) will be forged to leverage expertise of partners to engage in specific win–win opportunities. The project has mapped the possible sources of convergence and agreed in principle to convergence funding of Rs 1,500 crores from various government schemes and other private and CSR initiatives for TNRTP.

- **Take advantage of digital dividends for ensuring efficiency and effectiveness.** Leverage best practices in the use of transformative potential of ICT, and new media technologies (remote sensing, mobile, cloud, social media, data analytics, and the Internet of Things) to ensure inclusive access, greater convenience, enhanced efficiency, increased productivity, and sustained citizen engagements during all stages of the project. Description of the proposed ICT and new media solutions for each of the project components along with implementation strategies is provided in Annex 2.

24. **Component structure and description.** The project interventions are grouped into four main components: Component 1 – Rural Enterprise Ecosystem Development; Component 2 – Enterprise Business Plans Financing; Component 3 – Skills and Job Opportunities; and Component 4 – Project Management, Results Monitoring, and Implementation Support Systems. The individual components are summarized in the following paragraphs. The detailed project description is provided in Annex 2.

**Component 1: Rural Enterprise Ecosystem Development**

25. This component seeks to create an enabling environment for promoting and strengthening enterprises and jobs in the target areas through identifying market and value-chain strengthening opportunities, supporting the development of favorable business conditions, and informing pathways to effective and efficient business enterprise development.

***Subcomponent 1.a: Inclusive Strategic Investment Analytics and Planning***

26. This subcomponent will support a comprehensive and deeper understanding of the business ecosystem including agro-climatic and socioeconomic aspects in the project areas to contextualize project investments. The subcomponent will identify and prioritize sectors/subsectors/commodities for project interventions and investments through an inclusive strategy and value-chain analytical approach, following sequential steps that include: (a) District Diagnostic Study (DDS) – a robust analysis at the district level to identify the major commodity/subsectors; (b) VCA studies at the state level for selected prioritized commodities and subsectors; and (c) Participatory Growth Plans (PGPs). The purpose of these inclusive analytical exercises (the DDS and VCA) will be twofold: (a) matching the economic reality and potential sources of comparative advantage in the district with market trends and key success factors in priority sectors; and (b) informing the preparation of Village Investment Plans (VIPs), Block Investment Plans (BIPs), and District Investment Plans (DIPs) by beneficiary communities through the PGP processes to identify project activities and investments in key prioritized value chains (institution, technology, capacity, infrastructure, market access, and so on). These investment plans will be the basis for promoting the enterprises in selected value chains. This subcomponent will finance (a) training, workshops; (b) consultant and non-consultant services; (c) goods, including printing of manuals, ICT hardware and software and office refurbishment; (d) operating costs including outsourced staff, office running costs etc. for conduct of District Diagnostic Studies, Value Chain Analysis and preparation of Participatory Growth Plans.

27. Proactive measures will be instituted to ensure participation and representation of the socially disadvantaged sections[21] in the community in different phases of activities in analytics, planning, and enterprise promotion. The PGP exercise will suitably leverage ICT to contribute to the development of spatial analytics and monitoring systems at the state level.

***Subcomponent 1.b: Enterprise Development Support Services***

28. The objective of this subcomponent is to develop appropriate institutions and mechanisms for business development support services to enterprises in initiating, managing, and successfully running their businesses. This will support the PCs and enterprises under the project to: (a) scope

[21] Major focus will be on the participation of tribal, women, and other vulnerable sections of the community.

enterprise promotion including business plan development; (b) bridge critical gaps in accessing business development services, technology, and skills; (c) acquire required legal licenses and formalities; and (d) secure finances. The two distinct pathways identified in the TNRTP to provide business development support services to enterprises are: (a) community-led service delivery through MaKaMai,[22] which is responsible for PGP, the formation of PGs/PCs and job creation through community professionals (CPs);[23] and (b) establishment of one-stop-facilities (OSFs) as small business facilitation-cum-incubation centers professionally managed by two business professionals with proven expertise in small business development and required analytical skill set in preparing business plans.

29. The OSFs will be established at the block level,[24] through which rural entrepreneurs and enterprises can access a range of business development support services including business ideation and conceptualization, business plan preparation, hand-holding support to initiate the business, facilitation support to access required finance, technology, skills, regulation compliances, market intelligence/information and linkages, mentoring. The OSF services to the enterprises will be a fee-based model. This subcomponent will finance (a) training, workshops; (b) consultant and non-consultant services; (c) goods, including printing of manuals, ICT hardware and software and office refurbishment; (d) operating costs including outsourced staff, office running costs at district and block levels etc. for One-Stop Facilities and MaKaMai services.

***Subcomponent 1.c: Enterprise Promotion, Value Chain Strengthening and Partnerships***

30. This subcomponent will promote individual and collective enterprises (including PCs) for prioritized sub-sectoral value-chain activities and enhance their capacity to engage with markets and other stakeholders effectively. Each of these enterprises will be supported to enhance production efficiency, establish a predictable inputs infrastructure, mobilize credit from financial institutions and converge with government schemes, and integrate with markets on profitable terms. The individual enterprises would range from nano, micro, and small enterprises based on the investment requirement while group enterprises would be further classified as PGs linked with higher-level PCs as well as independent market-linked EGs. These enterprises would be supported by enterprise community professionals (ECPs), identified and promoted with the support of MaKaMai and provided business advisory services through the OSF, technical assistance through partner resource agencies, and necessary hand-holding support by the project staff. For collective enterprises, the project would provide financial support as a start-up fund apart from all necessary capacity building and institution building inputs. Annex 9 provides more details on the design principles for PCs in the TNRTP.

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[22] The TNEPRP (or PVP) has developed: higher order community resource centers called MaKaMai, at the district and block levels, and community-driven services (such as CPs) to nurture and grow village-level community institutions. MaKaMai graduated from primary community-based institutions (such as the Village Poverty Reduction Committees (VPRCs), PLFs), as independent community institutions registered under the Tamil Nadu Societies Act and is governed and managed by the community. MaKaMai will play an enabling role in the project to sensitize key stakeholders and target households of the project for an inclusive approach.

[23] Community members who are experienced in community mobilization and have developed service delivery skills will be identified and retained as CPs in jobs and enterprises.

[24] The OSF could be housed within the MaKaMai premises. However, the functioning and governance of the OSF will be independent of MaKaMai, and only the costs towards office space and infrastructure requirements will be borne by the MaKaMai.

31. For leveraging resources from various ongoing schemes, the project will establish strategic partnerships with relevant government departments, private sector organizations, industry associations, financial institutions, nongovernmental organizations (NGOs) and value chain actors. Most of the partnership requirements will be informed by value chain analytics and mapped in the PGPs. The project will proactively engage to develop partnerships for creating linkages to markets, financial institutions and resource institutions for accessing innovation and knowledge in related areas of project intervention. Financing under this subcomponent will be towards (a) training, workshops; (b) consultant and non-consultant services; (c) goods, including printing of manuals, provision of training kits, ICT hardware and software and office refurbishment; (d) start up grants to PGs/EGs and PCs; and (e) operating costs including outsourced staff, office running costs etc. for enterprise development.

**Component 2: Enterprise Business Plans Financing**

32. The objective of this component is to promote economic activities of PCs and enterprises linked to value-chain opportunities. For identified business enterprises and business plans, the component will: (a) support enhanced financial access through matching grants via linkages with formal financial institutions, and (b) encourage and incubate transformational and innovative ideas through the scoping and piloting of innovations within and outside the project.

***Subcomponent 2.a: Facilitating Business Plan Financing***

33. This subcomponent will facilitate access to finance for business plans of individual and group enterprises. The activities/instruments under this subcomponent will target beneficiaries of the project receiving support under other component/subcomponents of the project to ensure effectiveness of the ecosystem. The subcomponent will have Matching Grant Program (MGP) as an enabling financial instrument, as well as capacity building, training, and technical assistance to the Participating Financial Institutions PFIs. Matching grants would be intended for PCs, EGs, first-time entrepreneurs, women-led businesses, and other types of enterprises perceived as riskier by the financial sector. Matching grants will be available together with a borrowing from the financial sector in the amount of up to 30 percent of the financing needed by the enterprise.[25] The project will also implement a technical assistance program for the financial institutions involved in the project. The PFIs will receive hands-on training in the practical application of the MGP, assessing the suitability and effectiveness of new business plans, and on mitigation of related risks. An international consulting company or national/state-level technical resource agencies will provide training, in collaboration with local banking sector training institutes. The financial instruments will be combinable, subject to the beneficiary meeting the eligibility criteria for the instrument as described in Annex 8. This subcomponent will finance (a) training, workshops; (b) consultant and non-consultant services, including Fund Manager's service fees; (c) goods, including development of Operational Guidelines and ICT hardware and software and office refurbishment; (d) Matching Grants; and (e) operating costs including outsourced staff, office

[25] For example, if such an enterprise (borrower) requires Rs 10 lakhs, the grant portion will be Rs 3 lakhs. The grant portion will become non-repayable upon full and timely repayment of the first 70 percent of the financing. The MGP is expected to improve the repayment discipline of borrowers, and encourage financial institutions to lend to such enterprises.

running costs etc. for facilitating access to finance for business plans of individual and group enterprises through MGP and other financial services by financial institutions.

***Subcomponent 2.b: Innovation Promotion***

34. This subcomponent will contribute to the design, promotion, and implementation of transformational ideas that use technology, innovation, and partnerships to tackle development challenges in Tamil Nadu. The subcomponent will finance (a) training, workshops; (b) consultant and non-consultant services; (c) goods, including production of catalogues and publications, development of and ICT hardware and software and office refurbishment; and (d) operating costs including outsourced staff, office running costs etc. for thematic pilots, Innovative Creative Enterprises. It will consist of the following interventions:

35. (a) Tamil Nadu Rural Transformation Marketplace (TNRTM), which will create a platform to identify, showcase, and celebrate innovations related to themes that have the potential to impact rural economic growth in the state, such as scalable models for the poor (agriculture, innovation in creative manufacturing, and innovations in green enterprises) and innovative solutions for the poor (rural energy, ICT-based solutions, digital empowerment, innovations in traditional health practices, innovations in access to payment for the poor, and so on). This platform will serve as a space where innovators, social entrepreneurs from public/private sectors and civil society, and funders, investors, and development agencies, can nurture strategic relationships to bring innovations into markets (from idea generation to commercialization). Moreover, with the objective to support and partner with those innovators who participate and exhibit in the rural transformation marketplace, selected innovations and start-up ideas will be tested and/or scaled-up within the project. (b) Pilot projects, under Induced Thematic Innovations, will focus on testing three concepts that are independent, yet consciously induced by the project, and are guided by global and national knowledge, experiences, and best practices. The pilot projects include the following:

(i) **Creative Industries Pilot Project,** with the objective to promote traditional creative and cultural industries sector in Tamil Nadu by strengthening and supporting rural artisanal enterprises through developing innovative products in selected pilot areas. The main beneficiaries of this pilot project would be rural artisans in selected districts of Tamil Nadu. Special focus will be to work with vulnerable groups, for example, women artisans, tribal communities, transgender, and differently-abled communities.

(ii) **AgriFood Hub Facility Pilot Program,** with the objective to promote the culinary sector in Tamil Nadu around an economically viable, sustainable, and nutritious local food system model that supports employment, preserves the environment, and promotes healthier dietary trends. The main beneficiaries of this pilot program would be men and women in the project districts.

(iii) **Green Enterprise – Sanitary Napkins and Menstrual Hygiene Pilot Project,** with the objective to promote access to sanitary napkins and to menstrual hygiene education by supporting the development of locally owned manufacturers of biodegradable and affordable sanitary pads. The main beneficiaries of this pilot project would be rural women and men[26] in the project districts.

[26] Beneficiaries include entrepreneurs from SHGs and common livelihood groups (CLGs).

The project will also aim to streamline the production processes of existing product lines and work in the creation of economies of scale of the existing units.

**Component 3: Skills and Job Opportunities**

36. The objectives of this component are to create: (a) sustainable wage and self-employment opportunities; (b) promote relevant skills for higher value agriculture & allied activities; and non-farm activities; and (c) enable entrepreneurship through market responsive skills and entrepreneurship development. This component will finance (a) training, workshops; (b) consultant and non-consultant services; (c) goods, including IEC material and toolkits, development of and ICT hardware and software and office refurbishment; and (e) operating costs including outsourced staff, office running costs etc. for Youth mobilization, establishment and running of Community Skills and Farm Schools and Entrepreneurship development.

***Subcomponent 3.a: Pre and Post Training Services to Enhance Employment Outcomes***

37. The objective of this subcomponent is to enhance access to services and employment outcomes for youth from poor households by training provision through existing flagship government skills training programs. This subcomponent will support provision of pre and post-training services including identification and mobilization of target youth, developing information packs on types of training and training schedules, providing pre-training counseling services to poor youth to assist them in interpreting available information and making optimal training choices, providing post-training and hand-holding services in destination areas, including counseling, emergency assistance, and facilitating access to basic services.

***Subcomponent 3.b: Community Based Training and Skilling Provision***

38. The objective of this subcomponent is to enhance access of target households to skills training in locally relevant subsectors. It will support Community Skills Schools, where local experts identified and capacitated through the project, will deliver training services at the village level, thereby, increasing access to such training for women and other marginalized groups. This subcomponent will also support outreach to local MSMEs and entrepreneurs promoted to identify market needs and facilitate post-training placements and employment.

***Subcomponent 3.c: Entrepreneurship Development***

39. The objective of this subcomponent is to enhance the skills of three sets of actors – service providers, entrepreneurs, and producer households – in focus value chains, such as horticulture, leading to enhanced income and employment outcomes in these value chains. Activities under this subcomponent will be closely aligned to enterprise support services by OSF, ongoing hand-holding, and credit access investments made through Component 1 of the project.

**Component 4: Project Management, Results Monitoring, and Implementation Support Systems**

40. The objectives of this component are to provide support services, develop management and monitoring systems, create delivery processes, and enhance staff capacity for effective and efficient implementation of project activities. This component would support: (a) upgrading and

refurbishment of offices; (b) incremental, specialized staff costs (both full- and part-time) in the state, regional, and district levels, including project managers and technical specialists; (c) staff development and capacity-building costs; (d) incremental administration costs for travel, meetings, financial management (FM), internal/external audit, and procurement of equipment; (e) monitoring and evaluation (M&E) strategy tied to project activities, including baseline surveys, establishment of MIS and FM systems, progress and process monitoring and impact assessments; (f) all hardware, software, and service costs for establishment and functioning of ICT-based solutions; and (g) all activities required for implementation of the Environmental and Social Management Framework (ESMF) and Tribal Development Plan (TDP).

41. This component is structured around three subcomponents which are Subcomponent 4.a – Implementation Support Systems (human resources (HR), FM, Procurement, Safeguards, and ICT); Subcomponent 4.b – Monitoring, Evaluation, and Grievance Redressal; and Subcomponent 4.c – Knowledge, Communication, and Learning Systems. This component will finance (a) training, workshops; (b) consultant and non-consultant services; (c) goods, including development of films, e-brochures and e-newsletters, development of and ICT hardware and software and office refurbishment; and (e) operating costs including outsourced staff, office running costs etc. for Project Management and Implementation Support systems, Monitoring and Evaluation and Knowledge management.

## B. Project Financing

42. The project will be financed through a six-year Investment Project Financing (IPF). The total project cost is US$142.8 million and will be funded by an International Bank for Reconstruction and Development (IBRD) loan of US$100 million equivalent and the Government of Tamil Nadu (GoTN) contribution of US$42.8 million equivalent. IPF was selected as the lending instrument given that the investment is well-defined and is to be implemented over a finite time.

## C. Project Cost and Financing

| **Project Components** | **(US$, million)** | | | **% of Total Cost** |
|---|---|---|---|---|
| | **World Bank** | **GoTN** | **Total** | |
| **1. Rural Enterprise Ecosystem Development** | | | | |
| 1.a Inclusive Strategic Investment Analytics and Planning | 9.1 | 3.9 | 13.0 | 9.1 |
| 1.b Enterprise Development Support Services | 4.1 | 1.8 | 5.9 | 4.2 |
| 1.c Enterprise Promotion and Value Chain Strengthening and Partnerships | 18.9 | 8.1 | 27.0 | 18.9 |
| **Subtotal** | **32.1** | **13.8** | **45.9** | **32.1** |
| **2. Enterprise Business Plans Financing** | | | | |
| 2.a Facilitating Business Plan Financing | 21.6 | 9.3 | 30.9 | 21.6 |
| 2.b Innovation Promotion | 5.3 | 2.3 | 7.6 | 5.4 |
| **Subtotal** | **26.9** | **11.6** | **38.5** | **27.0** |
| **3. Skills and Job Opportunities** | | | | |

| | | | | |
|---|---|---|---|---|
| 3.a Pre and Post-Training Services to Enhance Employment Outcomes | 4.2 | 1.8 | 6.0 | 4.2 |
| 3.b Community-Based Training and Skilling Provision | 10.4 | 4.5 | 14.9 | 10.4 |
| 3.c Entrepreneurship Development | 5.7 | 2.4 | 8.1 | 5.7 |
| **Subtotal** | **20.3** | **8.7** | **29.0** | **20.4** |
| **4. Project Management, Results Monitoring and Implementation Support Systems** | | | | |
| 4.a Implementation Support Systems (HR, FM, Procurement, Safeguards, and ICT) | 18.2 | 7.8 | 26.0 | 18.2 |
| 4.b Monitoring, Evaluation, and Grievance Redressal | 1.6 | 0.6 | 2.2 | 1.4 |
| 4.c Knowledge, Communication, and Learning Systems | 0.6 | 0.3 | 0.9 | 0.6 |
| **Subtotal** | **20.4** | **8.7** | **29.1** | **20.4** |
| **Total Project Cost** | **99.7** | **42.8** | **142.5** | **99.8** |
| Front-end fees | 0.3 | - | 0.3 | 0.2 |
| **Total Financing** | **100** | **42.8** | **142.8** | **100** |

## D. Lessons Learned and Reflected in the Project Design

43. The project design benefited from various World Bank-funded projects in India, Latin America (Productive Alliance Projects), Eastern Europe (Rural Development and Rural Finance Projects), East Asia (Rural Development Projects), South Asia (Agriculture Competitiveness, Rural Livelihoods and Enterprise Development Projects), and Africa (Agri-business, Women Entrepreneurship and Rural Development Projects); and other external initiatives in India (such as Anand Milk Union Limited (AMUL), Self-Employed Women's Association (SEWA), Jeevika-Bihar and Techno Serve, Udyogini, Professional Assistance for Development Action (Pradan)).

**Table 2. Specific Lessons Learned and Integration into Project Design**

| Lessons | Project Design |
|---|---|
| Beneficiary targeting and selection must consider producers' existing endowments and assess their ability to comply with market requirements. | Beneficiary targeting will focus on members of SHG households who possess a base level of assets, resources, and skills that can be invested upon to enable income increases from value-added economic opportunities. Capable and willing household members who can leverage the business ecosystem created by the project will benefit through support from individual enterprises, membership of PCs, and/or skills for self or wage employment. |
| Promotion of female entrepreneurship requires approaches that mainstream gender issues into business development and enable women's access to information, business, and financial services beyond provision of credit. | Recognizing that women and men face differential challenges to enterprise development, the proposed project has incorporated into its design specific strategies to ensure capacity development through MaKaMai, access to business development services through the OSF, hand-holding and networking through mentors, and access to tailored financial services including credit through matching grant to address challenges of lack of collateral and start-up capital. |
| More emphasis should be placed on identifying and analyzing promising value chains. | Strategic investment analytics and planning will be accomplished through: (a) robust analysis (DDS, value chain development projects) for identifying the intervention areas (technology, capacity, infrastructure, and so on), and (b) informing the development of investment plans (VIPs and Value Chain Investment Plans) outlined under Subcomponent 1.a. |
| Hand-holding PCs and enterprises over an extended period while they | Technical assistance and business development support services will be provided on a continuous, medium-term basis for strengthening PCs and |

| | |
|---|---|
| grow and mature is crucial for ensuring long-term success. | laying the ground for entrepreneurial sustainability. The project design has a multi-pronged approach to support PCs and enterprise through setting-up OSF, establishing a network of CPs, linkages with resource institutions, partnership with the private sector, and convergence with government departments. |
| Public sector-supported financing is warranted especially for traditionally marginalized social groups (such as women, youth, and tribals), because of lack of access and collateral for commercial finance. | Direct project investments are allocated toward creating a financing arrangement (such as matching grant) that is strategically linked with formal financial institutions for leveraging investment from the financial sector into rural areas and hitherto marginalized social groups. |
| Women entrepreneurs and women-led enterprises tend to be better borrowers and customers for financial institutions. | Partnering with financial institutions is proposed, through upfront priming, to appreciate and develop strong partnerships with women entrepreneurs and women-led enterprises to realize the inherent value proposition of them evolving as better customers. |
| Building broader partnership is crucial for post-completion operation and sustainability. | A dedicated Subcomponent 1.c exists to forge partnerships with key stakeholders and leverage expertise of partners to engage in specific win–win opportunities to ensure profitability of project initiatives and post project sustainability. |
| Operations involving a multisector approach with different institutions, components, and areas of concentration are challenging to implement. | Project governance and implementation arrangements are comprehensive, with inclusion of various stakeholders at all levels. |

# IV. IMPLEMENTATION

## A. Institutional and Implementation Arrangements

44. The project will be implemented by the Tamil Nadu Rural Transformation Society (TNRTS), which is already established by GoTN as the implementing agency. The TNRTS incorporates learning, implementation experience and capacities from Tamil Nadu ‘Pudhu Vaazhvu’ Society. To make the governance more robust and responsive to the paradigm shift, the bylaws and governance structure of the society have been accordingly designed. The institutional arrangement for this project is as follows:

a) **Governance structure.** At the state level, the project will have a Steering Committee which will be under the chairpersonship of the Chief Secretary, GoTN, and comprise Principal Secretaries from other line departments which are aligned to the focus areas of the project i.e. MSME, industries, labor and employment, agriculture, tourism, textiles, and handicrafts. The Steering Committee will help in harnessing convergence and improve coordination with other line departments in relation to the project.

   For governance and policy guidance, the Governing Body and Executive Committee has been constituted and is headed by the Principal Secretary, Rural Department and Panchayati Raj, and includes head of departments of other line departments (i.e. MSME, industries, labor and employment, agriculture, tourism, textiles, and handicrafts). An Advisory Committee will be established including members from academic institutions, private players, banks (public and private) and business associations to bring in external perspective on policy and implementation to the Governing Body and Executive Committee.

b) **Project management and implementation structure.** The implementation structure described in the following paragraphs follows the state, regional, district, and block level management, implementation, and monitoring arrangements. The implementation will be supported by the CPs at the cluster and village levels.

45. **State Project Management Unit.** The overall management and coordination will be the responsibility of the TNRTS. There is a State Project Management Unit (SPMU) set up at the state level, headed by a full-time Chief Executive Officer, that is responsible for implementation and monitoring of project interventions. The SPMU will work with the District Project Management Units (DPMUs) to implement the project in the field. The SPMU will have two units:

a) **Project Implementation Unit** that is directly responsible for the implementation of project interventions. This unit will have multidisciplinary teams and will be accountable for various project activities as envisaged under the project components. This unit will be responsible for executing activities in a time-bound manner to deliver quality outputs.

b) **Project Support Unit** with functions that directly support project implementation units to enhance efficiency in program implementation. This unit will be responsible to build and implement systems that help in analyzing the progress of the project, as well as taking policy-/implementation-level decisions based on the information systems. The expertise in this unit would be in M&E systems, information systems, knowledge management, FM, procurement, HR management, social and environment safeguards, and administration.

**Table 3. Project Governance and Implementation Structure**

| Level | Implementation Units | Composition | Advisory, Partnerships, and MoUs |
|---|---|---|---|
| State Level | **Steering Committee** | Chaired by the Chief Secretary with Secretaries and Principal Secretaries from other line departments. | **Advisory Committee** Individual members of repute from relevant thematic areas to provide strategic advice on policy formulation and project implementation. |
| | **Governing Body/Executive Committee** | Chaired by the Principal Secretary, Rural Development and Panchayati Raj, with Head of Departments from other line departments like MSME, industries, labor and employment, agriculture, textiles, and handicrafts. | |
| | **SPMU** | Headed by the CEO with dedicated thematic leads for the Project Implementation Unit and Project Management Unit (PMU) with support from thematic experts and young professionals. | **TSAs and implementing agencies** such as the Indian Institute of Technology Madras, State Livelihoods Institute (Auroville Foundation), Tamil Nadu Small and Tiny Industries Association (TANSTIA), Madras Institute of Development Studies, Tamil Nadu Agriculture University, and others. |
| Regional Level | **Regional Technical Teams** | Consultants and TSAs to provide sectoral expertise. | |
| District Level | **District Rural Transformation Society** | Headed by the District Collector with district heads of various departments | |
| | **DPMU** | Dedicated team of thematic professionals. | |

| Level | Implementation Units | Composition | Advisory, Partnerships, and MoUs |
|---|---|---|---|
| **Block Level** | **Block Project Management Unit (BPMU)** | Dedicated team of thematic professionals. | MoU with the district MaKaMai for CP support services. |
| | **CPs** | CPs developed by the BPMU and MaKaMais. | |
| | **Project beneficiaries** | Producers, entrepreneurs, youth, and community institutions. | |

46. **TSA and implementing partners.** The project will partner with various TSAs that will be hired at the state and district levels. The role of these agencies is to get specific expertise, and help the project implementation team to deliver on certain tasks. The project will also be engaging with various resource organizations of national and international repute as implementing partners/agencies such as Indian Institute of Technology Madras, State Livelihoods Institute (Auroville Foundation), TANSTIA, Madras Institute of Development Studies, through MoUs or on contractual basis to support implementation, supervision, and monitoring of the project at various levels.

47. **Fund Manager.** The management of MGP will be supported by a Fund Manager, which will be selected through a due diligence process from among financial institutions or firms interested in such a role. The Fund Manager will only act as a 'transaction manager'. The Fund Manager will work closely with the SPMU, mostly for reporting and liaison purposes.

48. **Participating Financial Institutions (PFIs).** Commercial banks, small finance banks, and NBFCs will facilitate the implementation of the MGP. PFIs will be responsible for: selection of business plans of the beneficiaries for financing based on PFI's criteria for appraisal; exercising the best efforts in collection of any default as defined in the MGP Operational Manual. The PFIs will be selected through a due diligence process, based on agreed eligibility criteria as elaborated in the MGP Manual.

49. **DPMUs and BPMUs.** To ensure coordination and review of project progress at the district level, a DPMU will be setup that would be responsible for planning, implementation, and monitoring of project activities at the district level, resolving cross-cutting implementation issues, and maximizing convergence of complementary activities. In each of the project blocks, block teams will be placed to work with block level MaKaMais for project implementation. DPMU will provide first level hand-holding support to CPs at the block and cluster levels.

50. **Community Institutions.** The most important entities for project implementation are community-level institutions. The previous project (i.e. PVP) has already invested in building social capital and their federations for over many years, which the TNRTP project would leverage upon. CPs will be responsible for block activities, such as: (a) forming and strengthening of PGs, (b) identification of target beneficiaries, (c) ensuring inclusion into group enterprises, (d) identification of youth for skilling, and (e) community-level FM. CPs will be supported by BPMU and their own village, block, and district-level MaKaMais, work on a service fee-based model, and provided with technical trainings during the project life.

## B. Results Monitoring and Evaluation

51. The M&E subcomponent will comprise a diverse and interconnected set of activities including: (a) measuring and monitoring of the project's progress extending to physical implementation and financial progress; alongside (b) monitoring of the project's key performance indicators. A suite of activities will help provide independent oversight and verification extending to: (a) participatory M&E conducted by community-based institutions and third party monitoring (such as social audits); (b) thematic studies; and (c) impact evaluations.

52. In project implementation, an external M&E consultancy firm operating from within the project will develop and operationalize the M&E strategy (such as the framework, protocols, procedures and operating manuals) alongside training of relevant staff and survey teams. This will be supported by experienced and trained project staff positioned across the program at the various levels of implementation from the BPMU at the block level and the DPMU at the district level. The project will also ensure the establishment of a comprehensive audit mechanism for fiduciary management at all levels, and relevant project staff will be trained accordingly.

53. The project places key emphasis on the role of participatory monitoring to ensure the involvement of local beneficiary communities for the purpose of eliciting citizen engagement and feedback on project interventions and processes. A community-based process monitoring system will be established at the village level to support the collection and sharing of project-related information. The project will also support independent social audits (or third-party monitoring) to provide external validation and insights arising from the interventions supported under the project.

54. The M&E will be complemented by a computerized web-based Management Information System (MIS) and Financial Management System which will be established to track and manage all project monitoring data (such as physical and financial information) captured across all interventions supported under the project. A consultancy firm will be hired to operationalize and maintain the MIS and Financial Management System of the project. The MIS platform will be developed and customized for the specific needs of project monitoring, and the system will be field-tested and rolled out under technical supervision of the external M&E. The MIS and Financial Management System will ensure accurate and on-time project monitoring and provide easy access to information on funds flow, implementation progress, processes, quality, and performance of community institutions. This information will be made available through a user-friendly project website, accessible to all key stakeholders. The project will utilize these and other sources of information (such as Geographic Information System (GIS) spatial data) to reliably inform stakeholders and the management, and to enable them to undertake evidence-based decision-making and course corrections as needed.

55. For the evaluation of project outcomes, a comprehensive baseline survey to be completed within six months of project commencement has been commissioned. This will measure the PDO and key performance indicators to assess the situation pertaining to these indicators before project interventions start up in sampled localities. The project has also commissioned a qualified external M&E consultancy firm to review and supplement a prior baseline study as necessary and to conduct a midterm review and end of project assessment to determine project impacts.

## C. Sustainability

56. Project sustainability depends on key parameters included in the project design and its implementation. At the policy level, there is an increased focus on promoting inclusive growth in rural and semi-urban areas. The project aligns with the goals of the state on rural economic growth through enterprise promotion as articulated in the Rural Development Policy and Vision 2023 of the GoTN. Other sustainability parameters include:

a) **Institutional Capability.** The project builds on the experiences and learning from the ongoing TNEPRP and the NRLP. The established systems and processes, as well as the mature institutions established under these programs, will be leveraged for implementation of TNRTP, thereby working with the existing social capital of SHGs and their federations. Moreover, these institutions will support the promotion of enterprises and PCs. Finally, project activities will focus on enhancing institutional implementation and management capacity by trainings on planning, implementation, and results-based monitoring systems that will outlive the project.

b) **Financial and Economic.** Direct project investments are allocated toward creating a financing arrangement that is strategically linked with existing formal financial institutions for leveraging investment from the financial sector into rural areas. The business plans to be financed will be subject to a rigorous financial and economic analysis and appraisal process to ensure its long-term commercial viability. The project design emphasizes on building community capacity through developing CPs, managed by MaKaMai, who will be paid based on a service-fee system. These CPs can also be mainstreamed into various other programs, and will also outlive the project.

c) **Technical.** The project will contribute to building an enabling business ecosystem through proactive linkages with other national and state government programs and partnerships with the private sector. Business plans, to be financed through the financing arrangement, are back-stopped with an OSF which will provide business development and financial services. Clear strategies are in place for collaborative partnership with resource institutions to ensure that project investments have access to quality technical inputs and services. In addition, the project will also invest in developing technology-based market information services that will signal the changing market condition to all actors across value chains. Subcomponent 2.a is an essential part of the comprehensive and market-based approach to contributing to the mainstreaming of MSE development in Tamil Nadu. The project-supported financial instruments will leverage own financing of PFIs, complemented by providing training to PFIs on how to appraise risks associated with such enterprises. The beneficiaries of the underlying loans will not just be trained by the project, but the DPMUs will also help with the monitoring of the implementation of sub-loans, which should improve the repayment of loans. The MGP improves the repayment discipline of borrowers, as proven in many cases during prior application of the MGPs, in particular in the Europe and Central Asia Region. The PFIs will provide the underlying loans, be selected through a due diligence process, and will make their own decisions in the selection of borrowers and loans. The Fund Manager will be an independently operating full-fledged financial institution selected through a due diligence process.

d) **Social and Environmental.** Selected activities will target women, tribals, youth, and other vulnerable groups. Arrangements under environmental and social safeguards will help mitigate and minimize potential negative impacts of the project while enhancing positive ones. For example, a green index system is being developed to ensure that business plan-based investments are appraised and recognized for environmental sustainability.

# V. KEY RISKS

## A. Overall Risk Rating and Explanation of Key Risks

57. The overall risk rating of the project is Substantial as the rankings in table 4 indicate.

**Table 4. Systematic Operations Risk-rating Tool (SORT): Risk Ratings Summary**

| Risk Category | Rating |
|---|---|
| 1. Political and Governance | Moderate |
| 2. Macroeconomic | Moderate |
| 3. Sector Strategies and Policies | Substantial |
| 4. Technical Design of Project or Program | Substantial |
| 5. Institutional Capacity for Implementation and Sustainability | Substantial |
| 6. Fiduciary | Moderate |
| 7. Environment and Social | Moderate |
| 8. Stakeholders | Substantial |
| 9. Other | Low |
| OVERALL | Substantial |

58. The overall risk rating for the proposed project is considered Substantial because of the technical design and institutional capacity required for the implementation of the envisaged design. The most critical risks and proposed mitigation measures associated with the project are summarized in the following paragraphs.

59. The anticipated risks in sector strategies and policies are rated Substantial mainly due to the introduction of a new way of doing business with community and stakeholders and the necessary policy framework required to achieve the project objective. The GoTN has already initiated several measures to develop an enabling environment for private sector involvement, mainly in the non-farm sector. To strengthen the existing initiatives, to bring in new policy changes, and also to enhance private sector engagement, especially in the farm and off-farm sector, the project has built a strong governance mechanism by involving representatives from various key government departments, financial institutions, and the private sector. This governance structure would be able to appreciate the emerging needs of the various identified subsectors and players and take concrete steps in bringing policy reforms in requisite sectors.

60. The risks related to the technical design of the project are rated Substantial. The project envisages to work across sectors, geography, and stakeholders, which has its set of inherent complexities. The 'end-to-end' intervention in the commodity value chain adds an extra layer of complexity. To mitigate the risks, the project team is field-testing the approach in select project areas as part of the preparatory activities. This will enable the project to understand the design and

make necessary changes and adjustments for successful implementation at scale. Considering the Substantial risk, the project is designed for a period of six years with the expectation that the first year will be utilized in setting up the required systems and syncing the design principles within the implementation framework of the project.

61. Institutional capacity for implementation and sustainability is rated Substantial. The first level of challenge relates to implementing several sub-sectoral value-chain interventions across sectors and across agro-ecological and economic zones, all of which requires diverse technical expertise. The second level of challenge arises from the task load of intense networking and liaison with the government and the private sector. The challenge of promoting and hand-holding of enterprises and ensuring effectiveness of the OSF is also significant. To mitigate the risks, the project plans to have an implementation structure consisting of competent staff with relevant professional skill sets to provide technical inputs. Moreover, the project will enhance its institutional capacity through targeted trainings and exposures. To bring in the element of long-term sustainability, the project plans to partner with the existing MaKaMais, and through community managed learning and training centers, for all tasks relating to mobilization, grooming, and hand-holding of the targeted project beneficiaries. The intervention also considers the development of long-lasting relationship of community enterprises with the private sector to ensure post-project sustainability. The GoTN views the project as an important vehicle to further the state agenda of bringing in equitable growth in the state, and the project objective is in alignment with the state's Vision 2023.

62. The stakeholder risk is rated as Substantial due to two reasons. First, the project plans to promote matching grants where financial institutions will play a crucial role. Second, major investment for enterprise infrastructure is planned to be mobilized through convergence where the relationship with different departments will play a pivotal role. To mitigate the first risk, the GoTN has already initiated the procedure and communications with banks for setting up such finance products. It is also in the process of finalizing a Fund Manager to hold funds and provide technical assistance to all banks. For mitigating convergence risk, efforts will be taken to develop joint action plans with the relevant department. The implementation structure will be geared up for such exercises, wherein every district and block will have one staff responsible for liaising with departmental activities. Moreover, the inter-departmental governance structure will also mitigate the risk to a considerable extent.

# VI. APPRAISAL SUMMARY

## A. Economic and Financial Analysis

63. An Economic and Financial Analysis (EFA) was conducted following a cost–benefit methodology. The analysis attempted to identify quantifiable benefits that relate directly to the activities undertaken following the implementation of the project components, or that can be directly attributable to the project.

64. **Financial analysis.** Ten enterprise models were prepared to illustrate potential activities likely to be supported by the project in the context of three different value chain types – one farm value chain (millet production and processing), one off-farm value chain (dairy production and processing), and one non-farm value chain (coir fiber production, and marketing and processing

of residual product or coir pith), selected on the basis of economic, social, and institutional criteria. The financial models described in the following paragraphs attempt to reflect the interconnection between the various value chain actors at different stages of production and value addition.

65. Tables 5 to 7 present key results of the viability and profitability of financial models. The ratio of incremental net benefits per rupee of investment will form the basis for the assessment of the overall project benefits derived from enterprise promotion. The net present value (NPV) is calculated over all incremental inflows and outflows, including the costs of financing investments and working capital, for a five-year period. All NPV of incremental incomes are positive and for most cases considerably above the initial investment cost. Cost–benefit ratios have also been estimated and show values ranging between 1.01 and 1.52.

**Table 5. Financial Indicators for the Millet Value Chain**

| Activity/Value chain actors | Investment (Rs) | Annual Net Benefits (Rs) | | | Incremental Net Benefits per Rs of Investment | NPV of Incremental Income (Rs) | Cost-Benefit |
|---|---|---|---|---|---|---|---|
| | | Without Project | With Project* | Incremental Values | | | |
| Millet farmers - SHG members | 8,280 | 8,550 | 15,440 | 6,890 | 0.83 | 15,856 | 1.37 |
| Millet aggregation and cleaning - PG/EG | 350,000 | 30,000 | 243,880 | 213,880 | 0.61 | 786,400 | 1.13 |
| Millet processing - Individual enterprise (micro) | 720,000 | 0 | 2,045,180 | 2,045,180 | 2.84 | 6,035,807 | 1.04 |

*** At full development**

**Table 6. Financial Indicators for the Dairy Value Chain**

| Activity /Value Chain Actors | Investment (Rs) | Annual Net Benefits (Rs) | | | Incremental Net Benefits per Rs of Investment | NPV of Incremental Income (Rs) | Cost-Benefit |
|---|---|---|---|---|---|---|---|
| | | Without Project | With Project* | Incremental Values | | | |
| Dairy farmers - SHG members | 25,000 | 30,050 | 45,564 | 15,514 | 0.62 | 4,622 | 1.02 |
| Milk Aggregation - PG/EG | 153,000 | 73,788 | 102,706 | 28,918 | 0.19 | 190,686 | 1.02 |
| Milk Processing - PCs | 2,085,000 | 0 | 4,275,161 | 4,275,161 | 2.05 | 11,919,642 | 1.03 |
| Feed mixing unit - Individual enterprise (micro) | 694,000 | 0 | 626,891 | 626,891 | 0.90 | 1,854,349 | 1.05 |

*** At full development**

**Table 7. Financial Indicators for the Coir Value Chain**

| Activity/Value chain actors | Investment (Rs) | Annual Net Benefits (Rs) | | | Incremental Net Benefits per Rs of investment | NPV of Incremental Income (Rs) | Cost-Benefit |
|---|---|---|---|---|---|---|---|
| | | Without Project | With Project* | Incremental Values | | | |
| Coir fiber production - PG/EG | 330,000 | 0 | 178,137 | 178,137 | 0.54 | 631,892 | 1.52 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Coir fiber marketing - Individual enterprise (nano) | 230,000 | 84,591 | 252,429 | 167,838 | 0.73 | 434,851 | 1.01 |
| Coir pith processing plant - Individual enterprise (small) | 1,502,000 | 0 | 762,360 | 762,360 | 0.51 | 1,983,765 | 1.22 |

*** At full development**

66. **Economic analysis.** Indicative returns to investment and employment generation within the farm, off-farm, and non-farm sectors were calculated and aggregated with equal weight to ensure appropriate balance of representation of economic sectors in the overall project benefit stream. It comprises three main elements: (a) total incremental net benefits accruing from enterprise development within the value chains promoted by the project; (b) overall employment generated by such enterprises, measured in terms of additional working days per year; and (c) total number of beneficiaries linked to Government employment schemes. Incremental economic costs have been calculated by the removal of price contingencies and taxes/duties. There are no recurrent costs anticipated beyond project completion as business support activities are meant to become self-sustainable within the project implementation timeframe.

67. The period of analysis is 20 years to account for the phasing and gestation of the proposed interventions. Given the above benefit and costs streams, the base case scenario IRR is 37 percent, and the base case NPV, discounted at 10 percent, is US$253.7 million.

68. **Sensitivity analysis.** A sensitivity analysis was conducted to assess the variations in benefits and costs and for the various lags in the realization of benefits. Under the worst-case scenario (20 percent cost increase, 30 percent benefits decrease or two years lag in the realization of benefits), IRRs remain within acceptable values, well above the discount rate used for the analysis. Switching values were also calculated and are as follows: 72 percent for project benefits and 256 percent for total project costs. Both tests prove the robustness of the base case results.

## B. Technical

69. The proposed project aligns with the agenda of the state. Peoples' aspirations in Tamil Nadu have shifted from poverty alleviation to prosperity, i.e. better economic opportunities and sustainable incomes, which are the primary project objectives. Entrepreneurship and enterprises development, especially in the rural and peri-urban spaces, promotes rural growth and generates local multiplier effects. It increases the demand for other new firms and promotes a spiral of wealth creation and job generation to reduce local unemployment and poverty.[27] The project follows a scientific process-led approach right from the design phase. It carefully addresses major challenges in PC financing and enterprise promotion ecosystem through district diagnostics, wherein priority commodity value chains will be identified for each district to finalize the focus of project intervention. This approach ensures that caution is exercised in identifying commodities, and the decision is based on existing/forecasted market demand and presence of growth opportunity in the commodity value chain. It provides a firsthand account to understand the challenges in the ecosystem (i.e. market potential, demand and risks, gaps in financial and non-financial services, and linkages between the different players), which is critical as market linkages and financing are

[27] Westhead P and Wright M – "Entrepreneurship – a very short introduction" - 2015

the major challenges faced in enterprise development.[28] The project has also taken into consideration the major challenge of financing. Hence, financial instruments like matching grant linked to loans for MSE with technical assistance to financial institutions will increase access to finance and related financial services.

70. Enterprise promotion needs a suitable ecosystem; not just a policy ecosystem but also technical support services. Technical and business development services regarding market research, investment, financing institutions, skilled labor and legal compliances are hard to acquire, especially for micro enterprises in rural areas, which often do not get any business development service assistance or get poor advice from inadequate agencies, leading to failed businesses.[29] The TNRTP is facilitating the technical guidance cell and providing support for setting up OSF from the outset to provide regular business development services and technical support to entrepreneurs.

71. PCs have been a proven model to bring small producers into a decision-making role wherein they can negotiate the procurement and market prices. PCs help smallholders to benefit from economies of scale in input supplies and market prices, enhanced information and technology access, among others. The methodology followed those in previous projects which ensured the participation of primary stakeholders to decide between the choice to join a group enterprise, or to start an individual enterprise in select value chains. The project will enable an ecosystem for promotion of both enterprises and follow a process-led participation of target households.

72. Skilling for jobs has been one of the key strategies proposed under the project for ensuring that youth in the communities are adequately skilled and prepared to participate in employment opportunities in the job market. Similarly, customized skilling interventions are proposed under the project to address unmet demands of specific job opportunities that would open up in the MSE sector promoted by the project or outside.

### C. Financial Management

73. FM arrangements are considered to be adequate to account for and report on project expenditures. FM arrangements for TNRTP are built on existing arrangements of the ongoing Pudhu Vaazhvu Project (P079708/P107688), with modifications and enhancements related to new activities that are proposed to be included in the TNRTP.

74. TNRTS – a state-level registered society and autonomous body under the Rural Development and Panchayati Raj Department, GoTN has been established. The associated societies in each of the 26 districts will be established for implementing the World Bank-supported project. TNRTS retains the established and tested FM systems of TNPVS so as to provide reasonable assurance over the use of project funds.

75. World Bank and counterpart funding will be provided annually in the state budget for which a separate head of account has been approved and Rs 100 crores allocated by GoTN, financial year 2017-18. The GoTN Rural Development and Panchayati Raj Department will ensure

[28] International Finance Corporation, November, 2012.
[29] United Nations Industrial Development Organization (UNIDO) working paper on private sector development, 2005.

that adequate funds are available during the life of the project. For the project, funds will be drawn by the designated drawing officer from the GoTN's consolidated funds through a designated treasury and deposited into a separate project bank account of the TNRTS. The TNRTS will operate a single dedicated bank account with linked zero balance accounts at the district level.

76. Separate project books of account will be maintained according to extant practice. The project will be subject to internal audit based on extant systems and terms of reference (ToRs) agreed with the World Bank. Project expenditure will be reported through periodic interim unaudited financial reports drawn from the books, which will form the basis for reimbursement. External audit will be conducted by a private audit firm/s acceptable to the World Bank under ToRs agreed with the Bank.

77. The existing project FM Manual has been updated to reflect the new activities and implementing agencies as well as responsibilities for the FM. The chart of accounts in the existing accounting system has also been updated to reflect the proposed project components/subcomponents and activities.

78. **Disbursement arrangements.** The project will be pre-financed from the GoTN budget provision. The TNRTS will incur expenditure through budgetary funds and then seek reimbursement from the World Bank. No advance or direct payment method is envisaged. The project will submit withdrawal applications, supported by interim financial reports (IFRs), through the office of Controller of Aid, Accounts and Audit (CAA&A) for seeking reimbursement. Supporting documents required for World Bank disbursement will be according to the "Loan Handbook for World Bank Borrowers" and will be documented in the Disbursement and Financial Information Letter (DFIL).

### D. Procurement

79. The project will be implemented, monitored, and coordinated by the TNRTS. TNPVS has satisfactorily implemented TNEPRP with adequate procurement arrangements at the state, district and block levels. The TNRTS will replicate similar procurement arrangements for implementation of the project. Most of the procurement handled by the DPMU and BPMU is limited to small-value goods, or non-consultancy and consultancy services. Procurement for the project will be carried out in accordance with the World Bank's Procurement Regulations for Borrowers for Goods, Works, Non-Consulting, and Consulting Services dated July 1, 2016, and applicable to IPF hereinafter referred to as 'Procurement Regulations'. The project will be subject to World Bank's Anticorruption Guidelines, dated October 15, 2006, revised in January 2011, and as of July 1, 2016.

80. According to the requirement of Procurement Regulations, a Project Procurement Strategy Document (PPSD) has been developed. A Procurement Plan has been prepared based on the PPSD, which sets out the selection methods and arrangements to be followed by the borrower during project implementation in the procurement of goods, works, non-consulting, and consulting services financed by the World Bank. The Procurement Plan will be updated annually for larger procurements like Open National Selection (National Competitive Bidding) or as required to reflect actual project implementation needs and improvements in institutional capacity. The project will use the Systematic Tracking of Exchanges in Procurement (STEP) system for all its

procurement activities. The Project Procurement Manual, describing the procurement procedures to be followed at the state, district, block, and community level has been prepared and will be adopted after approval from the World Bank.

### E. Social (including Safeguards)

81. The proposed project's social inclusion strategy ensures that eligible households, those with assets, skills, and resources, targeted to participate and benefit from value-added economic activities include households belonging to disadvantaged social groups of SCs, STs, differently-abled, and other traditionally marginalized groups. To promote targeted support to women, the proposed project will target beneficiary households represented by women and involve youth and men to own enterprises, become part of PCs, and acquire skills, and seek employment to enhance household incomes.

82. The project has special focus on women across the different social groups to enhance their economic participation and incomes, provide an opportunity for greater empowerment, voice, and agency of women, as well as enable them to interact effectively with private and public sector players to sustain this social and economic empowerment. The TNRTP will support women's ownership of enterprises in identified value chains, promote woman entrepreneurs, provide skill enhancement training to the women workforce in existing enterprises, and enhance labor force participation of women in project-supported enterprises by ensuring that they are responsive to women workers and by enhancing skills for women to get jobs in existing and new industries/enterprises (details in Annex 6).

83. The Social Assessment undertaken by the project revealed that nearly 60 percent of economically active women in the target areas are engaged as casual and agricultural laborers, and about 10 percent are into economic activities. Of these, the majority were individual ventures followed by family enterprises; 14 percent had employees. Among the major constraints identified in expanding economic activities were lack of working capital (65 percent), non-availability of finance at low interest rates (57 percent), non-availability of raw materials (49 percent), delayed payments from buyers (44 percent), health issues related with their activity (42 percent), lack of equipment/machinery (30 percent), lack of business knowledge (23 percent), difficulty in marketing (22 percent), and shortage of skilled labor (14 percent). A gender action plan has been designed to specifically address the constraints that women entrepreneurs and women-led enterprises face with respect to business development and advisory services, access to finance, access to markets, training, and mentoring.

84. **Involuntary Resettlement (OP/BP 4.12).** The Operational Policy on Involuntary Resettlement (OP/BP 4.12) is not triggered as no land acquisition using the eminent domain is envisaged under the project. Any land required for project-related investments will be accessed through open market purchase ('willing buyer-willing seller') or by using government lands. Under special conditions, land donations may be an option. To ensure that there are no adverse impacts on communities due to the land acquisition process, all land transactions will meet the following criteria: (a) the land in question will be free of squatters, encroachers, or other claims of encumbrance; (b) lands will be chosen after ensuring that the particular piece of land is suitable for the purpose; (c) in each case, the voluntary nature of the land sale/donations will be verified; (d) land transfers will be completed and the title will be vested in the name of the project entity

through a registered sale deed or MoU; and (e) a provision will be made for redressing grievances. Retrospective assessments to ensure social due diligence will be undertaken for all voluntary land donations.

85. **Indigenous People (OP/BP 4.10).** The total population in the project area (120 blocks) is estimated at 12.3 million (2011 census). Of this, the population of STs is estimated to be 0.135 million constituting less than 1.1 percent. Here again, the ST population consists of plain tribes (who reside in the plains) and hill tribes who live largely in hilly and forested areas. The plain tribes, who continue to be socially disadvantaged, are better exposed to prevailing socioeconomic environment in the state and are pursuing livelihoods comparable with the general population. The hill tribes however are more vulnerable and display many of the characteristics of indigenous people as defined in OP/BP 4.10 (such as collective attachment to land and natural resources, distinct culture, customary institutions, and a distinct language) and hence would be the focus group under the World Bank's social safeguard policy. Of the total ST population of 0.135 million, hill tribes constitute 0.048 million only. These tribes are found in seven of the 120 project blocks. From the point of OP/BP 4.10, hill tribes are being considered as potential indigenous groups. While the tribal population of the hill tribes is small, they do face significant challenges with pursuing profitable economic opportunities due to social, cultural, and institutional barriers that need to be addressed through tailored interventions by the TNRTP.

86. The Social Assessment for the project was completed based on extensive consultations in the project target areas. This provided greater insights on the key challenges facing potential beneficiaries and also their pressing needs for enterprise development, especially for women entrepreneurs. A Tribal Development Plan has been developed to ensure that tribal households participate and benefit from project interventions that are culturally appropriate and build on the assets, skills, and resources unique to the tribal population targeted under the TNRTP. Social Assessment and Tribal Development Plan were widely consulted, cleared, and disclosed both in-country and in the World Bank Info Shop before appraisal.

87. **Safeguard management capacity.** The proposed project has conducted an expanded Social Assessment with project-affected persons (especially the tribal population), to secure broad community support. The recipient will need specific capacity to identify and assess potential adverse environmental and social impacts and to implement and monitor appropriate mitigation measures. The SPMU will ensure the presence of qualified environmental and social specialists as well as a dedicated Tribal Development Specialist to address environmental and social safeguard matters at the state and district levels. They will receive training on the World Bank safeguard policies. The IBRD will support measures that will strengthen the recipients' capacity to implement the safeguard instruments prepared for this project through training and activities supporting capacity. Further, the project's planning process will be conducted in a culturally- and gender-sensitive manner.

### F. Environment (including Safeguards)

88. The project is classified as category 'B' according to the World Bank Operational Policy Environmental Assessment (OP/BP 4.01) as the project interventions related to value-chain development and support for setting up of MSMEs are expected to have moderate environmental impacts/footprint. Accordingly, in addition to OP/BP 4.01, environmental safeguard policies on

Natural Habitats (OP/BP 4.04), Pest Management (OP/BP 4.09), and Forests (OP/BP 4.36) are triggered. An Environmental Assessment (EA) study has been completed, which also covers relevant social aspects such as work environment, worker safety, fair wages, consumer safety. The EA report has presented the environmental baseline of the project districts, identified the compliance requirements and the potential environmental and social impacts due to the project interventions.

89. The ESMF essentially provides for the following:

- A 'legal and regulatory framework' applicable to the project and a 'negative list of activities' that cannot be supported under the project;
- Potential adverse environmental impacts of project investments;
- A screening tool for categorizing low impact and high impact activities/enterprises;
- Environmental guidelines/mitigations for identified (potential) value chains/enterprises with low environmental impacts;
- Procedures for environmental and social appraisal of enterprises with high environmental and social impacts and preparation of mitigation plans; and
- Strategy for promotion of exclusive green enterprises under 'innovation promotion'.

90. The ESMF describes the appropriate institutional mechanisms, specific training/capacity-building needs, and monitoring mechanisms required for successful implementation of the ESMF. The integration of provisions of the ESMF will be the responsibility of the CPs who are responsible for facilitating business plans at the village level. The activities/business plans will be categorized as 'low' and 'high' impact activities through screening. The activities will undergo 'Environmental Appraisal' as per the guidelines suggested for that activity. The screening and appraisal of business plans will be done by CPs, which are vetted by the block level team at the OSF. The OSF at block level will provide support for implementation of environmental safeguard requirements, such as obtaining consent from the Pollution Control Board. At the state level, the Safeguards Specialist will facilitate and oversee the implementation of safeguards. Environmental appraisal and implementation of guidelines/greening measures is part of the milestones for the fund release. Also, with the objective of further promoting resource efficiency, social wellness, sustainability, profitability, and reducing the environment footprint, a separate tool called 'Enterprise Green Index' is being developed that will help rate the enterprises on environmental sustainability.

91. The EA and ESMF have been cleared and disclosed both in-country and in the Info Shop.

## G. World Bank Grievance Redress

92. Communities and individuals who believe that they are adversely affected by a World Bank supported project may submit complaints to existing project-level grievance redress mechanisms or the World Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the World Bank's independent Inspection Panel, which determines whether harm has occurred, or could occur, as a result of World Bank's non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought to the Bank's attention directly, and the Bank's management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's

corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

## Annex 1: Results Framework and Monitoring

**Country: India**

**Project Name: Tamil Nadu Rural Transformation Project (TNRTP) (P157702)**

**Results Framework**

### Project Development Objectives

**PDO Statement**

The Project Development Objective (PDO) is to promote rural enterprises, access to finance, and employment opportunities in selected blocks of Tamil Nadu.

| | |
|---|---|
| **These results are at** | Project Level |

### Project Development Objective Indicators

| | | Cumulative Target Values | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Indicator Name** | **Baseline** | **YR1** | **YR2** | **YR3** | **YR4** | **YR5** | **YR6** | **YR7** | **YR8** | **YR9** | **End Target** |
| Project direct beneficiaries (Number) | 0.00 | 23210.00 | 234530.00 | 373120.00 | 401620.00 | 411620.00 | | | | | 411620.00 |
| Female beneficiaries (Percentage - Sub-Type: Supplemental) | 0.00 | 65.00 | 65.00 | 65.00 | 65.00 | 65.00 | 65.00 | | | | 65.00 |
| Enterprises (individual and collective) with ongoing operations after | 0.00 | | | 5.00 | 25.00 | 50.00 | 60.00 | | | | 60.00 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| two years of project support (Percentage) | | | | | | | | | | | |
| Project beneficiaries engaged in self or wage employment following training facilitated by the project (Number) | 0.00 | 1500.00 | 11500.00 | 21500.00 | 41500.00 | 60000.00 | | | | | 60000.00 |
| Enterprises (individual and collective) supported by the project leveraging funds from financial institutions (Percentage) | 0.00 | | 4.00 | 47.00 | 75.00 | | | | | | 75.00 |

**Intermediate Results Indicators**

| Indicator Name | Baseline | Cumulative Target Values | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | YR1 | YR2 | YR3 | YR4 | YR5 | YR6 | YR7 | YR8 | YR9 | End Target |
| Approved VIPs leveraging finance through convergence (Percentage) | 0.00 | 0.00 | 90.00 | 90.00 | | | | | | | 90.00 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Project promoted enterprises (individual and collective) that avail of technical and business development services facilitated by project (Number) | 0.00 | 910.00 | 8742.00 | 13658.00 | 13670.00 | | | | | | 13670.00 |
| Individual Enterprises (Number - Sub-Type: Breakdown) | 0.00 | 460.00 | 4280.00 | 6620.00 | | | | | | | 6620.00 |
| Collective Enterprises, Producer Groups and Producer Collectives (Number - Sub-Type: Breakdown) | 0.00 | 450.00 | 4462.00 | 7038.00 | 7050.00 | | | | | | 7050.00 |
| Number of collective enterprises that received start-up fund (Number) | 0.00 | 100.00 | 2103.00 | 5422.00 | 7050.00 | | | | | | 7050.00 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Producer Groups (Number - Sub-Type: Breakdown) | 0.00 | 100.00 | 1800.00 | 4700.00 | 6000.00 | | | | | | 6000.00 |
| Enterprise Groups (Number - Sub-Type: Breakdown) | 0.00 | 0.00 | 300.00 | 700.00 | 1000.00 | | | | | | 1000.00 |
| Collective Enterprises and Producer Collectives (Number - Sub-Type: Breakdown) | 0.00 | 0.00 | 3.00 | 22.00 | 50.00 | | | | | | 50.00 |
| Enterprises (Individual and Collective) receiving funds from financial institutions (Number) | 0.00 | 0.00 | 472.00 | 4868.00 | 7670.00 | | | | | | 7670.00 |
| Individual Enterprises (Number - Sub-Type: Breakdown) | 0.00 | 0.00 | 460.00 | 4280.00 | 6620.00 | | | | | | 6620.00 |
| Producer Collectives (Number - Sub-Type: Breakdown) | 0.00 | 0.00 | 12.00 | 38.00 | 50.00 | | | | | | 50.00 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Enterprise Groups (Number - Sub-Type: Breakdown) | 0.00 | 0.00 | | 550.00 | 1000.00 | | | | | | 1000.00 |
| Innovation Promotion Fund Pilot(s) (including the innovation forums) selected for scale-up under the project (Number) | 0.00 | 1.00 | 3.00 | 5.00 | | | | | | | 5.00 |
| Service providers trained and earning income through user fees (Number) | 0.00 | 0.00 | 50.00 | 350.00 | 800.00 | 1170.00 | | | | | 1170.00 |
| Sparks and Jobs Community professionals (Number - Sub-Type: Breakdown) | 0.00 | 0.00 | 50.00 | 250.00 | 450.00 | 670.00 | | | | | 670.00 |
| Enterprise Community Professionals (Number - Sub-Type: Breakdown) | 0.00 | 0.00 | 100.00 | 300.00 | 500.00 | | | | | | 500.00 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Beneficiaries accessing convergence training programs through the project (Number) | 0.00 | | 10000.00 | 20000.00 | 30000.00 | 40000.00 | | | | | 40000.00 |
| Of which female beneficiaries (Percentage - Sub-Type: Supplemental) | 0.00 | | 40.00 | 40.00 | 40.00 | 40.00 | 40.00 | | | | 40.00 |
| Grievances registered related to the project that are actually addressed (Percentage) | 0.00 | 80.00 | 80.00 | 80.00 | 80.00 | 90.00 | 90.00 | | | | 90.00 |

## Indicator Description

### Project Development Objective Indicators

| Indicator Name | Description (indicator definition etc.) | Frequency | Data Source / Methodology | Responsibility for Data Collection |
|---|---|---|---|---|
| Project direct beneficiaries | This indicator measures the number of direct project beneficiaries (as defined as producer groups, enterprise groups, producer collectives, individual enterprises, alongside those engaged in the government skills and community skills schools program) who directly derive benefits from interventions across the program. | Quarterly | Progress Reports | TNRTP-PMU, Independent M&E Agency |
| Female beneficiaries | This indicator measures the percentage of direct female project beneficiaries (as defined as producer groups, enterprise groups, producer collectives, individual enterprises, alongside those engaged in the government skills and community skills schools program) who directly derive benefits from interventions across the program. | Quarterly | Progress Reports | TNRTP-PMU, Independent M&E Agency |
| Enterprises (individual and collective) with ongoing operations after two years of project support | This indicator measures the percentage of individual and collective enterprises supported under the project that are operational (defined here as continuing business operations to generate sales and cash flows (+/- 30% variance) as per approved the business plans) post two years of project support. | Quarterly | Enterprise MIS reports; Sample surveys reports by M&E | TNRTP- PMU, independent M&E agency |
| Project beneficiaries engaged in self or wage employment following | This indicator measures the number of project beneficiaries provided training through convergence initiatives placed in | Quarterly | Progress Reports | TNRTP-PMU, Independent M&E Agency |

| | | | | |
|---|---|---|---|---|
| training facilitated by the project | jobs or reporting income earned through self-employment within 6 months of the completion of the training program. | | | |
| Enterprises (individual and collective) supported by the project leveraging funds from financial institutions | This indicator measures the percentage of individual and collective enterprises receiving funds from financial institutions. | Quarterly | Progress Reports | TNRTP-PMU, Independent M&E Agency |

**Intermediate Results Indicators**

| Indicator Name | Description (indicator definition etc.) | Frequency | Data Source / Methodology | Responsibility for Data Collection |
|---|---|---|---|---|
| Approved VIPs leveraging finance through convergence | This indicator measures the percentage of approved VIPs with finance from convergence initiatives. | Quarterly | Progress Reports | TNRTP-PMU, Independent M&E Agency |
| Project promoted enterprises (individual and collective) that avail of technical and business development services facilitated by project | This indicator measures the number of individual and collective enterprises that are availing technical and business development services provided by the MaKaMai, OSF and TSAs. | Quarterly | Progress Report | TNRTP-PMU, Independent M&E Agency |
| Individual Enterprises | This indicator measures the number of individual enterprises that are availing technical and business development services provided by the MaKaMai, OSF and TSAs. | Quarterly | Progress Reports | TNRTP-PMU, independent M&E agency |
| Collective Enterprises, Producer Groups and Producer Collectives | This indicator measures the number of collective enterprises, producer groups and producer collectives that are availing technical and business development services provided by the MaKaMai, OSF and TSAs. | Quarterly | Progress Reports | TNRTP-PMU, independent M&E agency |

| | | | | |
|---|---|---|---|---|
| Number of collective enterprises that received start-up fund | This indicator measures the number of collective enterprises (which encompasses Enterprise Groups, Producer Groups and Producer Collectives) that has received the start-up fund from the project. | Quarterly | Progress Report | TNRTP-PMU, Independent M&E Agency |
| Producer Groups | This indicator measures the number of Producer Groups that have received the start-up fund from the project | Quarterly | Progress Reports | TNRTP-PMU, Independent M&E Agency |
| Enterprise Groups | This indicator measures the number of Enterprises Groups that have received the start-up fund from the project | Quarterly | Progress Reports | TNRTP-PMU, Independent M&E Agency |
| Collective Enterprises and Producer Collectives | This indicator measures the number of Producer Collectives that have received the start-up fund from the project | Quarterly | Progress Reports | TNRTP-PMU, Independent M&E Agency |
| Enterprises (Individual and Collective) receiving funds from financial institutions | This indicator measures the number of individual and collective enterprises that have received finance from financial institutions | Quarterly | Progress Reports | TNRTP-PMU, Independent M&E Agency |
| Individual Enterprises | This indicator measures the number of individual enterprises that have received finance from financial institutions | Quarterly | Progress Reports | TNRTP-PMU, Independent M&E Agency |
| Producer Collectives | This indicator measures the number of producer enterprises that have received finance from financial institutions | Quarterly | Progress Reports | TNRTP-PMU, Independent M&E Agency |
| Enterprise Groups | This indicator measures the number of enterprise groups that have received finance from financial institutions | Quarterly | Progress Reports | TNRTP-PMU, Independent M&E Agency |
| Innovation Promotion Fund Pilot(s) (including the innovation forums) selected for scale-up under the project | This indicator measures the number of Innovation Promotion Fund pilot(s) (including the innovation forums) selected for scale-up supported under the project (with 2 IPF pilots, 3 innovative forums planned under the project). | Quarterly | Progress Reports | TNRTP-PMU, Independent M&E Agency |

| | | | | |
|---|---|---|---|---|
| Service providers trained and earning income through user fees | This indicator monitors the number of service providers (defined here as Sparks, Jobs CPs and Enterprise CPs) in selected value chains supported by the project that have been trained, certified, and earning income through user fees. | Quarterly | Progress Reports | TNRTP-PMU, Independent M&E Agency |
| Sparks and Jobs Community professionals | This indicator monitors the number of Sparks and Jobs Community Professionals in selected value chains supported by the project that have been trained, certified, and earning income through user fees. | Quarterly | Progress Reports | TNRTP-PMU, Independent M&E Agency |
| Enterprise Community Professionals | This indicator monitors the number of Enterprise Community Professionals in selected value chains supported by the project that have been trained, certified, and earning income through user fees. | Quarterly | Progress Reports | TNRTP-PMU, Independent M&E Agency |
| Beneficiaries accessing convergence training programs through the project | This indicator measures the number of beneficiaries that accessed convergence-training programs through the project. | Quarterly | Progress reports | TNRTP-PMU, Independent M&E Agency |
| Of which female beneficiaries | This indicator measures the percentage of female beneficiaries who accessed convergence training programs through the Project. | Quarterly | Progress Reports | TNRTP-PMU, Independent M&E Agency |
| Grievances registered related to the project that are actually addressed. | This indicator measures the transparency and accountability mechanisms adopted by the project so that the target beneficiaries have trust in the processes and are willing to participate, and feel that their grievances are attended to promptly. Thus, the project monitoring system should provide information on the number of complaints received against the number actually resolved by the TNRTP-PMU. | Annual | Project M&E | TNRTP-PMU |

## Annex 2: Detailed Project Description

## INDIA: Tamil Nadu Rural Transformation Project

### A. Project Development Objective, Districts, Beneficiaries, and Key Results Indicators

1. The proposed PDO is to promote rural enterprise, access to finance, and employment opportunities in selected blocks of Tamil Nadu. The key results indicators to assess the project outcomes are:

(a) Percentage of enterprises (individual and collective) with ongoing operations after two years of project support;
(b) Percentage of enterprises (individual and collective) supported by the project leveraging funds from financial institutions;
(c) Beneficiaries engaged in self or wage employment following training facilitated by the project (number); and
(d) Project direct beneficiaries (number) of which percentage of female beneficiaries.

2. The TNRTP will be operational in 26 districts[30] specifically focusing on 120 blocks and 3,994 village panchayats of Tamil Nadu. The project will have 411,620 direct beneficiaries. The project will work with targeted households that are already part of SHGs, of which 325,000 households will be organized into EGs, PCs, and PGs. The project will support around 6,620 individual entrepreneurs; 80,000 youth (40,000 through convergence with existing flagship government skilling schemes and 40,000 through community-based skilling provision). Project implementation will be rolled out in a phased manner – 26 blocks will be taken up for implementation in all project districts in the first eight months, followed by 52 blocks by the end of 12 months, and the remaining 42 blocks by the end of 18 months from initiation of project implementation.

### B. Project Components' Description

3. The project interventions are grouped into four main components: Component 1 – Rural Enterprise Ecosystem Development; Component 2 – Enterprise Business Plans Financing; Component 3 – Skills and Job Opportunities; and Component 4 – Project Management, Results Monitoring, and Implementation Support Systems.

### Component 1: Rural Enterprise Ecosystem Development

4. The objective of this component is to create an enabling environment conducive for promoting and strengthening producer organizations, businesses, and enterprises along selected value chains in targeted blocks. Analytics at the district- and value-chain levels will provide

[30] Project Districts: Coimbatore, Cuddalore, Dindigul, Erode, Kancheepuram, Karur, Krishnagiri, Madurai, Nagapattinam, Namakkal, the Nilgiris, Pudukottai, Ramanathapuram, Salem, Sivagangai, Theni, Thiruvallur, Thiruvannamalai, Thiruvarur, Thoothukudi, Tirunelveli, Tiruppur, Trichy, Vellore, Villupuram, and Virudhunagar.

informed pathways for the facilitation of investment plans and producer organizations' business plans and will serve as an input for Components 2 and 3 within the TNRTP.

***Subcomponent 1.a: Inclusive Strategic Investment Analytics and Planning***

The activities in this subcomponent will support a comprehensive and deeper understanding of the business ecosystem including agro-climatic and socioeconomic aspects in the project areas to contextualize project investments. The subcomponent will identify and prioritize sectors, subsectors, and commodities for project investments through: (a) a DDS – a robust analysis at the district level to identify the major commodity and subsectors; (b) VCA studies at the state level for prioritized commodities and subsectors; and (c) preparation of PGPs. This subcomponent will specifically finance (a) training, workshops; (b) consultant and non-consultant services; (c) goods, including printing of manuals, ICT hardware and software and office refurbishment; (d) operating costs including outsourced staff, office running costs etc. for conduct of District Diagnostic Studies, Value Chain Analysis and preparation of Participatory Growth Plans.

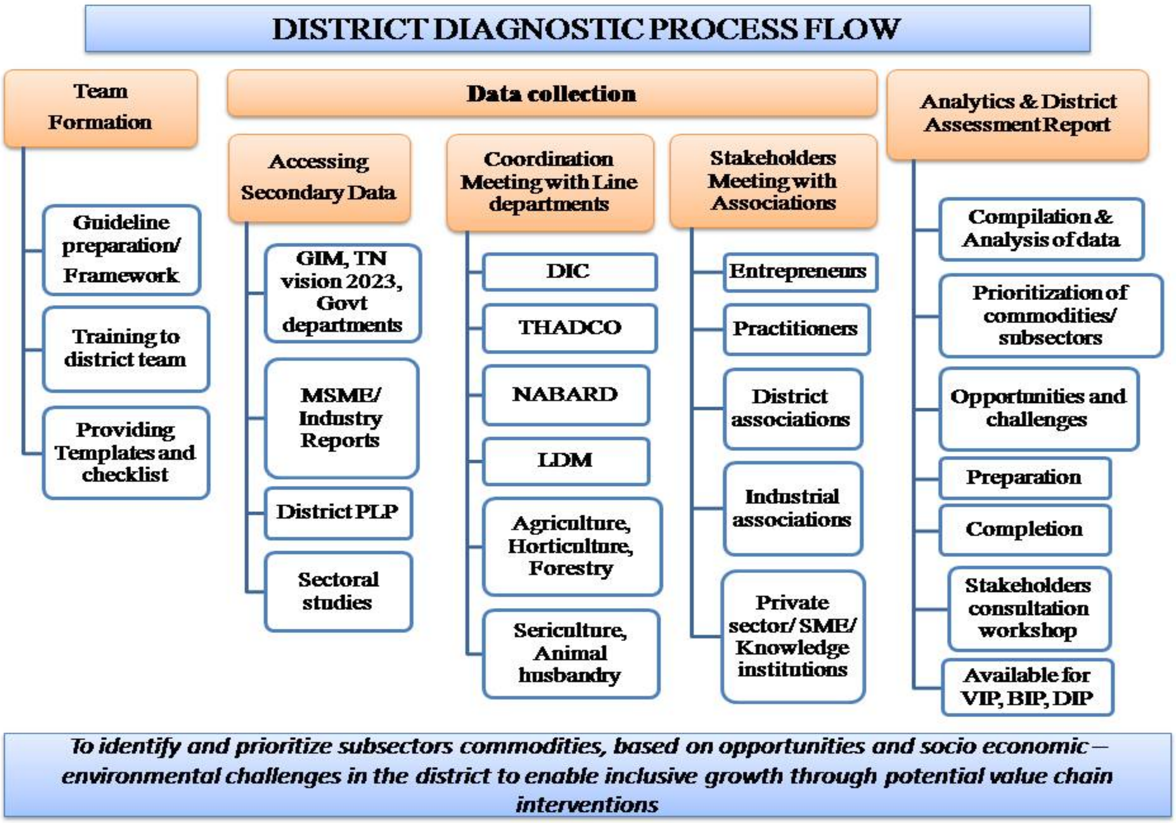
5. The purpose of these inclusive analytical exercises (DDS and VCA) will be two-fold: (a) matching the economic reality and potential sources of comparative advantage in the district with market trends and key success factors in priority sectors, and (b) informing the preparation of investment plans at village, block, and district levels by beneficiary communities through PGP processes. This will help identify project activities and investments in the prioritized value chain, including institution building, technology, capacity enhancement, infrastructure development, and market access. These investment plans for promoting and facilitating enterprises in selected value chains will thus be based on robust analysis and inclusive planning processes and can maximize the impact of TNRTP instruments and interventions. These intertwined activities will build a consensus among local stakeholders around shared challenges and facilitate a discussion on how local capabilities can match market-based opportunities in different priority products. Proactive measures will be instituted to ensure participation and representation of the socially disadvantaged sections[31] in the community in analytics, planning, and enterprise promotion. The PGP exercise will leverage ICT for the development of spatial analytics and monitoring systems at the state level.

6. **District Diagnostic Study.** The objective of the DDS is "to identify and prioritize major sectors, subsectors, and commodities for enterprise promotion in the local context." The DDS is the first-level analytics, based on stakeholder consultations and analysis of secondary information. This includes an in-depth evaluation of the district for identifying the opportunities and challenges in the specific sectors, subsectors, and commodities for the next level of analytics through the value-chain approach. The studies will provide an updated assessment on the existing capabilities and nuanced understanding of sources of comparative advantage at the district level. These studies will help to identify and prioritize subsectors and commodities at the district level; market growth and demand patterns in the medium to long term, as well as associated risks; and the potential household income opportunity for primary producers (see figure A3.1). The DDS will be conducted in 26 TNRTP districts. Upon approval of the DDS reports in a meeting chaired by the

[31] Major focus will be on participation of women, tribals, and other vulnerable sections of the community.

District Collector, these will be compiled at the state level for prioritizing sectors, subsectors, and commodities, as well as planned VCA studies.

**Figure A3.1. District Diagnostic Studies (DDS) Process Flow**




7. The study will be conducted by district diagnostic teams consisting of five members – a District Executive Officer and four managers. The team will be supported by two technical experts, identified from local knowledge institutions or the private sector in the district. The team will be trained to perform DDS according to the standard guidelines prepared by the state team. The district diagnostic team will collect data primarily from the following sources: secondary data of the districts, sectors, subsectors, commodities, growth opportunities, public sector, civil societies, knowledge institutions, and the private sector. Data on demographics, socioeconomics, priority sectors, private investments, and occupational work profile of women and men disaggregated by caste categories, differently-abled, and woman-headed households, will be collected through primary and secondary sources.

8. The team will have one-on-one meetings with various stakeholders including civil society organizations, industry associations, private firms, and line departments, for the DDS. Additionally, the district diagnostic team will organize focus group discussions and interviews with women entrepreneurs and collective groups involved in enterprise activities to inform the report. The team will compile the collected data in standardized templates and analyze it based on the criterion for commodity prioritization. The expected outcome from the DDS is prioritized commodities, sectors, and subsectors at the district level for further analysis. The draft DDR will

be presented in the District Rural Transformation Society meeting chaired by the District Collector to obtain due approval. This entire exercise for each district will be completed in seven weeks.

9. **Value-Chain Analysis.** The objective of the VCA is "to deep dive into the prioritized commodities and subsectors (identified through the DDS), and obtain deeper understanding of the opportunities, challenges, and risks to develop strategies for enterprise promotion." The DDS and value-chain studies and analytics will lead to informed investment planning and subsequent promotion of enterprises/collectives in the identified commodities/subsectors. Additionally, the VCA will identify collaborative opportunities between the enterprises and other actors in the value chain such as common infrastructure for storage/logistics and market information. Two pathways will be adopted for VCA studies: (a) use of existing value chain studies (if found appropriate) for analytics and planning in the project and insights from these reports referred for new VCA studies, wherever relevant; and (b) initiating new VCA studies for prioritized commodities and subsectors by hiring an expert technical consultancy firm for the first prioritized commodity, identified through pilot DDRs. The new VCA reports will be discussed in a multi stakeholder workshop. The consultancy firm would also further build the capacity of the TNRTP staff in effectively using the VCA study reports and findings. This will help develop analytical understandings for the TNRTP team and facilitate them to identify potential avenues for enterprise promotion, investment opportunities, key interventions, and measures for managing the value-chain bottlenecks and inclusion of socially disadvantaged sections of the community in TNRTP.

10. **Participatory Growth Plans.** The objective of participatory growth planning is "to develop inclusive investment plans for the communities for enterprise promotion." The PGP exercise will be facilitated by the district, block, and MaKaMai teams at the district, block, and village levels, respectively. At the village level, community members will participate in the planning process and validate the identified value-chain activities appropriate for enterprise development for their village. This village investment planning exercise will be conducted at the village panchayat level by a dedicated team of ECPs selected according to the criteria laid. The PGP in the village will be completed in a 30-day period. This planning process will be informed by district diagnostics reports and value-chain studies. The VIPs will be consolidated and reviewed at the block and district levels, respectively (detailed process for each step is enumerated in the following paragraphs).

11. **Village Investment Plan.** The PGP will be carried out by a team including the ECPs, identified, and trained by MaKaMais and the block teams, with the help of standardized guidelines based on primary village level information, district diagnostics, and value-chain studies. Opportunities for enterprise promotion will form the VIPs. Consultations will involve men and women SHG members, producers, farmers, entrepreneurs, and Common Livelihood Group (CLG) members, ensuring representation from the SC and ST households. Key information in the VIP will include a listing of entrepreneurs in the village, opportunities for enterprise promotion, and employment opportunities especially for women-led enterprises, PGs, and skills development. The VIP will be prepared by the community and approved in the Gram Sabha and village meeting and will be forwarded to the block team for validation.

12. **Block Investment Plan.** The block teams with the support of MaKaMais will consolidate VIPs into the BIPs for commodity prioritization at the block level, identify opportunities for forming PCs, and identify entrepreneurs in select businesses linked to the value chain. The BIP

will be validated and endorsed by the block-level coordination committee, comprising line department officials at the block level, and will be sent to the district unit for approval (a standard template for BIP will be prepared by the TNRTP team). Through the ICT-based platform (VIPs converging into the BIPs), the BIPs will be consolidated and fine-tuned. The key aspects of BIP include: standardization, homogenization, and phasing of interventions, strategic positioning of value-chain intervention, identification of enterprises (individual, PGs, women-led, green), convergence, and partnerships.

13. **District Investment Plan.** The DIP will identify potential areas for intervention, convergence, partnerships, financial linkages, department-related schemes, services, and infrastructure to support enterprise development. The DIP will also help in leveraging investments from public and private agencies, which will add value and support in the value-chain activity. The final district plan will be validated and endorsed in the convergence meeting of the line departments and then approved by the TNRTP district society chaired by the District Collector. The DIP will guide the project team and district administration for timely and strategic implementation of the program and monitoring.

14. **State Investment Plan**. The state unit will consolidate DIPs and prepare a SIP that will act as a guide for higher-level interventions and strategic policy planning through convergence. The state plan will help the project management in better implementation of the project and in forging partnerships with the departments at the state level, the lead private sector, and public/private knowledge institutions. The state-level Steering Committee will use the document for coordination and convergence purpose.

15. **Community-driven ICT-based monitoring mechanism**. Such a mechanism will also be put in place under this subcomponent to ensure effective and efficient implementation of plans and will be within the ambit of the overall project MIS (to be developed under Component 4).

***Subcomponent 1.b: Enterprise Development Support Services***

The objective of this subcomponent is "to develop appropriate institutions and mechanisms for business development support services to the enterprises in initiating, managing, and successfully running the businesses." The activities in this subcomponent will support the PCs and enterprises under the project to: (a) scope enterprise promotion including business plan development; (b) bridge critical gaps in accessing business development services, technology, and skills; (c) acquire required legal licenses and formalities; and (d) secure finance. The two distinct pathways identified in the TNRTP to provide business development support services to enterprises are: (a) community-led service delivery through MaKaMais,[32] which is responsible for PGP, the formation of PGs/ PCs and job creation through CPs,[33] and (b) the establishment of OSFs as business facilitation cum

[32] The TNEPRP or ('Pudhu Vaazhvu' Project (PVP) in local language) has developed higher order community resource centers called MaKaMai, at the district and block levels, and developed community-driven services (such as CPs) to nurture and grow village-level community institutions. MaKaMai graduated from primary community-based institutions such as the VPRCs and PLFs as independent community institutions registered under the Tamil Nadu Societies Act, governed and managed by the community. MaKaMai will play an enabling role for the project to sensitize key stakeholders and target households of the project on inclusive approach.

[33] The community members who are experienced in community mobilization and have developed service delivery skills will be identified and retained as CPs in jobs and enterprises.

incubation centers. This subcomponent will finance (a) training, workshops; (b) consultant and non-consultant services; (c) goods, including printing of manuals, ICT hardware and software and office refurbishment; (d) operating costs including outsourced staff, office running costs at district and block levels etc. for One-Stop Facilities and MaKaMai services.

16. The OSFs will be established at the sub-district level[34] and will be professionally managed by two professionals with expertise in small business development and required analytical skills in preparing business plans. Critical gaps in access to business development services, technology and skills, acquiring required legal licenses and formalities, and securing finance are the challenges faced by most of the start-ups and existing businesses and enterprises to expand and become viable. The changes in the business ecosystem and market dynamics pose challenges to entrepreneurs and at times, act as entry barriers. The OSF will offer rural entrepreneurs and enterprises a range of business development support services such as: business ideation and conceptualization, business plan preparation, hand-holding support to initiate business, facilitation support to access required finance, technology, skills; regulation compliances; market intelligence, information, and linkages; and mentoring. The OSF will bridge the knowledge and business services access gap for new and existing entrepreneurs in the project area besides providing special support to women-led and green enterprises.

17. The positioning of the OSF will be autonomous (leveraging PPP arrangements with industry associations) and will act as a stand-alone business-facilitating arm at the sub-district level. The OSF services to the enterprises will be on a service fee-based model. However, for the initial cohort of 10 OSFs in the first year, the business model will be tested and validated (including number of entrepreneurs and enterprises supported, number and nature of services provided, and viability of OSFs business at the geographical levels, fee structures for the business, additional support required). The entrepreneur serviced through OSF will be skilled through subcomponent 3 c. This will inform the OSF scale-up plan. The provision of business development support services particularly to the PGs/ PCs and enterprises, to be developed and financed thus assumes critical importance. The support services for PGs/ PCs, especially those related to PGs/ PCs formation and nurturing, training and capacity building in operations, and monitoring will be mainly provided by the MaKaMais through CPs. MaKaMais will identify and train CPs for new functional domains, such as individual and collective enterprise, as required by the TNRTP.

***Subcomponent 1.c: Enterprise Promotion, Value Chain Strengthening and Partnerships***

18. The objective of this subcomponent is "to promote individual and collective enterprises engaged in prioritized sub-sectoral value-chain activities and enhance their capacity to deal with market institutions and other stakeholders effectively." Enterprises will be supported to enhance production efficiency, develop seamless input infrastructure, mobilize credit from financial institutions, converge with government schemes, and also integrate with remunerative markets. Based on the VIP, enterprises across farm, off-farm, and non-farm sectors, which are directly aligned with the prioritized commodity and subsector, will be supported either as individual or collective enterprises. This subcomponent will finance (a) training, workshops; (b) consultant and

[34] The OSF will be housed within the MaKaMai premises. However, the functioning and governance of the OSF will be independent of MaKaMai, and only the costs toward office space and infrastructure requirements will be borne by the MaKaMai.

non-consultant services; (c) goods, including printing of manuals, provision of training kits, ICT hardware and software and office refurbishment; (d) start up grants to PGs/EGs and PCs; and (e) operating costs including outsourced staff, office running costs etc. for enterprise development.

19. Individual enterprises identification and promotion will support three types of enterprises under the project (details are in table A3.1):

(a) **Nano enterprises.** Owned by one or more individuals (not exceeding five individuals, most probably from the same household). The financing need of these enterprises would range from Rs 1 lakh (approximately US$1,500) to Rs 5 lakhs (approximately US$7,500). These would be small enterprises, mostly operating at a household level, which cannot be supported through a loan from an SHG or other MFIs.

(b) **Micro enterprises.** Owned by one or more individuals it would significantly contribute to value chain, investment, and employment. The financing need of these enterprises would range from Rs 5 lakhs (approximately US$7,500) to Rs 15 lakhs (approximately US$22,500).

(c) **Small enterprises.** Owned by one or more individuals it would contribute to the selected value chain. The financing need of these enterprises would range from Rs 15 lakhs (approximately US$22,500) to Rs 30 lakhs (approximately US$45,000). These would be higher order enterprises contributing significantly to the prioritized commodity/subsector and also generating larger employment opportunities.

**Table A3.1. Type of Individual Enterprises (Indicative)**

| Type | Investment (Rs) | Business Turnover (Rs lakhs) | Jobs Created | No. of Enterprises to be Promoted |
|---|---|---|---|---|
| **Nano** | Up to 5 lakhs | 10–15 | 1+ | 6,000 |
| **Micro** | 5–15 lakhs | 15+–50 | 8+ | 500 or more |
| **Small** | 15–30 lakhs | 50+–250 | 15+ | 120 or more |

20. The strategy to promote individual entrepreneurs (both existing and new) to set up enterprise around the prioritized commodity and subsector (detailed in figure A3.2) will be to: (a) identify a set of aspiring entrepreneurs through a rigorous methodology; (b) provide technical and business development services through the OSF, along with convergence (line department) and partnership (private sector) to develop business plans; and (c) link to financial institutions for business plan financing and other financial services. While selecting entrepreneurs, proactive measures would be taken to motivate and mobilize women to lead the initiatives. Moreover, the possibility for greening the enterprises would be explored during the business planning process. The nano enterprises, especially, would require intensive hand-holding support in terms of business advisory and business development services. The OSF and project staff, along with ECPs, would be extending all support, including focused training and capacity-building inputs, besides regular ongoing counseling and facilitation support.

21. **Collective enterprises.** Producers[35] who are primarily engaged in farm, off-farm, and non-farm sectors will be identified and mobilized into PGs and EGs (refer to table A3.2). Most of the

[35] Producers in this context is broadly defined as farm producers, horticulturist, animal rearers, fisher folk, non-timber forest produce gatherers, artisans, and workers involved in specific non-farm activities.

PGs would also be aggregated into higher order producer organizations or PCs. These groups would comprise producers aligned with the prioritized commodity value chains and in exceptional cases may belong to certain niche farm, non-farm, or off-farm activities specific to the local context that are identified during the PGP process.

(a) **EGs** will be formed at the village level involved in a common production activity, utilizing a common infrastructure and directly linked to the market. In most cases, EGs would be involved in non-farm activities and would be stand-alone enterprises not linked to any higher order PCs. The EG would have up to 30 members.

(b) **PGs** will be of two types: (a) those involved in production activities and linked to PCs for economies of scale and collective bargaining – in such cases, PCs act as the enterprise and PGs as the producer feeder; and (b) PGs involved in production, aggregation, and basic processing, and linked directly with the market or with enterprises promoted in the project. The second type of PGs would only be promoted where the need for aggregation may be limited, required for shorter time duration, and/or may not lead to adequate revenue stream for the PCs to survive. The size of PGs may range from 30–150 members.

(c) **PCs** will have a strong focus on creating value for the producers, not just by means of aggregation, but also by enabling access to inputs, new generation technologies, extension services, finance, and market linkages. The PCs may have a membership of 50–100 PGs (500–2,500 producers) and would be a membership-based organization having representation from PGs. For PGs/PCs in tribal locations the membership criteria can be customized.

22. The key strategies to be adopted for the promotion of producer organizations would be: (a) to create a robust extension system to enhance production efficiency; (b) to build linkages for seamless backend input supply, financing for infrastructure and working capital, creating productive infrastructure, and roping in technology for commodity value addition; and (c) to develop effective market integration mechanisms. It is envisaged that the deployment of the aforementioned strategies will help producer households to be efficient in production and aggregation and overcome market barriers leading to a larger market share of the commodity and value maximization at the producer level.

23. Convergence and partnership will be a key strategy wherein PCs and enterprises would partner with the private sector for input and output marketing, and technical agencies for training and technology transfer, information and digital platforms (e.g. Digital Green, Agromet, Skymet) for knowledge and advisory services, and with existing PCs, both for horizontal and vertical linkages. The project will hire the services of reputed TSAs having in-depth knowledge and experience of promoting successful PCs. These agencies would be providing systematic technical assistance and hand-holding to the project staff on areas of PG and PC promotion and strengthening.

24. This subcomponent will support the mobilization of producers, primarily women SHG members (or their family members), involved in a specific commodity and subsector cluster across farm, off-farm, and non-farm sectors into EGs or PGs (figure A3.3). The members would

preferably be organized around prioritized commodity or subsector depending on the value proposition of the commodity and the subsector. However, depending on the context and the specific commodity activity load, PGs may be involved in one or multiple commodities and/subsectors (for e.g. PGs mobilized around two or three vegetable commodities may also be involved in pulses). The PGs will be primarily engaged in production, aggregation, and first level of value addition. Based on the need and strategy of the respective commodity and subsector intervention model, higher-level organizations of PGs would be promoted. The EGs, on the other hand, would be mobilized around a non-farm activity at a level most suited for the activity. Thus, membership in an EG may be from across villages (e.g. a garment unit may be put up in a peri-urban area nearer to the market with assured steady supply of electricity and other facilities required for the enterprise).

25. The higher order PC will be the interface of all PGs with the market and other external stakeholders and would primarily be operating business enterprise models with all relevant support and inputs from the PGs. The sequence of PG and PC promotion will be based on the market demand and opportunities in the ecosystem. The project would adopt a flexible approach for PC formation after the required number of PGs are formed and strengthened. Alternatively, to initiate required services for aggregation, processing and marketing by the promoted PGs, a nodal PG will be promoted to lead these activities as the PC would not be started in the initial years. The TSA will play an important role in developing the ecosystem of these services to be provided to the PGs.

26. In a few cases, the initiation may start with PC formation and slowly more number of producers and PGs would be added, until the optimum size is reached. The project would also proactively work with existing strong PCs, which are engaged in the prioritized commodity and subsector, located in the geographic area and are promoted by other agencies (both nongovernmental organizations (NGOs) and government line departments). However, in such cases, method of due diligence in terms of organizational health assessment of such existing PCs will be adopted apart from partnering with the promoter agency. The PCs (either existing or promoted) will leverage the scale of economies for the PGs, and thereby, will actively engage in aggregation, higher order value addition, branding, and marketing and selling. The PCs would be registered as legal entities to enable them to function smoothly in the existing business ecosystem.

27. Both PGs and PCs would be provided with customized training for group management, production and quality enhancement, value addition, franchise management, business plan development, planning and monitoring, and on different dimensions of market integration. The project will nurture a group of enterprise CPs in collaboration with MaKaMais to: i) form and groom PGs; ii) create a strong grassroots-level extension system; iii) provide them with regular hand-holding support, facilitate relevant linkages (market, financial institutions); and iv) do requisite monitoring and information generation for the MIS. The responsibility of formation and nurturing of PCs would be with the project staff that would be supported by the TSA. The TSA will be responsible for developing the standard operating procedure, all relevant protocols of PC formation and strengthening, training of the project staff, and providing direct hand-holding support to the promoted PCs in strengthening governance, and enhancing operational efficiency apart from market integration.

28. **Start-up Fund.** The allocated Start-up fund grants will be used to facilitate procurement of relevant assets and infrastructure or to use it as a working capital. All major investments for productive infrastructure as well as working capital are expected to either be mobilized through convergence or through business plan financing from financial institutions. The fund flow will vary according to the organization. For PGs and EGs, the start-up fund will vary between Rs 50,000–200,000 while it will be Rs 40 lakhs for the PCs. For PGs and EGs, the start-up fund will be disbursed in a single tranche and the amount will be based on the activity plan (for PGs) or business plans (for EGs). The individual production working capital requirement for PGs will be mobilized from SHGs or formal financial institutions. The working capital requirement of the EGs as well as other productive infrastructure investment will be mobilized either through convergence or formal financial institutions. Just like other enterprises, EGs and PCs are also eligible for matching grants. For PCs, the flow of the start-up fund will be milestone based. The approved Start-up fund grants will be disbursed in three or four tranches. Fifty percent of the start-up fund will be based on performance of the PCs, while the rest will be passed on to the PCs once certain milestones like registration completion, equity capital mobilization, and business plan are completed.

29. Transformation and environmental sustainability are the focus of the project, and thus, proactive measures would be taken to integrate the green element into every aspect of the activities promoted by the various organizations, be it in production (e.g. organic production, application of bio pesticides); processing (e.g. solar power units for bulk milk chillers); or packaging (e.g. biodegradable packaging).

30. Several actors – producers, entrepreneurs, institutions, and other value-chain actors – will be working in tandem in the prioritized commodity value chain to strengthen coordination, ensure higher participation of private and public players, and enhance efficiency in the entire system. These actions are likely to differ across commodities, and the mechanisms to implement the action plans are flexible enough to encompass a variety of action-oriented support domains and priority areas to strengthen select value chains. The actions may include, but are not limited to the following:

- Actions for sustainable value-chain development with various actors;
- Actions to facilitate collective procurement and development of specialized shared infrastructure (e.g. warehouses, cold storage, perishable transport/logistics platform);
- Actions in domestic or export markets for groups of value-chain actors or the value chain as a whole (e.g. organization and facilitation of trade shows and promotions, business-to-business meetings of the enterprises promoted under the project with other value-chain actors);
- Actions in commodity-specific business services complementing other components and subcomponents under the TNRTP;
- Actions to raise quality standards of value-chain products and services through facilitation services (e.g. accessing certifications like fair-trade, organic, geographical indicators, intellectual property rights);
- Actions to improve technology adoption or research and development and innovations;
- Actions to strengthen value chains through market linkages and supplier development;

- Actions to increase investment attraction; and
- Actions to create or upgrade existing tools designed to overcome market failures in access to finance.

31. The funding of these initiatives can combine a multiplicity of models, which could be entirely funded under the TNRTP budget, or through convergence models in collaboration with other institutional actors, or through public–private partnership. The scope and cost of listed actions will unfold after the VCA study reports are done and value-chain investment plans are concretized. A tentative plan of investments for value-chain strengthening has been structured under the heads below, beneath which various emerging action requirements will be appropriately planned during project implementation.

32. Organization and participation in trade shows and promotions, and arranging business-to-business meetings of enterprises promoted under the project with other value-chain actors will be conducted at appropriate times during the development of prioritized value chains in the TNRTP. The outcomes of such events will aim at sustainable value-chain development, increased investment attraction, improved technology adoption or research and development and innovations, thus, providing opportunities of futuristic growth to individual and collective enterprises within the TNRTP. If needed, support of TSAs, or paid services from the industry (e.g. industry associations' like FICCI and the CII), will be taken for execution of activities.

33. According to the requirements of the prioritized value chains, the project will arrange facilitation services to enterprises for accessing certifications, such as fair trade, organic, geographical indicators, intellectual property rights. If required, support of a technical service agency or expert consultants will be obtained.

34. Toward strengthening the value chains, attempt will be made to facilitate the development of value-chain networking platforms for at least one or two very promising prioritized value chains in Tamil Nadu, on the lines of National Egg Coordination Committee and Business Networking International. Such networking and business support platforms will be an informal body of value-chain actors including PCs, processors, traders, and marketers to be promoted and managed by the value-chain actors themselves, preferably having internal fee-based revenue streams for sustainability. The TNRTP, with the help of industry associations and value-chain actors, will provide initial facilitation support for promoting such platforms through arranging meetings, technical assistance in conceptualization, design of platforms including governance and management so that sound principles of inclusiveness, democratic norms and sustainability issues are actively pursued. These platforms, once actively materialized will arrange regular meetings among value-chain members, commission small studies to identify newer systems, steer policy advocacy for value-chain effectiveness, among others. Such activities of the platform will ensure sustainability of market linkages and supplier development, overcome market failures in access to finance, and find pathways for collective procurement and development of specialized shared infrastructure for efficient value chains.

35. **Integration of ICT under Component 1.** Innovative ICT and new media solutions coupled with a robust M&E system for real-time submission of information related to the activities undertaken for each subcomponent will be designed, developed, and deployed to ensure that the analog components of the project (manual, field-based operations) are duly complemented by state

of the art remote sensing, mobile, GIS, and cloud-based digital infrastructure. The project will also leverage on the existing ICT solutions such as Remote Sensing Solution developed by Tamil Nadu Agriculture University and Anna University, Geo Referencing Solution developed by IIT, and an M&E solution developed during the PVP. This will ensure building upon some of the existing investments made in ICT during the first phase of the project and enhancing the same to reap better digital dividends. In particular, the following ICT interventions will be undertaken to support activities under various subcomponents of the project:

(a) **Development of mobile-based DDS tool** to capture all DDS data in real time along with GIS coordinates and photographs (where necessary). The data received from the DDS will be input to a data analytics and mining engine to produce role-based dashboards for different stakeholder in the project. The analytics platform will also support query-based analysis enabling personalized analytics based upon the parameters fed by the users of the system (e.g. producing a dashboard on one project attribute like number of women entrepreneurs in a village cluster).

(b) **Development of market intelligence system and information portal** with a suite of mobile applications for SMS, personalized information services related to livelihood opportunities, rural produce pricing trends, skill training programs, weather information, and so on. This will help targeted beneficiaries enhance their revenue earning potential through targeted information delivered directly at their mobile devices. The system will also act as a powerful resource for private players to identify producers and resources for their respective businesses.

(c) **The nano, small and medium enterprise barometer** tool will be developed to analyze district and panchayat-wise identification of nano, small and medium enterprise status and key products around which clusters can be formed. This will also add to improving the ease of doing business policies of the state.

(d) **The OSF portal** will be provided for enterprises to get help on creating their business plans, information on financing, and a number of other services including financial audit, training, and banking information. This portal will provide all services available through the TNRTP to enterprises and will be available as a web as well as mobile application.

(e) **Rural e-trading platform** will be designed, developed, and deployed based upon the best practices and learnings from similar platforms operating in urban setups (such as Amazon, Flipkart). Features of the rural e-trading platform will be adapted to suit farmers, tribal artisans, and other project beneficiaries. The platform will also be linked to popular rural platforms developed under Agriculture Mission Mode Project (National e-Governance Plan), e-Chaupal, NCDEX and other similar platforms. It is proposed that discussions with existing e-commerce platforms will be undertaken to examine the feasibility of extending their supply chain facilities to rural beneficiaries of the project.

**Component 2: Enterprise Business Plans Financing**

36. The objective of this component is to bridge the demand–supply gap for new enterprises and group enterprises to access finance from formal financial institutions. This subcomponent envisions building a good credit history and sustainable relationship between the promoted enterprises and formal financial institutions for ensuring a sustainable financial linkage.

*Subcomponent 2.a: Facilitating Business Plan Financing*

37. This subcomponent will facilitate access to finance for business plans of individual and group enterprises through MGP and other financial services by financial institutions. The activities and instruments under this subcomponent will target beneficiaries of the project receiving support under other components and subcomponents of the project (such as the business planning support under Component 1) to ensure effectiveness of such received support and maximize its impact along the value chain. The subcomponent will cover the MGP, as well as capacity building, training, and technical assistance to the PFIs, OSF etc. Beneficiaries of the MGP will have to meet the eligibility criteria set forth under the MGP. The beneficiaries of the subcomponent are expected to consist of producer organizations (collectives), EGs, as well as nano, micro, and small enterprises (NMSEs), including start-ups, women-led, social, green, and other types of enterprises perceived as riskier (details in table A3.3). The beneficiaries of the subcomponent will have received training (including, skilling) and technical assistance under the other components of the project, and thus a better-prepared beneficiary will enter the banking system.

38. The subcomponent will finance (a) training, workshops; (b) consultant and non-consultant services, including Fund Manager's service fees; (c) goods, including development of Operational Guidelines and ICT hardware and software and office refurbishment; (d) Matching Grants; and (e) operating costs including outsourced staff, office running costs etc. for facilitating access to finance for business plans of individual and group enterprises through MGP and other financial services by financial institutions. The following types of beneficiaries will be eligible under the MGP:

**Table A3.2. Summary of the Various Beneficiaries and Instruments**

| Enterprise Type | Ownership Pattern | Estimated Investment per Unit in Rs ($US) | Number to be Promoted | Start-up Fund from Project in Rs | Other source for Finance | Source of Finance |
|---|---|---|---|---|---|---|
| **Nano Enterprise** | 1 or more individuals | 1 lakh to 5 lakhs (US$1,500–US$8,000) | 6000 | NA | Up to 30 percent matching grant support in loans from formal financial institutions | Formal financial institutions including banks, NBFCs, MFIs, PLFs, supported by the MGP |
| **Micro Enterprise** | 1 or more individuals | 5 lakhs to 15 lakhs (US$8,000–US$23,000) | 500 or more | NA | --do-- | --do-- |
| **Small Enterprise** | 1 or more individuals | 15 lakhs to 30 lakhs (US$23,000–US$46,000) | 120 or more | NA | --do-- | --do-- |
| **PCs** | 500–2,500 producers | 2.5 crore (US$380,000) (including working capital) | 50 | Up to 40 lakhs | --do-- | Formal financial institutions including banks, NBFCs, MFIs, PLFs, supported by the project grants and MGP |
| **EG*s*** | Maximum 30 members | 5 lakhs (US$8,000) (including working capital) | 1,000 | Up to 2 lakhs | --do-- | --do-- |
| **PGs** | 30–150 producers | 1 lakh (US$1,500) | 6,000 | Up to 75,000 | NA | Supported by project grants |

39. **Matching grants for PCs and enterprises** is intended as one-time co-financing for borrowing from the formal financial sector for PCs, EGs, first-time entrepreneurs, women-led businesses, and other types of enterprises perceived as riskier by the financial sector. To contribute to growth of such non-traditional businesses and attempt mainstreaming of lending to such enterprises, an MGP is being proposed. MGP will be available together with a borrowing from the financial sector in the amount of up to 30 percent of the financing needed by the enterprise, e.g. for an enterprise (borrower) that requires Rs 10 lakhs, the grant portion will be Rs 3 lakhs. The grant portion will become non-repayable upon full and timely repayment of the first 70 percent of the financing, and the repayment of the last 30 percent will be waived. The MGP is expected to improve the repayment discipline of borrowers and also the appetite of the financial institutions to lend to such enterprises.

40. The MGP will target, and at the outset of the program, will primarily work with businesses supported under the project. However, at later stages of the project, PFIs may also be allowed to provide matching grants to enterprises created outside the project, provided they meet the eligibility criteria. A detailed manual for MGP will set forth terms and conditions for selection of MGP beneficiaries, as well as the necessary formats for application for matching grants, safeguard requirements, and other necessary guidelines.

41. Fund Manager and eligible PFIs will be selected for participation in this program through a due diligence procedure detailed in the following paragraphs:

(a) **Monitoring of subcomponent activities.** The SPMU will have a number of roles: (i) release of funds to PFIs on a transactional basis, ii) monitor, on a regular basis (quarterly unaudited reports and annual audits) PFI compliance with the eligibility criteria; (iii) with help from DPMUs monitor the implementation of ongoing subprojects supported under the project in accordance with the business plan; (iv) help actively facilitate linkages between technical assistance beneficiaries under the project and the financial sector; (v) ensure the technical review of applications for financial instruments to certify compliance with the eligibility criteria; (vi) monitor reports on the soundness of the underlying loan portfolio; and (vii) manage the implementation of the technical assistance program. Visits to selected beneficiary sites will be key to monitoring the implementation of financial instruments. The component will have designed M&E formats (as part of the Project Implementation Plan - PIP to be developed), which will track both the physical implementation of the component, as well as the impact, based on a set of M&E indicators.

(b) Progress reports will be produced quarterly, which will also involve reports on monitoring the financial status of PFIs, including key performance indicators, such as portfolio quality and liquidity ratios. The SPMU will also ensure timely collection of audited reports of the PFIs. In addition, continued compliance of PFI with the eligibility criteria will be verified by the World Bank's team on an annual basis, based on the review of audited statements of the PFIs and other due diligence procedures, as required.

(c) **Governance.** The existing governance arrangements are expected to be used to govern the Fund Manager. The project Executive Committee will also have an oversight of the operations of the MGP and the SPMU will report to the project Executive Committee on a regular basis.

(d) **Implementation arrangements.** The MGP will be managed by the SPMU with support on transactional aspects from a Fund Manager, which will be selected through a due diligence process. The Fund Manager will only act as a 'transaction advisor. The Fund Manager will work closely with the SPMU, mostly for reporting and liaison purposes. The SPMU, together with Fund Manager and the PFIs, will be responsible for decisions related to the MGP management. The PFIs will be responsible for selection of business plans of beneficiaries for financing, for exercising the best efforts in collection of any default as per the MGP Manual. The PFIs for participation in the implementation of this instrument will be selected through a due diligence process, based on agreed eligibility criteria (see the paragraph on due diligence below).

(e) A sensitization workshop will be held for PFIs upon their selection to attune them to the project's overall objectives, types of beneficiaries to be serviced, and the implementation modalities of the financial instruments described.

(f) **Role of the SPMU.** The SPMU will release funds under MGP to PFIs on a transactional basis and be the recipient of reports pertaining to the implementation of the MGP. Any approvals (such as prior review of applications above Rs 25 lakhs) by the SPMU will be purely technical to ensure that the applications for instruments meet the eligibility requirements and that appropriate procedures have been followed. The SPMU will facilitate the due diligence process as the potential PFIs will be individually appraised by a consultant with relevant experience hired by the SPMU.

(g) **Reporting.** At the end of each quarter, the PFIs would be required to submit a report on the eligible loans provided and their repayment progress.

(h) **Prior review procedure.** The first three proposals for MGP shall be prior reviewed by the SPMU and the World Bank. For loans above Rs 25 lakhs, the Fund Manager must take approval of the SPMU before approving the application.

(i) **Decision-making by the PFIs.** Use of MGP will be on a first come-first served basis, as long as the agreed eligibility criteria are met. This is to ensure transparency and decision-making by the PFIs.

(j) **MGP Manual.** The project will prepare a detailed manual which will clearly define the role of the project, Fund Manager and PFI for implementation of the MGP. The manual will include details pertaining to all transactional details and also, the pre and post MGP related management aspects during and after the project.

42. **Underlying loans.** The MGP will support and leverage financing provided by the PFIs. The underlying loans which will be supported by project instruments are expected to have the following main parameters:

(a) Loans for first-time borrowers (legally registered enterprises with one or more owners) from the financial sector;

(b) Lending should be based on beneficiary demand and PFI decision-making;

(c) Maximum loan size of up to US$400,000 (Rs. 250 lakhs) equivalent;

(d) Loan supported under the project will include any investments (except for those included in the negative list) required along competitive value chains, and such investments can be made at producer, processor, or trader levels;

(e) Sub-loans financing the following will not be eligible for support under the project: purchase of land and buildings; activities requiring land acquisition and/or resettlement; dwelling construction or improvement; refinancing of any existing debts with maturity of six months or more; production, processing and trade of tobacco and tobacco products; and investments on the negative list of environmentally sensitive investments (environmental category A);

(f) All potential borrowers will be required to have a bankable business plan (showing the financial viability of the proposal and access to markets for the products or services of the borrower), without taking into account the effect of the matching grant;

(g) Not eligible for other support programs;

(h) The working capital portion may be up to 50 percent of the total financing package;

(i) Maturity of loans and repayment schedule should depend on the nature of investment and the cash-flows generated by the investment/repayment capacity of the beneficiary;

(j) Matching grants can be in the amount of up to 30 percent of the investment portion of the loan;

(k) The beneficiaries will be supported by the project to ensure a higher rate of success of their business, as well as better repayment of borrowed funds; and

(l) The PFIs will submit applications to the MGP on behalf of the borrower.

43. **An ICT platform** will be designed by the project and deployed at the Fund Manager. The financial instrument will therefore be ICT-enabled, to ensure transparency, ease of implementation, and access to information for PFIs and the PMU. A web-based application will be developed to operationalize the MGP.

44. **Technical assistance to the financial sector.** The project will implement a capacity-building program for financial institutions involved in the project. The PFIs will receive hands-on training in the practical application of MGP, assessing suitability and effectiveness of business plans, and on mitigation of the related risks. The training will be provided by an international consulting company and/or national- or state-level technical resource agencies, in collaboration with a local banking sector training institute. Capacity building is provided to financial institutions participating in the project in two areas: (a) value chain financing instruments, and (b) NMSE financing and risk mitigation of lending to start-ups, women-led, and other types of enterprises perceived as riskier.

45. **PFI training.** This training will be organized in a classroom and each session is expected to be five days long. Separate training materials will be developed to present this training course. The training will be practical, based on realistic case studies and expected loan proposals (value chain development work under the project could provide some inputs). To the extent possible, case studies should be based on the specific conditions of Tamil Nadu, to increase their relevance to the trainees. The following will be carried out in the training:

(a) A detailed description and real case studies of: (i) various value chain financing products, such as the use of contract farming in vertically integrated systems, transaction finance, factoring, warehouse receipt systems, and several structured finance products as the consultant would have determined their relevance in the Tamil Nadu context (now and for the near future); and (ii) start-up business financing modalities. The training will cover the architecture of these instruments, as well as circumstances where such instruments make sense, their advantages and disadvantages.

(b) A detailed treatment of the risks associated with each financial instrument and the most appropriate mitigation measures.

(c) Methodologies for determining the most appropriate instrument or combination of instruments for different financing scenarios, using real case studies.

(d) Methodologies for appraisal of agricultural assets (such as land, production facilities, agricultural machinery and equipment, animals, and future crops) as collateral for lending purposes.

46. **Selection of the Fund Manager for the MGP.** To operationalize the financial instruments programs, a Fund Manager will be selected through a competitive process by the project to manage the funds. <u>The Fund Manager will act as a 'transaction manager' only for MGP funds</u> and will coordinate with the PFIs for implementation of the funds. The Fund Manager will be selected (a) from among interested financial institutions, (b) through a due diligence process, and (c) based on the eligibility criteria for the project PFIs (see Annex 8).

**Main fund flow activities for the MGP** are as follows: i) Loan beneficiary furnishes loan application and required documentation to the PFI; ii) PFI follows due process of loan appraisal and pre-approves the loan; iii) PFI provides information to the Fund Manager (through online platform prepared exclusively for managing the MGP), accompanied with pre-approved loan application, to access the MGP; iv) Fund Manager, upon approval of the application, provide transaction details to SPMU for transfers the funds (up to 30 percent of the investment portion of the loan) to the PFI. The Fund Manager will closely liaise with PFI and provide the utilization report to the SPMU once the funds are disbursed to the PFI; v) PFI disburses the entire loan amount to the beneficiary, which includes both the matching grant portion and the repayable portion. The PFI should upload a scanned copy of the loan and the repayment schedule against the loan account on the ICT platform; vi) Beneficiary is required to repay 70 percent of the principal plus interest on the entire 100 percent (during the period of repayment of the 70 percent) to qualify for the matching grant. Once the repayment of the first 70 percent of the financing, plus the interest due is done, the 30 percent principal is waived off and interest is no longer accrued; vii) PFI must recover from the beneficiary, in case of default on the payment, and return to the SPMU. Any amount of the 30 percent grant portion not recovered after best efforts by the PFI will be settled against the MGP funds; viii) In case when it is decided, because of the default by the beneficiary of a payment of the PFI loan, the entire Matching Grant becomes repayable loan - the interest of said loan (which shall be retained by the PFI) shall be retroactively accrued from the day as specified in the MGP manual; and ix) The unspent money in the MGP, if any, should be returned to the World Bank at the end of the project through partial cancellation of the loan based on a request from the Department of Economic Affairs, GoI. The above will be reflected in the MGP Manual and the operation process of the above points needs to be taken into consideration.

***Subcomponent 2.b: Innovation Promotion***

47. This subcomponent will contribute to the design, promotion, and implementation of transformational ideas that use technology, innovation, and partnerships to tackle development challenges in Tamil Nadu. The subcomponent will finance (a) training, workshops; (b) consultant and non-consultant services; (c) goods, including production of catalogues and publications, development of and ICT hardware and software and office refurbishment; and (d) operating costs including outsourced staff, office running costs etc. for thematic pilots, Innovative Creative Enterprises and Transformation Market Place and will consist of the following interventions:

a) **TNRTM**, which will create a platform to identify, showcase, and celebrate innovations related to themes that have the potential to impact rural economic growth in Tamil Nadu, for example, scalable models for the poor (agriculture, innovation in creative manufacturing, and innovations in green enterprises) and innovative solutions for the poor (rural energy, ICT-based solutions, digital empowerment, innovations in traditional health practices, innovations in access to payment for the poor, and so on). This platform will serve as a space where innovators, social entrepreneurs from public, private, civil society and funders, investors, and development agencies, can nurture strategic relationships to bring innovations to markets – from idea generation to commercialization. Moreover, with the objective to support and partner with those innovators who participate and exhibit in the rural transformation marketplace, selected innovations and start-up ideas will be tested and/or scaled-up within the project. The TNTRM will have the following objectives:

   (i) Showcase high impact and high potential innovations in rural development across various sectors and facilitate PPPs;

   (ii) Focus promotion of social enterprises and entrepreneurs by fostering linkages with investments and poor communities as suppliers and consumers;

   (iii) Identify and recognize grassroots-level innovations, and facilitate partnerships for incubation, refinement, and scaling-up of early ideas; and

   (iv) Institutionalize TNRTM as a platform to create an enabling environment for new approaches to be tried out in the area of rural livelihoods.

b) **Pilot projects-induced thematic innovations,** which will focus on the piloting of three concepts that are independent, yet consciously induced by the project, and are guided by global and national knowledge, experiences, and best practices. These pilot projects will seek additional funding through PPPs and initiatives of development agencies. The pilot projects include the following:

(i) **Creative Industries Pilot Project,** with the objective to promote the traditional creative and cultural industries sector in Tamil Nadu by strengthening and supporting rural artisanal enterprises through developing innovative products in selected pilot areas. The main beneficiaries of this pilot project would be rural artisans in selected districts of Tamil Nadu. Special focus will be to work with vulnerable groups, such as women artisans, tribal communities, transgender, and differently-abled communities.

(ii) **AgriFood Hub Facility Pilot Program,** with the objective to promote the culinary sector in Tamil Nadu around an economically viable, sustainable, and nutritious local food system model that supports employment, preserves the environment, and promotes healthier dietary trends. The main beneficiaries of this pilot program would be men and women in the project districts.

(iii) **Green Enterprise – Sanitary Napkins and Menstrual Hygiene Pilot Project,** with the objective to promote access to sanitary napkins and menstrual hygiene education for girls and women, by supporting the development of a locally owned franchise to manufacture biodegradable and affordable sanitary pads. The main beneficiaries of this pilot project would be rural women and men[36] in the project districts . The project will also aim to streamline the production processes of existing product lines, and work in the creation of economies of scale of the existing units.

48. **Integration of ICT under Component 2.** It is proposed that state-of-the-art ICT and new media technologies based on tried and tested solutions for participatory development by deploying rural e-trading platforms (with linkages to financing platforms of select cooperative, national, and private banks), incubator tools with templates for business plan financing and virtual innovations relay networks, as well as capacity-building platforms using peer-to-peer learning principles for farmers, artisans, and households, will be rolled out with special features for women entrepreneurs. All platforms developed under the component will be interoperable in a well-coordinated manner and will be linked to a centralized GIS and data analysis platform. Key ICT platforms and tools to be developed and deployed under the project are described in the following paragraphs:

(a) **Innovation promotion and relay network** will be developed for the project stakeholders to showcase their innovative ideas and receive inputs from peers. Innovation relay will be encouraged by helping small entrepreneurs learn about their peers doing similar work and collaborate to expand the outreach and financial viability of their ideas. The network will be linked to banking and financial institutions for making finance available to innovators. In addition, the innovators whose ideas are voted best by the community will also receive funding through the innovation fund made available through the project.

(b) **A finance application** will be built, which will receive the details of the loans and monthly payments from the PFIs. The Fund Manager will apply the matching grant rules where applicable, which will be of benefit to both the applicants and the institutions. The team is in touch with financial institutions to work out the integration and this will be taken forward by the vendor who does the requirements study as well.

[36] Beneficiaries include social entrepreneurs from SHGs and CLGs.

**Component 3: Skills and Jobs Opportunities**

49. The objective of this component is to enhance productivity and incomes of marginalized populations through skills training approaches aligned to investments made through other components of the project. This component will use strategies targeting three specific subgroups to upgrade their skills. First, interventions will target youth from poor households, with a special focus on women, to provide pre- and post-training hand-holding services and assist them in accessing training provided by existing government schemes and transition to sustainable employment after completion of training. Second, trainings will be developed and delivered to build skills of service providers, entrepreneurs, and producer households in targeted value chains, with a focus on agriculture and allied sectors. Third, improved access to skills training in rural areas will be promoted with a focus on women, by developing local village-level training delivery capacity in sectors with local employment demand.

50. Specific activities financed across these three training strategies will include: (a) developing a cadre of Jobs Community Professionals to provide frontline services at the village level relating to facilitating skills training and job placements; (b) conducting participatory technical evaluations of selected focus subsectors to identify skill gaps and opportunities for skills upgrades; (c) hiring technical partner organizations or resource people to develop curricula to address these gaps; (d) building capacity for delivery of trainings, and for delivery of pre- and post-training services through partnerships with resource organizations and development of CPs; and (e) converging with existing flagship government skills training schemes for actual financing of training wherever possible.

51. This subcomponent will target skill upgrades for 80,000 youth (40,000 through convergence with existing flagship government skilling schemes and 40,000 through community-based skilling provision). The subcomponent will also aim to have 40 percent women among the total beneficiaries trained. This component will finance (a) training, workshops; (b) consultant and non-consultant services; (c) goods, including IEC material and toolkits, development of and ICT hardware and software and office refurbishment; and (e) operating costs including outsourced staff, office running costs etc. for Youth mobilization, establishment and running of Community Skills and Farm Schools and Entrepreneurship development. This component has three subcomponents.

***Subcomponent 3.a: Pre and Post-Training Services to Enhance Employment Outcomes***

52. This subcomponent will enhance access to and outcomes for youth belonging to poor households by training provision through existing flagship government skills training programs. This subcomponent will support the provision of pre and post-training services including identification and mobilization of target youth; developing information packs on types of training and training schedules; providing pre-training counseling services to poor youth to assist them in interpreting available information and making optimal training choices; and, providing post-training hand-holding services in destination areas by setting up Migrant Support Centers, including counseling, emergency assistance, and facilitating access to basic services.

***Subcomponent 3.b: Community-Based Training and Skilling Provision***

53. This subcomponent will enhance the access of target households to skills training in locally relevant subsectors. It will support Community Skills Schools, where local experts identified and capacitated through the project, will deliver training services at the village level in a structured manner, thereby, increasing access to such training for women and other marginalized groups. This subcomponent will also support local MSME outreach to identify market needs and facilitate post-training placements and employment.

***Subcomponent 3.c: Entrepreneurship Development***

54. This subcomponent will enhance the skills of three sets of actors – service providers, entrepreneurs, and producer households – in focus value chains (such as horticulture), leading to enhanced income and employment outcomes in these value chains. Activities under this subcomponent will be closely aligned to enterprise support services, ongoing hand-holding, and credit access investments made through Component 2 of the project. Based on the overall VCAs and VIPs and opportunity areas identified, this subcomponent will support activities relating to identifying existing skills gaps in focus value chains, developing standardized curricula to address these gaps by hiring relevant technical resources, developing training delivery systems through partnerships with support organizations as well as resource people employed by the project, and liaising with the National Skills Development Corporation and the relevant Sector Skills Councils for accreditation of training provided and certification of trainees. Post-training support including ongoing hand-holding, linkage to finance, and other business development services will be provided through Component 2 of the project.

**Integration of ICT under Component 3.** It is proposed that the systems developed under the project are a combination of mobile applications, social media platforms, and touch screen kiosk-based tools with helpdesk support, given the digital literacy levels of the target beneficiaries. ICT based solutions to provide information and monitoring of skills training interventions will be developed and deployed. Where ever possible existing applications will be used or adopted.

**Component 4: Project Management, Results Monitoring, and Implementation Support Systems**

55. The component objective is to provide support services – knowledge management, M&E, FM, procurement, social and environmental safeguards management, HR management, ICT, and safeguards management – to the project staff to achieve the project objective. This component will finance (a) training, workshops; (b) consultant and non-consultant services; (c) goods, including development of films, e-brochures and e-newsletters, development of and ICT hardware and software and office refurbishment; and (e) operating costs including outsourced staff, office running costs etc. for Project Management and Implementation Support systems, Monitoring and Evaluation and Knowledge management.

***Subcomponent 4.a: Implementation Support Systems (HR, FM, Procurement, Safeguards, and ICT)***

56. **Implementation support** will provide a support service and systems for project administration, FM, procurement, safeguards management, HR management, and ICT.

- **Project administration.** All administrative activities (project staff contract management, office setup, outsourcing of project office-related services, vehicle hiring, and so on) related to project implementation will be coordinated under this subcomponent.
- **Human resource management.** The project's HR will be managed according to the guidelines and processes outlined in the HR Manual. All activities related to HR, recruitment, onboarding, capacity development, and performance management will be carried out under this subcomponent.
- **Financial management.** FM activities pertaining to fund flows, accounting, financial reporting and audit for each of the business lines will be implemented under this subcomponent. The FM Manual will guide the entire FM of the project.
- **Procurement management.** All aspects related to procurement activities as listed and approved in the Procurement Plan of the project will be processed and managed under this subcomponent according to the guidelines and procedures in the Procurement Manual.
- **Safeguard management.** The ESMF and the TDP will be monitored and implemented as a support service under this subcomponent.
- **Information and Communication Technology.** Induction and usage of ICT systems into the day-to-day working of the departments covered under the project will be undertaken by commissioning a consulting assignment to develop a functional requirements specifications document that will capture the needs of all stakeholders, study the adequacy of available ICT equipment and software tools used by the department (As is Study) and proposed requirements of hardware, field equipment, and tools for the shared services platform along with its features (To Be System). The project will finance dedicated staffing for managing and enhancing the digital infrastructure required for optimal usage of solutions that contribute to the achievement of project deliverables. Consultancies, training and related materials, office equipment, and operational costs will be financed through investments from the proposed project. The selected consulting firm will also provide dedicated resources to monitor implementation of ICT systems and certify that the developed systems comply with the requirements of functional requirements specifications. To ensure that the platforms developed are according to the project requirements, a Service-Level Agreement will be designed by the consulting firm which will be binding on all software development agencies, and system integrators and hardware suppliers selected for carrying out the assignments under the project. The ICT interventions proposed under the project are: a) Shared services platform with data analysis/mining engine and GIS for use by all ICT solutions in the project; b) MIS and M&E systems for monitoring of project activities and tracking of results indicators in real time; and c) Citizen engagement and grievance redress **system** with customized extensions to integrate

functionalities of citizen engagement and grievance redress in all other ICT solutions developed under the project.

***Subcomponent 4.b: Monitoring, Evaluation, and Grievance Redressal***

57. This subcomponent will include the following: (a) monitoring of project progress (both physical and financial, including inputs, outputs, and outcomes); (b) monitoring of processes (of how field-based activities and management-related activities are conducted); (c) monitoring of intermediate outcomes; (d) participatory M&E by community institutions; (e) thematic studies and case studies; and (d) impact evaluation. The state and district M&E teams will assist in developing monitoring and survey formats, training staff and survey teams to collect data, maintain quality control, and help analyze the results at the local and regional levels.

58. During implementation, the M&E activities of the proposed project will be undertaken by the internal M&E state team comprising experienced and trained staff at various levels – the BPMU at the block level and the DPMU at the district level. The project will also ensure the establishment of a comprehensive audit mechanism for fiduciary management at all levels, and the relevant project staff will be trained accordingly.

59. The project will emphasize on participatory monitoring to ensure the involvement of local beneficiary communities from the outset and include their feedback on project activities and processes. A community-based process monitoring system will be established at the village level for sharing of all project-related information and generation of information for process and results monitoring. Social audits (third-party monitoring) will be undertaken to provide external verification. The TNRTP will develop, during the first year of implementation, suitable indicators and mechanisms to measure empowerment among the project beneficiaries, especially women and youth.

60. A computerized web-based MIS will be established to track and manage all monitoring data related to the activities and results of the four project components. A consultancy firm will be hired to develop and maintain the MIS of the project. Software will be developed and customized for the specific needs of project monitoring, and the system will be field-tested and rolled out under the technical supervision of competitively selected external consultants in the project M&E team. The MIS will ensure accurate and on-time project monitoring and provide easy access to information on funds flow, implementation progress, processes, quality, and performance of community institutions. This information will be made available through a user-friendly project website, accessible to all key stakeholders. The project will utilize these and other sources of information (that is, thematic studies, GIS, and so on) to reliably inform stakeholders and the management, and enable them to undertake evidence-based decision-making and midterm corrections as needed.

61. For the evaluation of project outcomes, the project has initiated a comprehensive baseline survey to be completed within six months of project commencement using agreed performance indicators to assess the situation pertaining to these indicators before project interventions start in sampled localities. The project will also commission a qualified external M&E consultancy firm to review and supplement a prior baseline study as necessary and to undertake a midterm review and end of project assessment to determine project impacts.

## Grievance Redress Mechanism

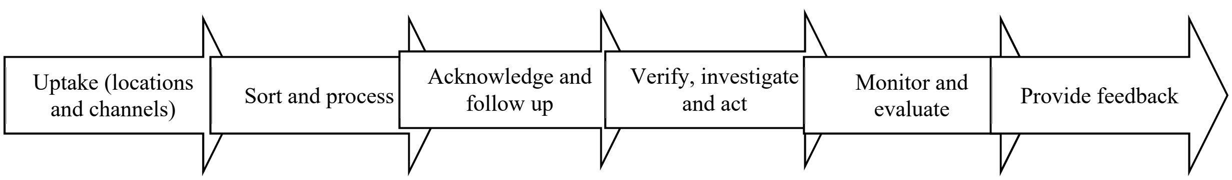
62. The grievance redress mechanism (GRM) is a critical tool for promoting both transparency and accountability in project operations. The GRM is embedded into the various facets and dimensions of the project through a well-designed and operationally efficient mechanism drawing on international best practices.[37] From an operational perspective, the TNRTP DPM's recognizes the role of the GRM as critical toward enhancing operational efficiency and ensuring beneficiary and citizen awareness/engagement in the project. This is alongside providing multiple channels (offline and online) by which citizens including women, ethnic minorities, and the youth can provide feedback to strengthen the operational objectives and deter miscellaneous practices while underscoring the project foundation as one that is accountable, transparent, and responsive to beneficiaries.

63. The TNRTP acknowledges that an effective GRM is built on organizational commitment both with regard to recognizing the role of the GRM as well as supporting its operationalization. It also embodies fairness in handling grievances confidentially, impartially, and transparently. The project recognizes that procedures to file grievances and seeking action needs to be easily understandable and accessible for the project beneficiaries to make the GRM effective. Quick response and adequate training increases the efficiency of the GRM. An effective GRM also considers the principles of participation and social inclusion.

## The GRM Value Chain of TNRTP

64. Drawing on the World Bank Governance and Anti-Corruption Governance Policy Note (2010), the GRM for the TNRTP is designed as a sequence of steps along a value chain. The TNRTP will establish multiple channels by which grievances can be received. These can be broadly classified as online e-services (for e.g., Toll Free Helpline, SMS, and through the project web platform) and offline/manual (for example, postal, in person, and at complaint centers/drop-boxes). For all grievances, a prior review procedure will be conducted by the District Executive Office (DEO) a protocol for the purposes of codifying and classifying grievances, reviewing grievances for confidentiality, assessment of any issues pertaining to the office/personnel, prior to such grievances being channeled to the Grievance Redress Office at the district level.

**Figure A3.3. The GRM Value Chain**




65. In the processing of all grievances, the TNRTP will follow international best practices including the adoption of basic procedures, acknowledging all grievances, and assigning a central tracking number/ID for all grievances alongside basic service standards for response. The TNRTP will also establish an operating procedure for the handling of unresolved grievances through a process of escalation, where unresolved grievances will be transmitted to the next higher level. The SPMU will also aggregate all grievances to a consolidated single database to monitor

[37] World Bank, Governance and Anti-Corruption Policy Note, 2010.

performance of the DPMUs with service standards and generate aggregated statistics on performance to be publicly disclosed on the project's web platform.

66. The structure of the state and district GRM is as follows: (a) a Grievance Redress Committee will be formed to review and address grievances as escalated having the following officials as members: (i) at the state level – CEO, COO(s), Associate COO(s) – Personnel & Administration, Finance and Procurement; (ii) at the district level – the DEO, Manager at the block level – Team Leader and field staff.

***Subcomponent 4.c: Knowledge, Communication, and Learning Systems***

67. This subcomponent will ensure gathering, codifying, and disseminating knowledge. The knowledge generated in the project will be disseminated through a dynamic communication package to reach out to external audiences. Also, the knowledge generated will be used for internal project implementation related learning and capacity building. It will also support short process studies, beneficiary feedback systems, and rapid surveys to get information on specific aspects that need project management attention for regular decision making. Under this subcomponent the project will hire a retainer agency that will provide support in implementation of the knowledge management and communication strategy for the project.

68. Specifically, the key activities that will be financed include content development (digital or other medium), good practice documentation, creation of short films, learning events at various location, branding for the project, media interface events, fellowships, seminars and purchase of some communication equipment. ICT will be central to the knowledge harvesting and dissemination for the project. To enhance the outreach of knowledge and learning from the project (both internally and externally) appropriate platforms and applications will be developed from funding dedicated for ICT development in project design.

## ANNEX 3: IMPLEMENTATION ARRANGEMENTS

## INDIA: Tamil Nadu Rural Transformation Project

### Project Institutional and Implementation Arrangements

1. Project management and implementation is governed by the TNRTS formed under the Department of Rural Development and Panchayati Raj, GoTN. The project will be implemented by the Tamil Nadu Rural Transformation Society (TNRTS), which is already established by GoTN as the implementing agency. The TNRTS incorporates learning, implementation experience and capacities from Tamil Nadu 'Pudhu Vaazhvu' Society. To make the governance more robust and responsive to the paradigm shift, the bylaws and governance structure of the society have been accordingly designed. The detailed institutional arrangement is as follows.

***State-Level Governance Structure***

2. At the state level, the project will have a high-level **Steering Committee**, under the chairpersonship of the Chief Secretary, GoTN, and comprising Principal Secretaries from other line departments, which are aligned to the focus areas of the project, such as MSME, industries, labor and employment, agriculture, tourism, textiles, handicrafts. The Steering Committee will help in harnessing convergence and improve coordination with other line departments related to the project. The committee will be the core group that will conduct meetings once in three months to provide vision and direction for the TNRTS. The Steering Committee will facilitate the PMU in leveraging additional resources and integrating with regular government programs and schemes ensuring project sustainability.

3. For governance and policy guidance the **Governing Body and Executive Committee** has been reconstituted and is headed by the Principal Secretary, Rural Department and Panchayati Raj, and includes heads of departments of other line departments (such as MSME, industries, labor and employment, agriculture, tourism, textiles, and handicrafts) to provide direction to the project management team. The Governing Body and Executive Committee will play an instrumental role in directing the society in policy-level decisions and day-to-day operations.

4. An **Advisory Committee** will be established including individual members of repute from relevant thematic areas to provide advice to the project on strategic guidance, policy formulation, and project implementation. The Advisory Committee is an informal body and will provide inputs on policy and implementation to the Governing Body and Executive Committee. The committee will provide a networking platform for the project to showcase external stakeholders or build partnerships as and when required.

***Project Implementation Structure***

5. The implementation structure consists of the state, regional, district, block, and cluster levels of management, implementation, and monitoring arrangements.

6. **State Project Management Unit.** The TNRTS has set up an SPMU, which is directly responsible for the implementation of the project. The SPMU is headed by a full-time Chief

Executive Officer and holds responsibility for the implementation and monitoring of project interventions. The SPMU will have two units:

a) **Project Implementation Cell** headed by a Chief Operating Officer, Project Implementation, and directly responsible for implementation of project interventions. The unit has multidisciplinary teams comprising thematic experts who are accountable for various project activities under the project components. This unit is responsible for executing activities in a time-bound manner to deliver outputs in a qualitative manner. This unit would comprise experts from fields including, planning and value chain strengthening, enterprise promotion, financial institution linkages, business plan financing, skills and innovation, and partnerships.

b) **Project Management Cell** headed by a Chief Operating Officer, Project Management, and has functions that directly support the PMU to enhance efficiency in program implementation. This unit will also be responsible in building and implementing systems that help in analyzing the progress of the project and help in policy- and implementation-level decisions. The expertise in this unit would be in M&E systems, ICT, knowledge management, organization development and staff learning, convergence, FM, procurement, and safeguards.

7. **Young Professionals.** The units mentioned above will be supported by young professionals whom the project will hire from premiere academic institutes across the country. These postgraduates will be drawn from disciplines, such as business management, agribusiness, agriculture, engineering, marketing, finance. These young professionals will be recruited annually either through campus placements or through open market recruitments. Based on the requirement, campus recruitment will be conducted periodically by the TNRTS to get young professionals on board. Young professionals, who fulfil the requisite qualifications, will also be hired from the open market through a competitive selection process. A detailed young professionals' policy for recruitment and management of young professionals is included in the HR Manual.

8. **Fund Manager.** The management of MGP will be supported by a Fund Manager, which will be selected through a due diligence process from among financial institutions or firms interested in such a role. The Fund Manager will only act as a 'transaction manager'. The Fund Manager will work closely with the SPMU, mostly for reporting and liaison purposes.

9. **Participating Financial Institutions.** Commercial banks, small finance banks, and NBFCs will facilitate the implementation of the MGP. PFIs will be responsible for financing the business plan of beneficiaries as per its own appraisal norms, for exercising the best effort in collection of any defaulted sub-loans, and for collection of the grant portion in cases of default. The PFIs for participation in the implementation of these instruments will be selected through a due diligence process, based on agreed eligibility criteria.

10. **Technical Assistance – Regional Teams.** As the project will implement activities on prioritized commodities under various sectors, there is a need for sectoral thematic experts in the project implementation teams. The project will hire thematic experts, who will work at a regional level and provide their technical knowledge, as and when required. These thematic experts will be those who can furnish quality technical knowledge and practices required for the project. The requirement of these experts will be based on the prioritized value chain and the business proposals

that will evolve from the planning process. Therefore, placement of these experts will be flexible and they will be brought in on need-basis as individual expert consultants on short-term or medium-term basis. These experts will be few in number, but high in quality of expertise. Hence, a good mechanism for hiring and management of these experts is a part of the HR Manual developed for the project.

11. **District-level implementation structure.** At the district level, the responsibility for guiding and facilitating the implementation of the project is vested with the District Rural Transformation Society (District Society). The District Society is governed by the Governing Body and the Executive Committee, which is chaired by the District Collector and includes representation of district-level officials from District Rural Development Authority (DRDA), district industries center, labor and employment, agriculture, animal husbandry, and lead banks.

12. **District Project Management Unit.** To ensure coordination and review of project progress at the district level, a DPMU will be set up which would be responsible for planning, implementation, and monitoring of project activities at the district level, resolving cross- cutting implementation issues, and maximizing convergence of complementary activities. The DPMU will be the operational and implementation unit of the District Society headed by the District Executive Officer and consisting of a multidisciplinary team with experts working on planning, value-chain strengthening, enterprises, business finance, skills, M&E, and accounts. There will be 24 DPMUs in total; the few districts that are smaller and operate in one or two blocks will be managed by the DPMU from the neighboring district. Therefore, Karur and Theni districts have been merged with Trichy and Madurai districts, respectively. An additional HR from the neighboring district will be provided to these two districts to manage operations.

13. **Block Project Management Unit.** At the sub-district level, a set of blocks have been identified for project implementation and a multidisciplinary team of experts will be hired for implementing the project in the field. The BPMU will be headed by a Block Team Lead and a team of three professionals working on planning, value-chain strengthening and enterprises, skills, and accounts and monitoring. The Project Executive at the block team will work closely with CPs. The project will develop enterprise CPs and job CPs, which in turn will be responsible for providing the last mile link in delivering project services to the community. The district and block level structures are shown in figures A4.2 and A4.3.

14. **Community Professionals.** The most important institutional entities for implementing the project are community-level institutional models. The previous project, the TNEPRP, has already invested in building social capital and their federations for over many years, which the TNRTP project would leverage upon. Thus, the block activities mentioned here will be the responsibility of the CPs. These CPs will be supported by the BPMU and their own cluster-, block-, and district-level MaKaMai. These professionals will be working on a service fee-based model and would be provided with technical trainings during the course of the project. These CPs will be responsible for: (a) forming and strengthening of PGs; (b) identification of target beneficiaries; (c) ensuring inclusion into group enterprises; (d) identification of youth for skilling; and (e) community-level FM.

**Figure A4.1. SPMU Organogram**

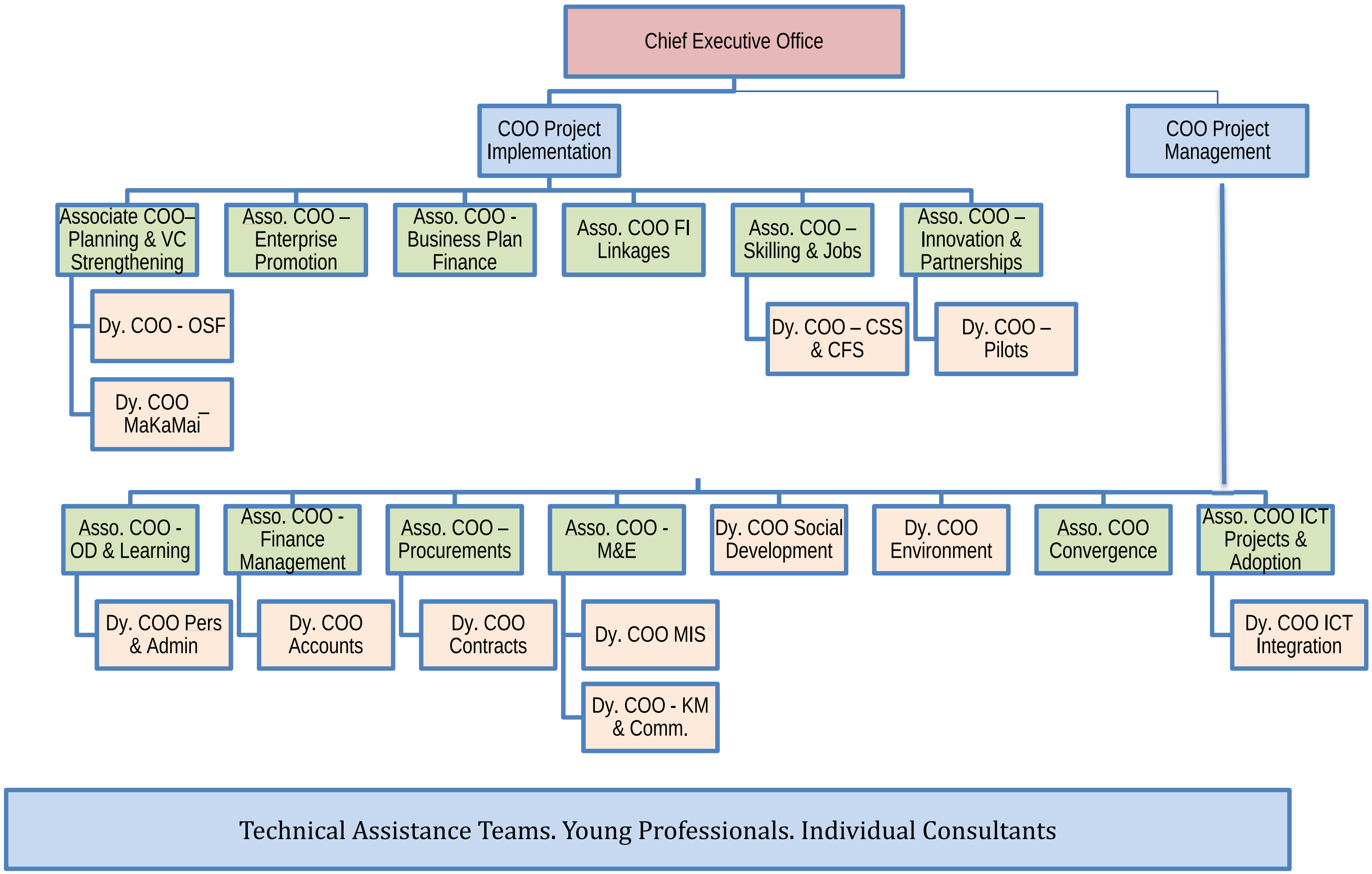


**Figure A4.2. DPMU Structure**

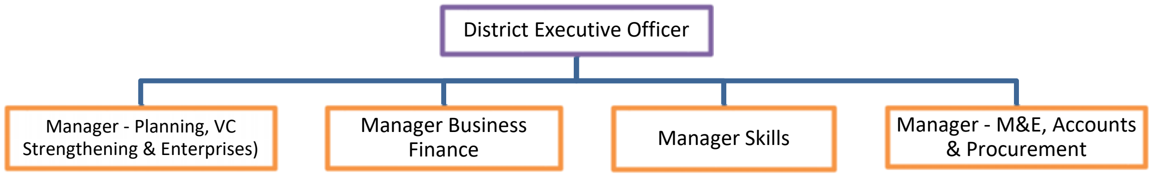
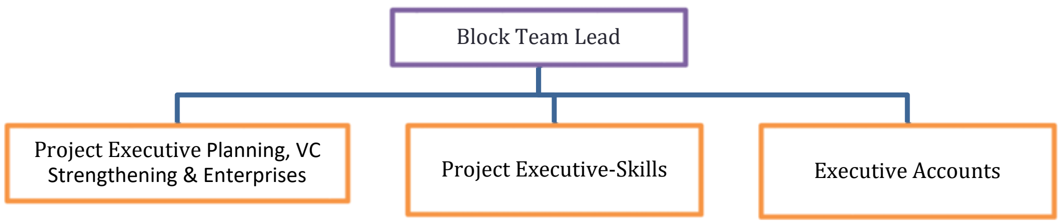



**Figure A4.3. BPMU Structure**




15. **TSA and implementing partners.** The project will partner with various technical and research institutions, such as the Tamil Nadu Agriculture University, MS Swaminathan Research Foundation, State Livelihood Institute - Auroville, Madras Institute of Development Studies, Indian Institute of Technology Madras. TSAs will also partner to provide support in field implementation in specific thematic areas. All partnerships will be guided through the partnership framework developed by the project team. The partnerships will be governed by MoUs or a contract to support implementation, supervision, and monitoring of the project at various levels.

16. **Human Resource Strategy.** The project human resource will be governed by a customized HR Guidelines and Manual, which will lay out the principles of staff recruitment, compensation and benefits, code of conduct, performance management systems, and exit at project end. The HR Guidelines and Manual will ensure better remunerations with rigorous performance-based accountabilities. The HR Guidelines and Manual will include provision of selection and management of experts from the open market, deputation/secondment from the government and TSA, hiring regional teams as retainer consultants, and hiring of young professionals. The project has also kept provisions for hiring of staff from the existing TNEPRP through a rigorous selection process which will be conducted by a third-party HR agency. The hired staff will also go through an induction and orientation process, which will be designed by the resource agency/institution being hired by the project.

**Financial Management**

93. TNRTS – a state-level registered society and autonomous body under the Rural Development and Panchayati Raj Department, GoTN has been established.  The associated societies in each of the 26 districts will be established for implementing the World Bank-supported project..  TNRTS retains the established and tested FM systems of TNPVS so as to provide reasonable assurance over the use of project funds.

17.

18. **FM Institutional Arrangements.** Project FM functional responsibilities will primarily be carried out at the SPMU and the 24 DPMUs. The district teams will be supported by 120 block teams, five regional technical assistance teams, and cluster/block-level CPLTCs. Responsibility for project FM will vest with the financial management staff at the state and district levels, supported by accounts officers, district accountants, and block accounts assistants.

19. **Planning and Budgeting.** The TNRTS will prepare an annual work plan for the project. Project funding requirements will be budgeted in the demand for grants of the Rural Development and Panchayati Raj Department under a separate budget head and for 2017–18, an allocation of Rs 100 crores provided for the project. The Finance Department will ensure adequate budget provision for project activities (both World Bank share and counterpart funding) through the extant budget preparation system of the state.

20. **Flow of funds.** Project funds flow arrangements will be as follows.

- **From the GoI to the GoTN.** Based on the project expenditure reported, the office of the CAA&A will submit withdrawal applications to the World Bank for disbursement. World Bank funds will be disbursed to the GoI which will pass on these funds to the GoTN in its Consolidated Fund, in accordance with its standard arrangements for development assistance to the state. The funds will be provided in the Consolidated Fund of the state.

- **From the GoTN to TNRTS.** Funds will be drawn by the designated drawing officer from the GoTN's Consolidated Fund through a designated treasury and deposited into a separate project bank account of the TNRTS.

- **From SPMU to DPMUs.** As for the TNRTS, a single project bank account at the state level, with child (zero balance) bank accounts, will be operated for the TNTRP. This arrangement allows the DPMUs to draw (up to predetermined limit) funds from the parent bank account; and thus, facilitates greater efficiency in fund management.

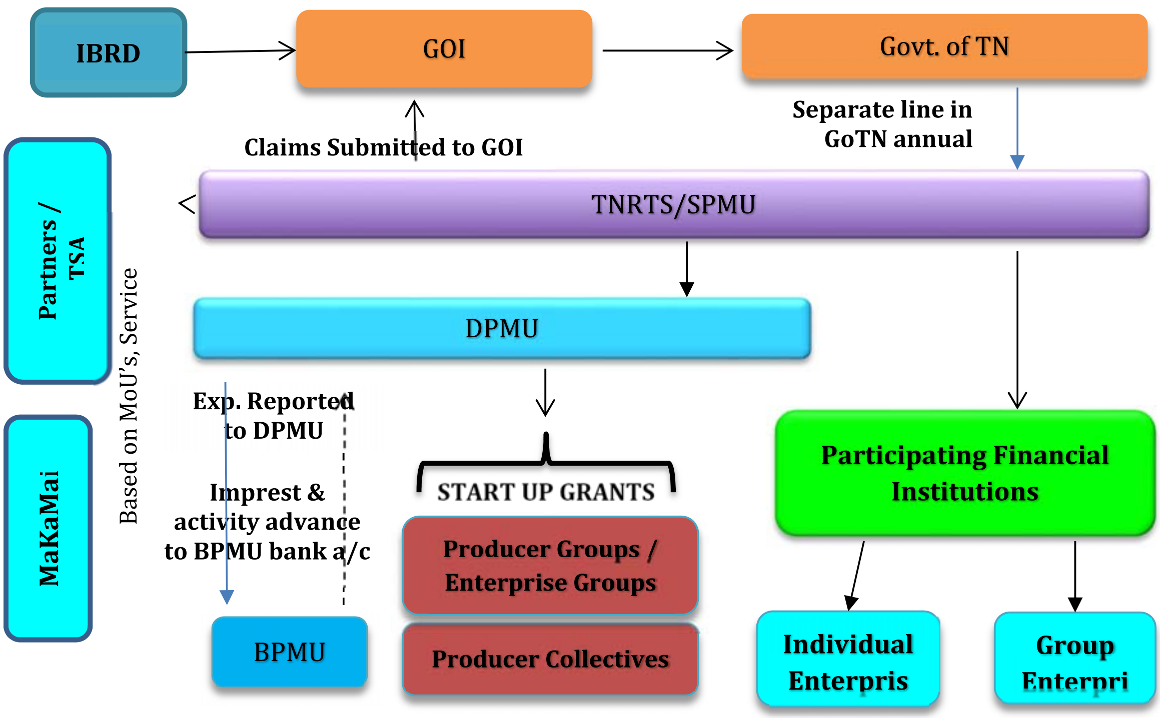
- **From DPMU to BPMUs.** Under the PVP, block-level teams operate stand-alone bank accounts to deposit imprest received from the DPMUs and meet the operational expend. This arrangement is expected to also continue for the TNRTP.

- **From DPMUs to beneficiary bank accounts.** Direct electronic transfers will be made into the bank accounts of the EGs, PCs and PGs (for start-up assistance) and into designated bank accounts of individual and group enterprises (for matching grants).

- **Fund management under TNRTP will be monitored through PFMS** to ensure speed, efficiency, transparency and better accountability. Public Financial Management System [PFMS], is an initiative of the Government of India to provide a uniform financial management platform for all Central [and State] plan schemes. PFMS provides a database of all recipient agencies, integration with core solutions of banks handling plan funds, integration with State Treasuries and efficient and effective tracking of fund flow to the lowest level of implementation for plan schemes of the Government. Through the Expenditure Advance and Transfer [EAT] module and Direct Benefit Transfer [DBT] modules, PFMS provides information across all plan schemes/implementation agencies across the country on fund utilization leading to better monitoring, review and decision support system to enhance public accountability in the implementation of Plan schemes.

21. **Accounting.** The TNRTS follows the double entry system of accounting on cash basis. The accounts are maintained in TALLY (an off-the-shelf accounting software) on a stand-alone basis at the SPMU and at each of the DPMUs. Efforts made hitherto to synchronize the TALLY system across the various agencies under the PVP have not been successful. This results in preparation of fairly onerous, manual, excel-based compilation processes on a monthly/quarterly basis for purposes of financial reporting. As of now, project transactions will be recorded following the extant accounting system, but options to simplify the compilation process will be explored.

**Figure A4.4. Funds Flow Chart**




22. Separate project books will be maintained for the project in accordance with an agreed chart of accounts. The primary accounting centers will be the SPMU and the DPMUs. Separate chart of accounts (in line with the project components and activities) will be developed to track project expend. The arrangements, including the accounting, funds flow, internal control mechanisms, financial and administrative powers, financial reporting, and external and internal audit is documented as a supplementary to the existing FM Manual.

23. **Internal controls including internal audit.** The existing project FM manual is being updated to reflect new activities and implementing agencies. Responsibilities for FM and the chart of accounts in the existing accounting system will also need to be updated to reflect the proposed project components/subcomponents and activities. The FM manual will be finalized by negotiations.

24. The project will primarily finance: (a) technical assistance contracts, (b) payments for training providers, (c) one-time start-up funds for the EGs, PCs and PGs, and (d) matching

grants (up to 30 percent) for individual and group enterprises to supplement borrowing from the financial sector. In addition, the project will finance: (f) technical support services through partnerships and service contracts; (g) training, workshops, exposure visits; (h) salaries of staff and contractual personnel; (i) development of training material and printed and other media; and (j) office establishment and operating costs.

25. In the design of the FM arrangements, the following key principles will apply across all project components and subcomponents:

- All project funds provided as one-time start-up assistance to the EGs, PCs and PGs will be made in accordance with subproject grant agreements against approved and appraised activity and business plans. All fund releases will be made electronically directly into the bank accounts of the community-based organizations (CBOs) and will be accounted for as expended in TNRTS books, considered as eligible expenditure for the purposes of disbursement from World Bank loan.

- The TNRTS will monitor the actual utilization of funds and track closing balances at the CBO level through parallel MIS systems or memorandum registers, and the same will predicated on the periodic financial reports obtained from CBOs. For the purpose, the project will invest in providing hand-holding accounting technical assistance (book keepers, accounting hubs, and so on) to the CBOs to help maintain accounting records and prepare monthly/annual financial statements. Unspent balances with the CBOs at the close of the project will be recovered/refunded to the project.

- Matching grants will be available together with a borrowing from the financial sector in the amount of up to 30 percent of the financing needed by the enterprise. The detailed operational procedures will be documented in the MGP Manual .

- **Partnership with TSA.** The project also intends to partner international and national level agencies. Such partners are being considered as implementing partners, with whom the project will sign MoUs. Funds flow to such partners will be based on the annual work plan. Such agencies will also provide quarterly expenditure reports for the purpose of consolidation and be subject to audit arrangements established under the project.

- All funds released by the state to the district- and block-level units will be treated as inter-unit transfers until expenditures are incurred at these levels.

- Financial controls including delegation of financial powers and financial rules as documented in the FM Manual/administrative rules will be followed.

26. **Internal audit.** The TNRTS has instituted a system of internal audit through a panel of private firms under defined ToR. The internal auditor will report to the CEO every quarter who seeks explanations and follows up on actions undertaken to resolve the issues. There is, however, no audit committee, and there is an opportunity to strengthen this function. The TNRTS's internal audit system will be extended to cover project transactions and the World Bank will review the internal audit reports findings. The ToR will be revised accordingly and included in the FM manual.

27. **Financial reporting.** The TNRTS will prepare unaudited IFRs based on its books of account, at least on a quarterly basis, and submit to the World Bank within 45 days from the

close of the quarter. The format and contents of the IFR will be finalized at negotiations and included in the FM manual and World Bank's Disbursement Letter. The TNRTS will prepare separate annual project financial statements, whose format and contents have been included in the FM manual.

28. **External audit.** A firm of chartered accountants appointed by the respective governing boards of the institutions will audit TNRTS's and district Rural Transformation Society's annual financial statements. The auditors will also certify the consolidated annual financial statements of the project. The auditor/s will be selected through competitive bidding and the auditors carry out the audit in accordance with ToRs covering all programs of the TNRTS.

29. The TNRTS will submit the annual audited report within nine months from the end of each financial year (December 31), starting with the year in which the first disbursement is made. The World Bank will continue to review the entity audit report for any major audit qualifications or accountability issues. The following audit reports will be monitored through the World Bank's systems.

**Table A4.1. Audit Reports Monitoring**

| Audit Report | Audited by | Due Date |
|---|---|---|
| Annual Project Financial Statements | Private Audit Firm acceptable to the Bank | December 31 |

30. **Disclosure.** Under the Access to Information Policy of the World Bank, the annual project audit report and the financial statements will be disclosed on the World Bank and project websites.

## Disbursements

31. The project will be pre-financed from the GoTN budget provision. The TNRTS will incur expenditure through budgetary funds and then seek reimbursement from the World Bank. No advance or direct payment method is envisaged. The project will submit withdrawal applications, supported by IFRs, through the office of the CAA&A for seeking reimbursement. Supporting documents required for World Bank disbursement will be according to the "Loan Handbook for World Bank Borrowers" and will be documented in the Disbursement and Financial Information Letter. Eligible expenditures will comprise works, consulting, and non-consulting services, goods, and workshops and training.

32. Ineligible expenditure will include cost of land acquisition, expenditure on rehabilitation and reconstruction, retention money unless actually paid, and expenditure considered ineligible by the auditors/World Bank.

**Table A4.2. Disbursement**

| Category | Amount of the Loan Allocated (expressed in USD) | Percentage of Expenditures to be financed (inclusive of Taxes) |
|---|---|---|
| (1.a) Goods, works, non-consulting services, consulting services, Operating Costs, Training and Workshops for the Project | 75,210,000 | 70% |
| (1.b) Start Up Fund Grants | 9,110,000 | |

| | | |
|---|---|---|
| (2) Matching Grants under Component II of the Project | 15,430,000 | 70% |
| [(3)] Front-end Fee | 250,000 | Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions |
| [(4)] Interest Rate Cap or Interest Rate Collar premium | 0 | Amount due pursuant to Section 4.05(c) of the General Conditions |
| **TOTAL AMOUNT** | **100,000,000** | |

33. **Retroactive financing.** Expenditures incurred up to one year before the expected date of signing of legal agreements, subject to 20 percent of total financing, can be claimed as retroactive expenditure, subject to compliance with World Bank's procurement procedures. The TNRTS will submit a separate stand-alone IFR certifying the actual expenditure incurred on the project, and this will be subject to audit by the project auditors.

**Procurement**

34. The project will be implemented, monitored, and coordinated by the TNRTS. TNPVS has satisfactorily implemented TNEPRP with adequate procurement arrangements at the state, district and block levels. The TNRTS will replicate similar procurement arrangements for implementation of the project. Most of the procurement handled by the DPMU and BPMU is limited to small-value goods, or non-consultancy and consultancy services. Procurement for the project will be carried out in accordance with the World Bank's Procurement Regulations for Borrowers for Goods, Works, Non-Consulting, and Consulting Services dated July 1, 2016, and applicable to IPF hereinafter referred to as 'Procurement Regulations'. The project will be subject to World Bank's Anticorruption Guidelines, dated October 15, 2006, revised in January 2011, and as of July 1, 2016. According to the requirement of the Procurement Regulations, a PPSD has been developed, based on which the Procurement Plan has been prepared, which sets out the selection methods and selection arrangements to be followed by the borrower during project implementation in the procurement of goods, works, non-consulting, and consulting services financed by the World Bank. The Procurement Plan will be updated annually for larger procurements like Open National Competitive Bidding or as required to reflect the actual project implementation needs and improvements in institutional capacity. The project will use the STEP[38] system for all its procurement activities.

***Summary of PPSD***

35. The State, District, and designated Block-level authorities are responsible for implementing procurement activities and decision making according to the powers delegated to them. Procurement capacity at the SPMU level is weak and needs to be augmented and streamlined with more involvement of procurement staff in preparing and coordinating procurement activities with technical teams. A professional procurement expert with experience in World Bank Procurement is essential for managing the procurements. The Project Procurement Risk Rating is Substantial according to the PPSD and the Procurement Risk Assessment Management System (P-RAMS) assessments.

[38] STEP or Systematic Tracking of Exchanges in Procurement: the Bank's electronic procurement planning and tracking platform.

36. **Brief description of activities to be procured:**

(a) **Works:** Refurbishment and minor civil works.

(b) **Consultancies:** Includes value chain and assessment studies, M&E, internal audit, consultant for environment and social assessment, ICT, MIS.

(c) **Goods:** Includes office equipment; educational kits; network connectivity for OSFs; seeds of paddy, pulses, millets, oilseeds, maize, and vegetables; planting materials for fruit crops; bio-fertilizers, fertilizers, micronutrient mixture; drip irrigation, sprinkler irrigation; fertilization equipment and farm machinery and implements; fingerlings; veterinary pharmaceuticals; ICT equipment; vehicles.

(d) **Community participation in procurement.** The project Components 1, 2, and 3 will finance community subprojects including works such as small works and equipment for social infrastructure, activities, and materials.

37. **Project components.** Summary of the requirement including cost estimates are given in tables A4.3 and A4.4.

**Table A4.3. Cost Estimate of Project Components**

| Component Description | Cost Estimates (US$) | Duration Months | Selection Methods and Market Approach Options |
|---|---|---|---|
| Works | - | 84 | Mostly RFQ-National, a few RFB-National packages |
| Goods and equipment | 1.9 | 66 | Mostly RFQ-National a few RFB-National packages |
| Consultancies | 19.1 | 84 | QCBS, FBS, LCS, QBS, DS |

**Note: DS = Direct Selection; FBS = Fixed-Budget Selection; LCS = Least-Cost Selection; QBS = Quality-Based Selection; QCBS = Quality- and Cost-Based Selection; RFB = Request for Bids; RFQ = Request for Quote.**

**Table A4.4. Procurement and Contract Approaches**

| Attribute | Selected Arrangement |
|---|---|
| Rated Criteria | No |
| BAFO | No |
| Negotiations | No |
| **BAFO = Best and Final Offer** | |

38. **Procurement capacity.** The SPMU established under the previous project will serve as the management and coordination unit for the new project. Many of the officials of the SPMU responsible for implementation of different components/subcomponents were also involved in the previous phase of the project and are well-versed with World Bank procurement procedures and have gained substantial experience in project implementation. However, the project involves new and innovative aspects, specifically related to promoting cluster-level technical support, enhancing farmers' access to market, partnerships and engagement with the private sector, and so on, which will make this more challenging. Apart from delays in procurement process, contract management and disputes are potential problem areas.

39. **Procurement planning.** For each contract to be financed by the loan, the various selection methods/arrangements and market approach options to be used, estimated costs, prior review requirements, and time frame are reflected in the Procurement Plan. The capacity-building plan will also be reflected in the Procurement Plan. The Procurement Plan as agreed will be uploaded in STEP. Based on discussions with the GoTN, both the World Bank and the

project have evolved and committed to respective time frames for processing the procurement requirements at various stages.

40. **Procurement training.** Key staff may be sent for training to Indian Institute of Management, Lucknow; Administrative Staff College of India (ASCI), Hyderabad; or National Institute of Financial Management (NIFM), Faridabad. The project could also avail of the free open online course on public procurement (www.procurementlearning.org) offered by the World Bank as well as the paid Professional Diploma in Public Procurement course delivered through the Charter of Public Procurement Studies.

41. **Procurement risk assessment.** Table A4.5 describes major procurement-related risks and the mitigation plan. The risk ratings have been decided based on both the probability of occurrence of various events as well as their likely impact. Based on the risk factors and mitigation measures, the overall procurement risk rating for the project is determined as Substantial. The rating on procurement will be reviewed and updated periodically by the Bank.

**Table A4.5. Risk and Mitigation Measures**

| Risk Factor | Initial Risk | Mitigation Measures | Completion Date | Residual Risk |
|---|---|---|---|---|
| Limited capacity and inefficiencies resulting in delays in procurement and contract management processes | Substantial | Use of skilled procurement staff for handling procurement activities<br>Monitoring through Procurement Plan and quarterly reports<br>Use of e-Procurement and contract management tools<br>Participation in trainings and workshops | Continuous from year 1 | Moderate |
| Noncompliance with agreed procurement arrangements | Substantial | Training and hand-holding provided by the World Bank<br>Prior and post reviews by the World Bank<br>Internal and external audits | Continuous from year 1 | Moderate |
| External interference in the procurement process | Substantial | Disclosure of procurement-related information<br>Appropriate handling of complaints | Continuous from year 1 | Moderate |
| **Overall risk** | **Substantial** | | | **Moderate** |

Note: The PPSD gives the details of the assessed procurement risks and mitigation measures.

42. **Selection methods.** Table A4.6 describes various selection methods to be used for activities financed by the loan. These along with agreed thresholds will be reproduced in the Procurement Plan. The thresholds indicated in the table apply to the initial 18-month implementation period, and are based on the procurement performance of the project. These thresholds may be subsequently modified.

**Table A4.6. Selection Methods**

| Type of Procurement | Method threshold (US$, millions) |
|---|---|
| Works | International Open RFB > 40<br>National Open RFB < 40<br>National Request for Quotation < 0.1 |
| Goods, IT and Non-Consulting Services | International Open RFB > 3<br>National Open RFB < 3<br>National Request for Quotation < 0.1 |
| Consultant Firms | CQS < 0.3<br>LCS, FBS - in justified cases |

| | |
|---|---|
| | QCBS, QBS - in all other packages |
| Direct Selection | With prior agreement based on justification |

Note: DS= Direct Selection CQS = Selection based on Consultant's Qualifications; FBS = Fixed-Budget Selection; LCS = Least-Cost Selection; QBS = Quality-Based Selection; QCBS = Quality- and Cost-Based Selection; RFB = Request for Bids.

**Table A4.7. Prior Review Arrangements**

| Type of Procurement | Prior Review Threshold (US$) |
|---|---|
| Works | 10 million |
| Goods and Non-Consulting Services | 2 million |
| Consultant Firms | 1 million |
| Direct Selection | 50,000 |

43. For contracts subject to prior review, the implementing agency shall seek the World Bank's no-objection before granting/agreeing to: (a) an extension of the stipulated time for performance of a contract that either increases the contract price or has an impact on the planned completion of the project; (b) any substantial modification of the scope of works, goods, non-consulting services, or consulting services or other significant changes to the terms and conditions of the contract; (c) any variation order or amendment (except in cases of extreme urgency) which singly or combined with all variation orders or amendments previously issued, increase the original contract amount by more than 15 percent; and (d) the proposed termination of the contract.

44. **STEP.** This online tool shall be adopted to prepare the Procurement Plan once it has been agreed to. It is a web-based tool owned by the World Bank that helps in tracking dates of the various stages of procurement activities and contract management that are planned or under implementation. The system establishes a new, easy-to-use, and more efficient way for World Bank teams and clients to interact, while at the same time providing an audit trail of the process. The World Bank will make arrangements to train staff of the State Project Implementation Unit (SPIU) in operating STEP.

45. **Conditions for Request for Bids (RFB) – National Procurement Procedures.** National competition for the procurement of goods, works, and non-consulting services according to established thresholds will be conducted in accordance with paragraphs 5.3–5.5 of Section V of the Procurement Regulations and the following provisions:

(a) Invitations to bids shall be advertised in at least one widely circulated national daily newspaper (or on a widely used website or electronic portal with free national and international access along with an abridged version of the said advertisement published in a widely circulated national daily, among others, giving the website/electronic portal details from which the details of the invitation to bid can be downloaded) at least 30 days before the deadline for the submission of bids.

(b) No special preferences will be accorded to any bidder either for price or for other terms and conditions when competing with foreign bidders, state-owned enterprises, small-scale enterprises, or enterprises from any given state.

(c) Rejection of bids/proposals will be in compliance with paragraphs 5.58 to 5.67 of the Procurement Regulations.

(d) Rate contracts entered into by the Directorate General of Supplies and Disposals (DGS&D) will not be acceptable as a substitute for national competition procedures unless there is incorporation of right to audit and fraud corruption clauses. The DGS&D contracts and its new version will be acceptable, however, for any procurement under the shopping procedures.

(e) The DGS&D rate contracts may be used as Framework Arrangement, subject to the following conditions:

- Use of the DGS&D rate contracts as the Financing Agreement must be reflected on the Procurement Plan agreed by the World Bank for particular goods.
- Before issuing the purchasing order, the implementing agency will carry out a price analysis on the specific goods that are intended to be purchased. If after this due diligence, the implementing agency concludes (and the World Bank agrees) that the DGS&D rate contracts are more advantageous, the DGS&D rate contracts may be used as the Financing Agreement.
- To meet the World Bank's requirements for right to audit and fraud and corruption, these clauses may be included in the purchase orders (in case the purchasers are directly placing the purchase orders to the DGS&D rate contract holders). On the other hand, if an indent is placed through the DGS&D, the purchaser has the option to sign a separate undertaking with the DGS&D rate contract holder, where the World Bank's right to audit and fraud and corruption clauses could be mentioned.To improve efficiency and transparency of small value purchases in Bank financed projects, the Bank has agreed to allow use of Government e-Market place (GeM) as follows:

  1) Use of GeM is allowed in lieu of shopping up to US$ 30,000 in catalog mode.
  2) Use of GeM is allowed in lieu of shopping up to US$ 100,000, provided there are at least 3 suppliers for the item on GeM and the Purchaser uses RFQ (mini competition or bidding among suppliers) feature on GeM to discover the final price.
  3) In both above cases Borrowers will record their assessment on reasonableness of price.
  4) GeM is not to be used in lieu of NCB.

(f) Negotiations will not be conducted if the World Bank does not permit it.

46. **Domestic preference.** The provision of domestic preference will be applied in the evaluation of bids in accordance with Annex VI of the Procurement Regulations.

47. **Record keeping.** All records pertaining to the award of tenders, including bid notification, register pertaining to sale and receipt of bids, bid opening minutes, bid evaluation reports, and all correspondence pertaining to bid evaluation, communication sent to/with the World Bank in the process, bid securities, and approval of invitation/evaluation of bids would be retained by implementing agencies for any post-review requirements.

48. **Disclosure of procurement information.** The following documents shall be disclosed on the project/state websites: (a) a Procurement Plan and updates, (b) an invitation for bids for goods and works for all contracts, (c) request for expression of interest for selection/hiring of consulting services, (d) contract awards of goods and works procured following RFB international and national procedures, (e) a list of contracts/purchase orders placed following and Request for Quote procedures on a quarterly basis, (f) a list of contracts following Direct Contracting on a quarterly basis, (g) a monthly financial and physical progress report of all contracts, and (h) an action-taken report on the complaints received on a quarterly basis.

49. The following details shall be sent to the World Bank for publishing on the United Nations Development Bank and World Bank external websites: (a) an invitation for bids for the procurement of goods and works using open international procedures, (b) contract award details of all procurement of goods and works using open international procedures, and (c) a list of contracts/purchase orders placed following Direct Contracting procedures on a quarterly basis. Further, the TNRTP-PMU will also publish on their website any information required under the provisions of 'suo moto' disclosure as specified by the Right to Information Act.

50. **Oversight and monitoring by the World Bank.** All contracts that are not covered under prior review by the World Bank will be subject to post review during implementation support missions and/or special post review missions, including missions by consultants hired by the World Bank. To avoid any doubts, the World Bank may conduct, at any time, Independent Procurement Reviews of all contracts financed under the loan.

51. **The high-risk and high-value procurements,** if any, will be identified for increased contract management support and indicated in the Procurement Plan. The TNRTP-PMU will develop key performance indicators for such identified contracts and the key performance indicators would be monitored during actual execution of contracts. The World Bank team will provide additional due diligence and independent review of contract performance of such identified procurements.

52. **Frequency of procurement supervision,** the World Bank will normally carry out implementation support missions, including review and support on procurement, on a semiannual basis. Mission frequency may be increased or decreased based on the procurement performance of the project.

**Social (including Safeguards)**

53. The key social issues that the proposed project will address would be: inclusion, gender mainstreaming, support to women-led enterprises and women entrepreneurs, and enhancing women's labor force participation.

**Inclusion.** The proposed project seeks to identify and support households with assets, skills, and resources acquired under other programs (such as TNERP, NRLM) to participate in value-added economic activities in the target areas. In doing so, the TNRTP will ensure that eligible households belonging to disadvantaged social groups including SCs, STs, differently-abled, and other traditionally marginalized groups have access to employment and entrepreneurship opportunities. Support to beneficiary households represented by women (but also involving youth and men), will include upgrading existing enterprises, mobilizing to become part of PCs, and acquiring skills for jobs and self-employment to enhance household incomes. The project's social inclusion strategy is tailored to achieve inclusion outcomes.

**Gender.** While targeting eligible households for support, the TNRTP will specially focus on women since the participation in and ownership of economic activities for women is highly limited in comparison to men. The project would contribute to greater empowerment, voice, and agency of women across the different social groups through their enhanced economic participation and incomes. The particular constraints faced by women will be addressed through the OSF for business development and advisory services, training and mentorship, effective partnerships with private and public sector players, and increased access to finance through matching fund programs. The Social Assessment undertaken by the project revealed that nearly 60 percent of economically active women in the target areas are engaged as casual laborers and agricultural laborers and about 10 percent are into economic activities. In terms of labor force participation, sectors with large potential for jobs for women and skills enhancement for greater income returns will be prioritized.

**Women entrepreneurs and women-led enterprises.** Most women-led enterprises in the target areas are small scale and essentially individual activities. Among the major constraints identified in expanding economic activities were lack of working capital (65 percent), non-availability of finance at low interest rates (57 percent), non-availability of raw materials (49 percent), delayed payments from buyers (44 percent), health issues related with their activity (42 percent), lack of equipment / machinery (30 percent), lack of business knowledge (23 percent), difficulty in marketing (22 percent), and shortage of skilled labor (14 percent). A gender action plan (detailed in annex 7), has been designed to specifically address the constraints that women entrepreneurs and women-led enterprises face with respect to business development and advisory series, access to finance, access to markets, and training and mentoring. Women-led enterprises are also a potential avenue for enhancing women's labor force participation as women entrepreneurs tend to hire other women, and the project will reach a large number of beneficiaries through this strategy.

54. **Involuntary Resettlement (OP/BP 4.12).** The Operational Policy on Involuntary Resettlement (OP/BP 4.12) is not triggered as no land acquisition using the eminent domain is envisaged under the project. Any land required for project-related investments will be accessed through open market purchase ('willing buyer-willing seller') or by using government lands. Under special conditions, land donations may be an option. To ensure that there are no adverse impacts on communities due to land acquisition process, all land transactions will meet the following criteria: (a) the land in question will be free of squatters, encroachers, or other claims of encumbrance; (b) lands will be chosen after ensuring that the particular piece of land is suitable for the purpose; (c) in each case, the voluntary nature of the land sale/donations will be verified; (d) land transfers will be completed and the title will be vested in the name of the project entity through a registered sale deed or MoU; and (e) a provision will be made for redressing grievances. Retrospective assessments to ensure social due diligence will be undertaken for all voluntary land donation.

55. **Indigenous Peoples (OP/BP 4.10).** The total population in the project area (120 blocks) is estimated at 12.3 million (2011 census). Of this, the population of STs is estimated to be 0.135 million constituting less than 1.1 percent. Here again, the ST population consists of plain tribes (who reside in the plains) and hill tribes who live largely in hilly and forested areas. The plain tribes, who continue to be social disadvantaged, are better exposed to the prevailing socioeconomic environment in the state and are eking out livelihoods comparable to the general population. The hill tribes are more vulnerable and display many characteristics of indigenous people as defined in OP/BP 4.10 (collective attachment to land and natural resources, distinct culture, customary institutions, and so on) and hence, would be the focus group under the World Bank's social safeguard policy. Of the total 0.135 million ST population, only 0.048 million are hill tribes. These tribes are found in seven of the 120 project blocks. From the point of OP/BP 4.10, the hill tribes are being considered as potential indigenous groups. While the tribal population of the hill tribes is small, they do face significant challenges with pursuing profitable economic opportunities due to social, cultural, and institutional barriers that need to be addressed through tailored interventions by the TNRTP. The Social Assessment for the project was completed based on extensive consultations in the project target areas. This provides greater and granular insights on the key challenges facing potential beneficiaries and also their pressing needs for enterprise development, especially for

women entrepreneurs which has informed the project design. A Tribal Development Strategy has been developed to ensure that tribal households participate and benefit from project interventions that are culturally appropriate and build on the assets, skills, and resources unique to the tribal population targeted under the TNRTP. Both these documents were widely consulted, finalized, cleared, and disclosed both in-country and in the InfoShop before appraisal.

56. **Safeguard Management Capacity.** The proposed project has conducted an expanded Social Assessment with project-affected persons, especially the tribal population, to secure broad community support, and has put in place a grievance-redress system and a culturally appropriate benefit-sharing mechanism. The recipient will need specific capacity to identify and assess potential adverse environmental and social impacts and to implement and monitor appropriate mitigation measures. The SPMU will ensure the presence of qualified environmental and social specialists as well as a dedicated Tribal Development Specialist to address environmental and social safeguard matters at the state and district levels. They will receive training on World Bank safeguard policies. The IBRD will support measures that will strengthen the recipients' capacity to implement the safeguard instruments prepared for this project through training and activities supporting capacity. Further, the project's Project Implementation Plan - PIP and the planning process will be conducted in a culturally- and gender-sensitive manner.

**Environment (including Safeguards)**

57. **Integration of safeguards into business plans/proposals.** The responsibility of integration of guidelines/mitigations into low-impact activities and Environment and Social Appraisal of high-impact activities will be handled by the CPs who facilitate business plans at the village level. The CPs will be supported by the block teams. The appraisal of business plans will be verified and vetted (if necessary) by the OSF at the block level. The OSF will also provide support for implementation, such as obtaining consents from the Pollution Control Board, organizing trainings on green index for PGs/PCs/entrepreneurs.

58. At the state level, the Environment Specialist at the PMU will facilitate and oversee the implementation of environmental safeguards. In addition to the Environment Specialist, two consultants will be hired who will provide support for application of 'green index' to the high-impact enterprises. At the district level, a select member from the DPMU team will be designated as an anchor person for safeguards. The person will be responsible for overseeing the implementation of safeguards at the district level, providing support for block teams and CPs (through capacity building, monitoring, and so on) for effective integration of safeguards. The flow charts in tables A4.8 and A4.9 present the process of safeguards integration during the different stages of the project and the process of Environmental Appraisal.

**Table A4.8. Integration of Safeguards**

| Project Stage | | Safeguard Integration |
|---|---|---|
| DDS | → | Integration of environmental aspects (natural resource status, key issues) and identification of potential green opportunities |
| ↓ | | ↓ |
| PGP | → | Integrating the present status of natural resources and issues |
| ↓ | | ↓ |
| Investment Plans | → | Integrating environmental safeguards, identifying the risks, and integrating the mitigation measures |
| ↓ | | |
| Business plans | → | Environmental appraisal and integration of mitigations/guidelines, ensuring compliance. |

**Table A4.9. Environmental Appraisal of Business Plans**

<table>
<tr><td colspan="4">Business proposals prepared by enterprises with the help of CPs, Block Manager, and Facilitator-Enterprises</td></tr>
<tr><td colspan="4">↓</td></tr>
<tr><td colspan="4">Environmental Appraisal of Business Proposal by Enterprise CPs</td></tr>
<tr><td colspan="4">↓</td></tr>
<tr><td colspan="4">Environmental Categorization</td></tr>
<tr><td>↓</td><td>↓</td><td>↓</td><td>↓</td></tr>
<tr><td>White</td><td>Green</td><td>Orange</td><td>Red</td></tr>
<tr><td>↓</td><td colspan="2">↓</td><td>↓</td></tr>
<tr><td colspan="3">Guidelines integrated. Environmental Appraisal required</td><td>Environmental Impact Assessment required</td></tr>
<tr><td colspan="2">Environmental Appraisal by Enterprise CPs, mitigations/guidelines</td><td>Environmental Appraisal by Block Manager</td><td rowspan="7">External Agency</td></tr>
<tr><td colspan="3">↓</td></tr>
<tr><td colspan="3">Vetted by the OSF</td></tr>
<tr><td colspan="3">↓</td></tr>
<tr><td colspan="3">Approved by DPMU</td></tr>
<tr><td colspan="3">↓</td></tr>
<tr><td colspan="3">Implementation by Enterprises</td></tr>
</table>

59. **Capacity building.** The environment and social appraisal of business plans will also identify the capacity-building needs based on which MaKaMai will develop a capacity-building plan for PGs/ PCs /entrepreneurs in the respective blocks. The block-level capacity building plans are consolidated at the district level and a district anchor person will organize the training programs with help of resource agencies. The state-level Environment Specialist and the consultants will provide necessary guidance and support.

60. **Monitoring**

**Internal.** Implementation of safeguards (mitigations/guidelines) will be monitored on a regular basis by the CPs. The CPs will monitor the implementation once in every production cycle. The monitoring reports are submitted to MaKaMais. The district anchor person will desk review the CP monitoring reports and will also cover a sample (20–25 numbers in different sectors) of business plans in the district once every year. The Environment Specialist from the state level will also cover a sample of five districts once every six months and review the monitoring reports from the district anchor persons on a half yearly basis. The consultants will monitor the green index on regular basis.

**External.** Two external audits will take place during the project period – one audit for safeguards and one audit for green index. External agencies will be hired during years three/four for conducting the audits.

61. **Green enterprise.** Green enterprise will be piloted as part of ‘Innovation Promotion.’ The innovation team at the state level will develop the concept and provide hand-holding support to the select DPMUs and BPMUs in piloting the green enterprises. TSA will be hired based on the need. The budget is included under the subcomponent ‘Innovation Promotion.’

**Monitoring and Evaluation**

62. The M&E system represents a core component in the implementation of the TNRTP. Given the cross-cutting and interconnected nature of the project, the project team has proactively engaged in the development of the M&E framework which will be used to track project progress and performance, support result-based management, improve accountability for results, enable timely identification of problems and corrective actions, and enable learning and evidence-based, decision-making processes at all levels of project implementation.

63. The TNRTP M&E system reflects the Results Framework which summarizes the causal links between project activities, outputs, intermediate outcomes, and final project-level outcomes. The system defines the roles and responsibilities of project staff, stakeholders, and external consultants to systematically track progress, assess results, support the evaluation work, and enable continuous feedback to project management for improved implementation performance.

64. The M&E system of the project will include the following: (a) monitoring of project progress (both physical and financial, including inputs, outputs, and outcomes); (b) monitoring of the processes (of how field-based activities and management-related activities are conducted); (c) monitoring of the intermediate outcomes; (d) participatory M&E by community institutions; (e) thematic studies and case studies; and (f) impact evaluation. The state and district M&E teams will assist in developing monitoring and survey formats, train staff and survey teams to collect data, maintain quality control, and help analyze the results at the local and regional levels.

65. During implementation, the M&E activities of the proposed project will be undertaken by the internal M&E state team comprising experienced and trained staff at different levels, namely at the block level and the DPMU at the district level. The project will also ensure the establishment of a comprehensive audit mechanism for fiduciary management at all levels, and relevant project staff will be trained accordingly.

66. The project will emphasize participatory monitoring to ensure the involvement of local beneficiary communities from the outset and to include their feedback on project activities and processes. A community-based process monitoring system will be established at the village level for sharing of all project-related information and generation of information for process and results monitoring. Social audits (third-party monitoring) will be undertaken to provide external verification. The TNRTP will develop, during the first year of implementation, suitable indicators and mechanisms to measure empowerment among the project beneficiaries, especially women and youth. The DPMU will also conduct thematic case studies to document the process of changing social relations and empowerment among the beneficiaries.

67. A computerized web-based MIS will be established to track and manage all monitoring data related to the activities and results of the four project components. A consultancy firm will be hired to develop and maintain the MIS of the project. Software will be developed and customized for the specific needs of project monitoring and the system will be field-tested and rolled out under technical supervision of competitively selected external consultants in the project M&E team. The MIS will ensure accurate and on-time project monitoring and provide easy access to information on funds flow, implementation progress, processes, and quality and performance of community institutions. This information will be made available through a user-friendly project website, that is accessible to all key stakeholders. The project will utilize these and other sources of information (that is, thematic studies, GIS, and so on) to reliably inform stakeholders and the management, and to enable them to undertake evidence-based decision making and midterm corrections as needed.

68. For the evaluation of project outcomes, the project has commenced a comprehensive baseline survey to be completed within six months of project commencement using agreed performance indicators to assess the situation pertaining to the indicators before project interventions start in sampled localities. The project will also commission a qualified external M&E consultancy firm to review and supplement a prior baseline study as necessary, and to undertake a midterm review and end-of project assessment to determine project impacts.

## Annex 4: Implementation Support Plan

## INDIA: Tamil Nadu Rural Transformation Project

1. The strategy for supporting project implementation will focus on successfully mitigating the risks identified at various levels and supporting the risk management proposed in the Systematic Operations Risk-Rating Tool. It will consist of: (a) implementation support missions; and (b) technical assistance in areas of weaknesses and where innovations are introduced.

### Implementation Support Plan and Resource Requirements

2. Arrangements made at the preparation phase will be maintained during implementation support involving the Task Team Leader, co-Task Team Leader, and task members including some short-term consultants. This arrangement will enhance interaction with the GoTN and the implementation agency (TNRTP-Society) and improve monitoring of progress. The task team will also seek a possible trust fund budget to strengthen supervision activities on top of the allocated budget.

3. The Implementation Support Plan will comprise a number of critical review instruments to assess progress toward achieving the PDO and overall implementation progress and to effectively respond to issues and challenges as they arise. Such reviews will include among others: (a) implementation support missions conducted semiannually; (b) concurrent evaluations, process monitoring, and a midterm review that will include a comprehensive assessment of the progress achieved at the mid-point of project implementation and will serve as a platform for revisiting project design issues and where adjustments might be needed; (c) impact assessment; and (d) implementation completion where an independent assessment of the project will be undertaken and lessons drawn to inform future or similar operations.

4. The implementation support missions will specifically focus on reviewing the quality of implementation, finding solutions to implementation problems, assessing the likelihood of achieving the PDO, reviewing disbursement projections for the next six months, reviewing the project's fiduciary aspects including disbursement and procurement, verifying compliance of project activities with the environmental and social safeguard policies, reviewing the grievances, and reviewing the results against the Results Framework. The missions will combine some field visits and multi-stakeholder discussions.

5. At the technical level, the task team will assemble the appropriate technical skills and experience needed to support implementation of the TNRTP. Fiduciary reviews will be conducted by the FM and procurement specialists to ensure that fiduciary systems and capacities remain adequate during the course of project implementation in accordance with the IBRD's fiduciary requirements.

(a) **Financial management.** The World Bank will require quarterly IFRs to be submitted, as well as the annual external audit report for review. The World Bank will also review other project-related information such as the internal control systems' report. Annual on-site visits will also be carried out by the World Bank to review the FM system including internal controls. Monitoring of actions taken on issues highlighted in audit reports, auditors' Management Letters, internal audit, and other reports will be reviewed by the World Bank, including transaction reviews, as needed. FM training to the PMUs' staff at various levels will be carried out by effectiveness. Additional FM training will be conducted during project implementation as needed.

(b) **Procurement.** The IBRD will undertake implementation support missions every six months.

6. **Safeguards.** The safeguard team will consist of social and environmental specialists who will guide the project team in applying the agreed safeguard instruments as well as reviewing compliance during implementation support missions.

| Time | Focus | Skills Needed | Resource Estimate (US$) |
|---|---|---|---|
| First 12 months | • Project implementation start-up<br>• Establishment of the PMUs at state, district, and block levels<br>• Support to implementation activities: sensitization, consultations and planning, institution building, and strengthening of implementation capacity, including M&E<br>• Building partnerships with technical agencies, financial institutions, and government agencies<br>• Finalizing the Fund Manager and the PFIs<br>• Development of M&E methodology and oversight of baseline survey<br>• Capacity building and mentoring of staff at all levels on procurement, FM, M&E, and safeguards<br>• Setting up of ICT-based systems | (a) Project management<br>(b) HR management<br>(c) Agribusiness, value chain and business enterprise<br>(d) PCs and aggregation<br>(e) Banking and financial sector<br>(f) Skills and jobs<br>(g) Social development<br>(h) FM<br>(i) Procurement<br>(j) M&E<br>(k) Environment<br>(l) ICT | 30,000<br>10,000<br>20,000<br>10,000<br>20,000<br>10,000<br>10,000<br>10,000<br>10,000<br>20,000<br>10,000<br>15,000 |
| 12–60 months | • Implementation support missions to monitor implementation performance including progress against targets of the Results Framework<br>• Review of annual work plans and disbursement schedule<br>• Review quality of quarterly/annual reports<br>• Review of audit reports and IFR<br>• Review adequacy of the FM system and compliance<br>• Midterm review undertaken (during year 3) | (a) Project management<br>(b) Economist<br>(c) Agribusiness, value chain and business enterprise<br>(d) PCs and aggregation<br>(e) Banking and financial sector<br>(f) Skills and jobs<br>(g) Social development<br>(h) FM<br>(i) Procurement<br>(j) M&E<br>(k) Environment<br>(l) ICT | Same as above |
| Other | Same as above and in addition<br>• Project evaluation<br>• Project completion and Implementation Completion and Results Report preparation | Same as above | Same as above |

| Skills Mix Required | | | |
|---|---|---|---|
| **Skills Needed** | **Number of Staff Weeks per year** | **Number of Trips** | **(Based at)** |
| • Task Team Leader | 12 | 4 | Delhi |
| • Co-Task Team Leader | 8 | 2 | Washington |
| • HR management (first 12 months) replaced by Economist (12–60 months) | 6 | 4 | Delhi |
| • Agribusiness, value chain and business enterprise | 6 | 3 | Delhi |
| • PCs and aggregation | 6 | 4 | Delhi |
| • Banking and financial sector | 6 | 2 | Washington |
| • Skills and jobs | 6 | 3 | Delhi |
| • Social development | 4 | 2 | Washington/ |
| • FM | 4 | 2 | Delhi |
| • Procurement | 4 | 2 | Delhi |
| • M&E | 4 | 2 | Delhi |
| • Environment | 4 | 2 | Manila |
| • ICT | 6 | 3 | Delhi |

## Annex 5: Access to Finance: Micro and Small Enterprise in Tamil Nadu

## INDIA: Tamil Nadu Rural Transformation Project

### Context Summary

1. **Tamil Nadu is the second largest state economy of India** with US$161.1 billion in GSDP in 2014–15 and an average annual growth rate of 9.5 percent in 2004–13. The state has the highest number of business enterprises (11 percent) and stands second in total employment (10 percent) in India, with a population share of only about 6 percent. Nevertheless, this economic growth is not equally distributed, both geographically and by population group. The average per capita income for the state in 2010–11 was Rs 50,260 (US$773), but half of its districts had lower incomes. The poverty ratio in the state as of 2011–12 was 11.3 percent – rural poverty ratio was 15.8 percent with 5.9 million people living below the poverty line and urban poverty ratio was 6.5 percent with 2.3 million people living below the poverty line. The GoTN sees MSME development as the way to make a qualitative difference in economic development, employment, and income generation for the population of the state, and thus, it requested the IBRD to extend assistance with this through the TNRTP.

2. **MSME sector ensures economic development potential in terms of employment, industrial production, and exports.** While being the second highest employment provider in the country, the MSME sector has not performed to its potential and is plagued with challenges related to lack of technical skills, poor business acumen, inadequate access to markets, and most importantly, insufficient access to finance. Nonetheless, this sector holds the key for the success of the 'Make in India' vision of the GoI, which seeks to promote schemes with increased focus on financial reforms. To foster the growth of the sector, the GoI has been focusing on creating new opportunities and reducing vulnerability through key programs and strategies, including strengthening of existing MSMEs programs and promoting innovations and entrepreneurs through schemes such as ASPIRE, Start-Up India, and MSME Virtual Cluster.

3. **TNRTP is well positioned to contribute to building of the MSME (in particular, the MSEs) sector**, especially as it builds on previous World Bank-financed projects, which aimed to provide income-generating opportunities at the household level. While working with households, the following challenges were identified for sustainably integrating rural producer households into higher-level income opportunities for wealth creation: (a) lack of coordination of HR and capacity gaps in existing agencies to facilitate business promotion and development services; (b) lack of start-up capital and predictable business service support and overall access to finance; (c) weak entrepreneurial management capacity within existing producer associations and businesses promoted by individual entrepreneurs and enterprises; (d) asymmetry in prices and business information; and (e) lack of coordinated planning and resource mobilization for promotion of farm or off-farm producer-linked business enterprises, individual entrepreneurship, and value chain development. The other important impediments are the lack of responsiveness and sustained engagement of the buyers or private players with these producers due to lack of compliance with requirements demanded by the markets and small volumes and low production efficiency, leading to high transaction costs. In addition, the private players do not have the know-how to engage with the dispersed individual producers, PCs, and downstream enterprises that lack market orientation.

4. TNRTP therefore aims to: (a) create an enabling environment to promote and strengthen enterprises and create jobs in targeted areas through identifying market and value-

chain development opportunities; (b) mobilize and aggregate rural producers' (from SHG households) into PCs; (c) enhance access to finance through development of appropriate financial products and linkages with formal financial institutions; (d) finance business plans of PCs and enterprises linked to value chain opportunities; (e) develop an institutional architecture for efficient delivery of business development and financial services; (f) upgrade skills in selected self-employment occupations and enhance access to wage-employment jobs in growth clusters; and (g) forge partnerships with key stakeholders (public/private/research/academia) and leverage expertise of partners to engage in specific win-win opportunities to ensure sustainability of project initiatives.

**Demand for MSE Finance in Tamil Nadu**

5. **The MSE sector in Tamil Nadu** accounts for the largest number of MSMEs in the country (11 percent) with 1.33 million registered units. The sector is known for its employment potential next only to agriculture in the state, and contributes 10 percent to the GSDP. However, it is estimated that around 10 percent of MSEs have access to financial sector services. Data of the SLBC shows that lending to MSMEs was US$10 billion equivalent during 2015–16, whereas the current unfunded demand amounts to at least around US$60 billion equivalent.[39] Furthermore, most of this lending is being done by public sector banks (70 percent)[40] under the priority sector mandate enforced by the GoI, which requires at least 7.5 percent of the portfolio to be on-lent to MSMEs.

6. The unmet demand for financing in the MSE sector is underscored in several reports and studies, with the following key findings:

(a) The Resurgent India Report[41] discusses that the main obstacle to MSME development is access to finance. The study estimated that only 5 percent of MSMEs in India are covered by the formal financial sector, and 95 percent are unable to access financial sector services.

(b) This finding is corroborated by the TNRTP Social Assessment, where 65 percent of entrepreneurs have mentioned that access to finance (predominantly, working capital) is the major problem. The study had a sample size of 1,700 households, from among the target households of the TNRTP in the selected 120 blocks. The study was focused on assessing the participation of women and disadvantaged sections of society in the economy. Only 11 percent of the respondents had borrowed from the formal banking sector and the average amount borrowed was Rs 1.26 lakhs (loans from private financiers had been availed by 9 percent and the average amount borrowed was Rs 1.08 lakhs).

(c) The Access to Finance Study was a preparation survey[42] done in the target blocks of Tamil Nadu: 87 percent of the respondents (from the target group of the project) confirmed that they do not have access to finance to expand their businesses; and 75 percent of the total never approached any bank for finance. In addition, consultations with financial institutions revealed that: (i) banks are reluctant to

[39] The Bank team's estimate based on information available from the SLBC and the Resurgent India Report (footnote 4). As the MSME sector continues to grow, additional funding will be required.
[40] Private sector banks ensure 22 percent of MSME lending, and RRBs provide 8 percent of MSME lending.
[41] Resurgent India Report on Energizing MSMEs by Facilitating Financing and Enhancing Competitiveness, October 2016.
[42] TNRTP did a preliminary diagnostic survey to understand MSME financing in the state.

lend to start-ups without any support; (ii) banks expect the borrowing enterprise to have operated around 18–24 months before such a loan is availed; (iii) it is very difficult for small and very small enterprises to access existing government MSME support programs, mostly due to paperwork requirements; (iv) although the largest lender to MSEs, the public sector banks, are not keen to lend, such lending is mostly done under the government programs and priority sector lending; and (v) capacity building of the regional bank branch staff is highly recommended.

**MSE Finance Market Response Failure**

7. **Loan amounts are insufficient, and the geographic distribution of loans is inequitable.** Of the total MSMEs, 93 percent are micro enterprises that received 43 percent of the total advances. Closer analysis revealed that the average loan size to the MSMEs is only Rs 3.3 lakhs (US$500 equivalent) and to the micro enterprises is Rs 1.5 lakhs/enterprise (US$227 equivalent). This is very low compared to the amounts estimated to be required by MSEs in accordance with the MSME Development (Amendment) Bill of 2014.

**Table A2.1. Definition of the micro, small and medium enterprises (MSMEs) in two classes**

| Types of Enterprises | Manufacturing (investment in plant and machinery) | Services (investment in equipment) |
|---|---|---|
| Medium | <10 crores, <30 crores | >5 crores, <15 crores |
| Small | >50 lakhs, <10 crores | >20 lakhs, <5 crores |
| Micro | <50 lakhs | <20 lakhs |

8. It should also be noted that lending achievements[43] are primarily in existing clusters, (such as Coimbatore, Kanyakumari, Trichy, Pudukottai), while farm-centric clusters (rice mills, food processing) and traditional clusters (embroidery) in Thanjavur, Thiruvallur, and Tuticorin did not receive even 60 percent of the targeted lending.

9. **Government programs for MSE support**. A number of government programs in support of small-scale entrepreneurship development exist in Tamil Nadu. The main subsidy schemes in operation are New Entrepreneur-cum-Enterprise Development Scheme (NEEDS), Unemployed Youth Employment Generation Programme (UYEGP), Prime Minister's Employment Generation Programme (PMEGP) and MUDRA refinance.[44] The main guarantee schemes are Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) and Small Farmer's Agribusiness Consortium (SFAC). Total loans sanctioned owing to the scheme are as given in table A2.2.

**Table A2.2: Statistics on the major schemes for enterprise/entrepreneur development**

| Schemes | Number of loans | Amount (US$, millions) | Average Loan/ Enterprise (Rs, lakhs) | Structure of Financing |
|---|---|---|---|---|
| **NEEDS** | 585 | 26 | 29.3 | 25 percent capital subsidy for a project of maximum cost Rs 1 crore |
| **UYEGP** | 5,616 | 20 | 2.3 | 25 percent capital subsidy for a project of maximum cost Rs 5 lakhs |
| **PMEGP** | 1,090 | 17 | 10.33 | 15–25 percent and subsidy in rural areas: 25–35 percent and the balance amount of the total |

[43] List of identified clusters in Tamil Nadu by FMC (Federation of MSME Clusters).
[44] Mudra refinance, which has not yet started (reportedly, due to cumbersome procedures), is expected to be used by banks, MFIs, and RRBs; and the portfolio percentage the program would refinance for these institutions is 75 percent, 18 percent, and 7 percent, respectively.

| | | | | |
|---|---|---|---|---|
| | | | | project cost will be provided by the World Bank as term loan as well as working capital. |

Note: For other schemes the numbers are inconsistent, and hence cannot be referred to.

10. Existing programs were reviewed in detail and also discussed on several occasions with lenders. This led to identification of a number of issues with these programs: (a) none of the existing funds would directly meet the sectoral and other requirements of the project; (b) procedures for application to existing programs are very cumbersome as it requires a lot of paperwork from the beneficiaries, which the smaller enterprises, in particular find difficult to collect, and banks, in particular the private banks, find very slow and lacking transparency.

11. **Stakeholder consultations** (two roundtables as well as individual meetings with financial institutions[45]) were held during project preparation, to assess the demand for financial products designed under the TNRTP. Main observations of the financial institutions were the following:

(a) They are not seeking funds for on lending, but for risk-sharing arrangements, which would allow them to mitigate the perceived risks of lending to start-ups. The existing support schemes focus on the non-farm sector. There are few products available for agriculture enterprises, such as the SFAC, but their design and implementation process is cumbersome; and it makes them irrelevant and financial institutions do not prefer to apply for them. The banks suggested that new products must include excluded segments, such as agro-processors, small exporters, milk vending stations.

(b) There is no operational product like the matching grant in the existing ecosystem of agri-based MSME lending. The banks were in favor of the product. Also, the primary survey indicated that knowledge about existing products (such as NEEDs) and their implementing agency, the District Industrial Centre (DIC), is negligible among target customers.

(c) Leading banks expressed that the MGP would be the preferred instrument for loans of up to Rs 25 lakhs if designed suitably, in consultation with the stakeholders.

**Project Approach**

12. Given the constraints described earlier, the project takes the following approach:

(a) **Piloting a more market-based approach to facilitate MSME development.** While a variety of government programs exist in Tamil Nadu to support MSME development, provision of financial services to the MSME sector outside these programs is very limited due to a variety of reasons. In addition to the reasons described earlier in para 6, access to existing programs is restricted either procedurally (non-transparent and very slow) or by eligibility (as many of the support programs do not cover agriculture). Subcomponent 2.a will therefore attempt to establish a better-working, transparent approach for accessing financial

[45] The project team has held discussions and consultations with a number of potentially interested banks and NBFIs, including Axis Bank, Bank of Baroda, Canara Bank, CUB Bank, DENA Bank, Dhanalakshni Bank, Equitas Small Finance Bank, HDFC Bank, ICICI Bank, IDBI Bank, Indian Bank, Indian Overseas Bank, IndusInd Bank, IMFR Group, Janalakshmi Financial Services, Jammu & Kashmir Bank, Karnataka Bank, KIEMA, Lakshmi Vilas Bank, LVB Bank, MAHIA Madurai, NABKISAN, NABFINS, Pallavan Grama Bank, SAMUNNATI, SBBJ, SBI Bank, SLBC, TFSC, TNS Bank, and YES Bank.

services, using ICT, which could continue existing past the project's closing date and attempt to mainstream MSE lending through the financial sector, outside of government programs.

(b) **Providing faster and more transparent access to financial instruments.** An ICT Platform will be designed by the project and deployed at the Fund Manager. The MGP will therefore be ICT-enabled, to ensure transparency, ease of implementation, and access to information for the PFIs and the SPMU. A web-based application will be developed to operationalize the MGP.

(c) **Enabling an integrated approach to rural MSE development.** The project will provide access to a comprehensive package of business development services, skills, and access to finance for emerging rural enterprises. This will allow addressing, in a comprehensive manner, a number of issues which result in slow lending to the NMSE sector because of its perceived riskiness. The project will build capacity of future borrowers through extensive capacity-building programs, facilitate market access through linking them to project-supported value chains, and leverage project-supported financial instruments to facilitate access to borrowing from the formal financial sector.

(d) **Building on the successes of previous World Bank-financed projects in Tamil Nadu.** The proposed project builds on the government and ongoing World Bank supported TNEPRP[46] and the NRLP, which supports the NRLM. Launched in 2004 and 2011 respectively, the TNEPRP and NRLP are supporting the empowerment of the poor and improving their livelihoods by developing, strengthening, and synergizing pro-poor community institutions/groups; enhancing skills and capacities of the poor (especially women, youth, differently-abled); and financing productive demand-driven investments in economic activities. The focus of the TNEPRP and NRLP has been to reduce vulnerability of BPL households (categorized as poor and ultra-poor households), building their social and institutional capital, and increasing their capacity to participate and benefit from economic activities. The TNRTP aims to strengthen the participation of these households, as a group or as individuals in economic activities by providing access to knowledge, information, markets, and finance.

**Financial Instrument Supported by the Project**

13. **Choice of financial instrument** supported under the project was selected in response to the issues identified by the financial institutions.

14. **Matching grants for PCs and enterprises** is intended as one-time co-financing for borrowing from the formal financial sector for PCs, first-time entrepreneurs, women-led businesses, and other types of enterprises perceived as a risky by the financial sector. Matching grants will be available together with a borrowing from the financial sector, in the amount of up to 30 percent of the financing needed by the enterprise. The matching grants will be the last 30 percent of the borrowing, i.e. the grant portion will become non-repayable upon full and timely repayment of the first 70 percent of the financing, in which case the repayment of the last 30 percent will be waived. The MGP is expected to improve the repayment discipline of borrowers, and also the appetite of the financial institutions to lend to such enterprises.

[46] The TNEPRP is scheduled to close on June 30, 2017.

15. This financial instrument has been used in World Bank-financed projects to successfully support micro enterprise development and sustainably link these new enterprises to the formal financial sector, in particular, in the Europe and Central Asia Region, with excellent results. For example:

a) In **Latvia**, the Rural Development Project (project period: 1998–2001), introduced MGP (along with credit guarantee program) for first-time borrowers from the banking sector. As a result, 1,411 sub-loans were made to small-scale farmers and rural entrepreneurs (average loan amount was US$3,060 equivalent). About half of these small-scale borrowers (within the project period), after repaying their first loans, borrowed again from the commercial banks, but this time on commercial terms. In addition to providing first-time borrowers access to credit, they would otherwise not have, the first time borrowers were also able to establish credit histories and build up adequate assets to become self-sufficient, and become regular clients for the commercial banks. Repayment rates of the credit line were high at around 98 percent.
b) In **Moldova,** the Rural Investment and Services Project (project period 2002–05) introduced individual loan and matching grant products through commercial banks, as well as targeted support to rural enterprise development. The project provided support to individuals willing to start their own business by assisting them with business registration, obtaining a loan from a commercial bank (with a matching grant), and one-year post-creation support (aftercare services). As a result of the project activities, over 700 enterprises were created and financed, 58.6 percent of which were non-farm businesses, creating on average four jobs (42 percent of which were for women), an average increase of 55 percent of salary income, and generating approximately US$600 of revenues for the government yearly from income taxes and social security. The direct cost of creating an enterprise was on average a one-time US$950 investment per business created. The PFIs increased their lending to rural clients by 39 percent as a share of their loan portfolio, which has doubled since the beginning of 2002, while maintaining an acceptable recovery rate of 96 percent.

## Annex 6: Detailed Economic and Financial Analysis

## INDIA: Tamil Nadu Rural Transformation Project

### Methodology and Key Assumptions

1. An EFA for the proposed project was conducted following a cost-benefit methodology. On account of the demand-driven nature of the proposed interventions, the project does not lend itself to a conventional ex ante analysis. The project intends to be both community and market-driven, matching community priorities with demand dynamics by combining participatory VIPs and subsequent consolidations into BIPs and DIPs, with a series of value chain analyses that will determine the sectors/subsectors/commodities within which the project will operate. Such studies are expected to be undertaken during the first year of project implementation.

2. The EFA was carried out through the following steps: (a) a pre-selection of potential value chains to be supported by the project was conducted, based on a set of economic, social, and institutional criteria (detailed in further sections); (b) within the selected sectors/subsectors, a number of illustrative models were produced, covering all stages of production and value addition for individual enterprises of different sizes (micro, small, and medium) and collective organizations, which provide an indication of the viability of the businesses and potential profit margins of each actor in the value chain; (c) indicative returns to investment and employment generation within the farm, off-farm, and non-farm sectors were calculated and aggregated with equal weight to ensure appropriate balance of representation of economic sectors in the overall project benefit stream; (d) a financing plan for each model was prepared to assess whether the mix of anticipated funding sources (matching grants, credit from financial institutions, convergence, and so on) would be sufficient and adequate to cover the investment and working capital needs of newly established and existing enterprises.

3. In terms of project components, the EFA focuses on the quantification of benefits accruing from individual and collective enterprise promotion (Subcomponent 1.c) and facilitating business plan financing (Subcomponent 2.a) in the form of annual incremental benefits per unit of investment facilitated by the project through direct support, linkages with financial institutions, and relevant government schemes. A successful implementation of strategic business analytics, planning, and monitoring (Subcomponent 1.a) and Business Development Support Services (Subcomponent 1.b) is a necessary pre-condition for the realization of the abovementioned tangible returns.

4. To avoid double-counting of employment-related benefits, another key assumption is that beneficiaries from community-based skills training will be able to find wage employment within the value chains promoted by the project. Benefits of skills upgrading and job placement services are hence calculated on the basis on employment generation estimates from the enterprise models (detailed in further sections). Linkages with government employment schemes will be measured separately.

5. All models are expressed in 2017 constant prices. The analysis builds on field observations, primary data collected by a national consultant in February 2017, experience

from the TNEPRP and other ongoing livelihood projects in the state,[47] and secondary sources and a comprehensive review of relevant publications and case studies.

**Project Beneficiaries**

6. **Coverage and outreach.** The TNRTP will be operational in 26 districts specifically focusing on 120 non-TNEPRP blocks and 3,994 village panchayats of Tamil Nadu. The project will work with a total of 411,620 targeted households that are already part of SHGs. Beneficiaries can be categorized into three distinct groups (a) collective enterprises, (b) individual enterprises, comprising NMSEs, and (c) beneficiaries of community-based and convergence skills training. First, the project will support the creation and strengthening of 7,000 PGs at the village level, out of which 1,000 are anticipated to upgrade their activities and become formal EGs. Around 50 PCs will be mobilized from the 7000 PGs promoted under the project. Second, the project will provide business advisory services and financial support for the creation of new and expansion of existing NMSEs (about 6,620) which will provide opportunities for self-employment and wage employment. Last, skills will be upgraded through community-based training for about 40,000 youth and an additional batch of 40,000 will be linked to the government training and employment schemes. Additional direct beneficiaries include 6,400 training service providers that will receive project support and income through training fees and, ultimately, an undefined number of financial institutions that will increase their client base on account of the project's matching grant schemes and technical assistance.

**Enterprise and Value Chain Models**

7. Ten models were prepared to illustrate potential activities likely to be supported by the project in the context of three different value chain types: one farm value chain (millet production and processing), one off-farm value chain (dairy production and processing), and one non-farm value chain (coir fiber production and marketing and processing of residual product or coir pith). The set of criteria used to identify these three value chains were based on economic, social, and institutional dimensions:

- **Economic.** (a) Domestic and/or international market potential of the selected final products based on sector growth and demand trends, (b) ready availability of raw materials in the target blocks, (c) scope for aggregation/scaling-up of primary production activities and graduation into further value addition levels, (d) prospects for employment generation, and (e) profitability for all the NMSEs and collective enterprises involved in the chain.

- **Social.** (a) Existing knowledge and capacities in the target areas, assuming similar socioeconomic profiles of beneficiaries in the new TNRTP blocks as in TNEPRP-supported blocks; (b) prospects for inclusion of landless households with skills; (c) activities in which the participation of women is socially acceptable by local cultural norms; and (d) affordability of the required beneficiary contribution to investments by poor and landless households.

- **Institutional.** (a) Replicability of the TNEPRP successful models, (b) potential for increased cooperation between value chain actors, and (c) existing convergence schemes in place and involvement of private sector in the selected value chains.

[47] In particular, from the IFAD-funded Post-Tsunami Sustainable Livelihoods Programme in Coastal Areas of Tamil Nadu.

8. The models described in the following paragraphs attempt to reflect the interconnection between the various value chain actors at different stages of production and value addition. Individual farmers are at the bottom of the chain as SHG and PG/EG members, providing fresh produce for aggregation and primary processing (first-level value of addition) at the PG/EG level, which in turn supply the necessary raw materials for further levels of processing into final products (second-level value addition). Other service providers such as input suppliers and marketing agents are also exemplified. Table 6.1 presents an overview of the three value chains, showing the planned project support and expected benefits at each stage. Although the project will not directly support primary production, farmers will receive technical assistance and inputs through existing or newly formed PGs/EGs/PCs.

**Table 6.1. Summary Description of Illustrative Enterprise Subprojects**

| **Sector** | | **Farm - Agriculture** | **Off-farm – Dairy** | **Non-farm - Natural Fiber** |
|---|---|---|---|---|
| **Subsector** | | **Minor Millets** | **Milk Processing** | **Coir Fiber** |
| Primary production | Activity | Millet production | Milk production | — |
| | Agents | Individual farmers (SHG/PG/EG members) | Individual farmers (SHG/PG/EG members) | — |
| | New/Existing | Existing | Existing | — |
| | TNRTP support | Technical assistance on farming practices + improved seed provision (through PCs) | Introduction of improved breeds, feeding practices, and veterinary services (through community farm schools) + facilitating support services (feed mixing unit) | — |
| | Expected benefits | Incremental incomes and returns to family labor due to (a) increased productivity per acre and (b) higher output price (sales to PG/EG instead of middleman) | Incremental incomes and returns to family labor due to (a) increased milk yield per animal, (b) longer lactating period, (c) higher output price (sales to PG/EG instead of middleman), and (d) lower feed prices | — |
| First-level value addition | Activity | Aggregation + cleaning, sorting and grading at the village level | Aggregation at the village level | Processing of yarn into fiber |
| | Agents | PG/EG | PG/EG | PG/EG |
| | New/Existing | Existing | Existing | New |
| | TNTRP Support | Group strengthening (MaKaMai) + initial grant (equity support) for millet cleaning equipment + linkages with financial institutions for working capital loan + business support services, including technical assistance and training (OSF) | Group strengthening (MaKaMai) + initial grant (equity support) for milk collection centers (storage and testing equipment) + linkages with financial institutions for working capital loan + business support services, including technical assistance and training (OSF) | Group formation (MaKaMai) + initial grant (equity support) for processing equipment + linkages with financial institutions for working capital loan + business support services, including technical assistance and training and linkages with end markets (OSF) |
| | Expected benefits | Incremental revenues due to (a) increased volume marketed on account of productivity increases, and (b) higher price due to improved bargaining power and premium for primary processing (cleaning and sorting) + employment generation | Incremental revenues due to (a) increased volume marketed on account of productivity increases, and (b) higher output price (sales to PCs instead of local retail market) + employment generation | Revenues above average (traditional practices) due to (a) introduction of technology to improve conversion rates and labor efficiency, and (b) increased market linkages and bargaining power + employment generation |
| Second-level value addition | Activity | Processing and sale of processed millets and byproducts | Aggregation + pasteurization + packaging | Coir pith processing plant |

| Sector | | Farm - Agriculture | Off-farm – Dairy | Non-farm - Natural Fiber |
|---|---|---|---|---|
| **Subsector** | | **Minor Millets** | **Milk Processing** | **Coir Fiber** |
| | Agents | Individual enterprise (micro) | PCs | Individual enterprise (small) |
| | New/Existing | New | New | New |
| | TNRTP support | Initial grant (equity support) + matching grant + business support services, including technical assistance and training and linkages with end markets (OSF) | Group formation (MaKaMai) + initial grant (equity support) for processing equipment + matching grant + business support services, including technical assistance and training and linkages with end markets (OSF) | Initial grant (equity support) + matching grant + business support services, including technical assistance and training and linkages with end markets (OSF) |
| | Expected benefits | Revenue from sales of processed millets + employment generation | Revenue from sales of processed dairy products + employment generation | Revenue from sales of processed coir pith + employment generation |
| Other agents/ service providers | Activity | — | Feed production enterprise | Coir fiber marketing |
| | Agents | — | Individual enterprise (micro) | Individual enterprise (nano) |
| | New/Existing | — | New | Existing |
| | TNRTP support | — | Initial grant (equity support) + matching grant + business support services, including technical assistance and training and linkages with end markets (OSF) | Initial grant (equity support) + matching grant+ business support services, including technical assistance and training and linkages with end markets (OSF) |
| | Expected benefits | — | Revenue from sales of feed mix + increased availability and affordability of feed for farmers + employment generation | Incremental revenues due to (a) increased marketing capacity, (b) increased availability of raw materials, and (c) linkages with wholesales/exporters + employment generation |

*Source:* Team in consultation with the GoTN and other stakeholders.

## Results

9. Tables 6.2 to 6.4 presents a summary of the incremental benefits accruing to individual farmers and individual and collective enterprises. Incremental project benefits are assessed as the comparison between a 'without project' or 'business as usual' scenario and a 'with project' situation illustrating the expected returns from project-supported activities. In the case of newly formed groups or activities, the incremental and 'with project' values would be equal.

10. The 'without project' situation generally presents the following scenario: (a) farming households earning incomes below the poverty line, typically engaging in low-return and labor-intensive primary economic activities, (b) CLGs (PGs/EGs) and federations (PCs) with weak governance and low technical capabilities that prevent them from taking full advantage of market opportunities, and (c) scarcity of skilled labor, low entrepreneurial skills, and NMSEs lacking the financial capacity to expand their businesses. The 'with project' situation presents a scenario where (a) households are organized into well-functioning PGs/EGs/PCs and benefit from higher yielding economic activities including value addition, collective marketing, and other incremental benefits that are derived form group memberships (such as cost savings from bulk purchases); (b) enterprises have access to investment and working capital loans on account of linkages to financial institutions and acquired creditworthiness; and (c) entrepreneurial and technical skills have been built according to the demand of project-supported enterprises and aligning to the subsectors in focus.

11. Specific benefits by sector in terms of increased output value, gross margins, net incomes before and after financing costs, additional employment generated, and returns to family labor (when applicable) are presented in the following tables.

**Table 6.2. Incremental Benefits for the Millet Value Chain (Rs)**

| Activity/Value chain actors | Scenario | Output Value | Gross Margin (without labor) | Net Income (before financing) | Net Income (after financial costs) | Labor (days) | Return to Family Labor (Rs/day) |
|---|---|---|---|---|---|---|---|
| Millet farmers - SHG members | Without Project | 20,000 | 14,275 | 14,275 | 8,550 | 70 | 122 |
| | With Project | 33,000 | 23,050 | 23,050 | 15,440 | 78 | 198 |
| | **Incremental Values** | **13,000** | **8,775** | **8,775** | **6,890** | **8** | **76** |
| Millet aggregation and cleaning - PG/EG | Without Project | 440,000 | 40,000 | 30,000 | 30,000 | 40 | — |
| | With Project | 2,025,000 | 332,500 | 285,625 | 243,880 | 188 | — |
| | **Incremental Values** | **1,585,000** | **292,500** | **255,625** | **213,880** | **148** | — |
| Millet processing - individual enterprise (micro) | Without Project | 0 | 0 | 0 | 0 | 0 | — |
| | With Project | 24,956,250 | 4,524,938 | 4,499,938 | 2,045,180 | 100 | — |
| | **Incremental Values** | **24,956,250** | **4,524,938** | **4,499,938** | **2,045,180** | **100** | — |

*Source:* Team calculations.

12. Incremental net incomes for millet farmers (after financing costs) would add up to about Rs 6,890 per year, or just enough to lift one family member above the poverty line[48] for about eight months per year, while returns to family labor would increase by 62 percent. Incremental revenues from aggregation and primary processing activities, estimated at Rs 213,800 per year, are also expected to revert to PCs and SHG members in the form of increased corpus for PG/EG revolving funds, additional working days (148 days per year), or simply by direct redistribution of benefits. Millet processing enterprises can potentially generate revenues over Rs 2 million by procuring raw materials from 10 to 20 PGs/EGs and with employment for about 100 working days.

**Table 6.3. Incremental Benefits for the Dairy Value Chain (Rs)**

| Activity/Value chain actors | Scenario | Output Value | Gross Margin (without labor) | Net Income (before financing) | Net Income (after financial costs) | Labor (days) | Return to Family Labor (Rs/day) |
|---|---|---|---|---|---|---|---|
| Dairy farmers - SHG members | Without Project | 52,871 | 30,050 | 30,050 | 30,050 | 90 | 334 |
| | With project | 127,350 | 72,826 | 72,826 | 45,564 | 125 | 365 |
| | **Incremental Values** | **74,479** | **42,776** | **42,776** | **15,514** | **35** | **31** |
| Milk aggregation - PG/EG | Without Project | 1,062,600 | 96,600 | 73,788 | 73,788 | 91 | — |
| | With project | 3,619,082 | 253,138 | 207,513 | 102,706 | 183 | — |
| | **Incremental Values** | **2,556,482** | **156,538** | **133,726** | **28,918** | **91** | — |
| Milk processing - PCs | Without Project | 0 | 0 | 0 | 0 | 0 | — |
| | With project | 62,258,625 | 12,559,125 | 9,639,125 | 4,275,161 | 250 | — |
| | **Incremental Values** | **62,258,625** | **12,559,125** | **9,639,125** | **4,275,161** | **250** | — |
| Feed mixing unit - individual enterprise (micro) | Without Project | 0 | 0 | 0 | 0 | 0 | — |
| | With project | 6,102,800 | 1,296,160 | 1,206,160 | 626,891 | 600 | — |
| | **Incremental Values** | **6,102,800** | **1,296,160** | **1,206,160** | **626,891** | **600** | — |

48 Currently estimated at Rs 880 per capita per day or Rs 10,560 per capita per month for Tamil Nadu.

*Source:* Team calculations.

13. Through improvements in animal health and productivity, dairy farmers can increase their annual incomes by 50 percent and lift at least 1.5 additional family members out of poverty compared to the without project scenario. Milk aggregation activities present a narrow profit margin per liter (about Rs 3) but enough turnover to justify the investment, which would also enable the creation of milk processing PCs, whose annual returns amount to over Rs 4.2 million and revert to PG/EG and farmers in the form of higher output prices and other mechanisms. Ancillary activities provided by private enterprises also expected to thrive with the support of the project. The example selected for the dairy chain is a feed mixing unit that would generate profits of over Rs 600,000 per year, lower feed costs, and generate about 600 working days per year.

**Table 6.4. Incremental Benefits for the Coir Value Chain (Rs)**

| Activity/Value chain actors | Scenario | Output Value | Gross Margin (without labor) | Net Income (before financing) | Net Income (after financial costs) | Labor (days) | Return to Family Labor |
|---|---|---|---|---|---|---|---|
| Coir fiber production - PG/EG | Without Project | 0 | 0 | 0 | 0 | 0 | — |
| | With project | 349,125 | 248,625 | 194,625 | 178,137 | 300 | — |
| | **Incremental Values** | **349,125** | **248,625** | **194,625** | **178,137** | **300** | — |
| Coir fiber marketing - individual enterprise (nano) | Without Project | 4,154,588 | 585,662 | 520,662 | 84,591 | 260 | — |
| | With project | 9,140,093 | 1,279,679 | 1,204,679 | 252,429 | 300 | — |
| | **Incremental Values** | **4,985,505** | **694,017** | **684,017** | **167,838** | **40** | — |
| Coir pith processing plant - individual enterprise (small) | Without Project | 0 | 0 | 0 | 0 | 0 | — |
| | With project | 2,112,500 | 1,309,975 | 1,129,975 | 762,360 | 1,200 | — |
| | **Incremental Values** | **2,112,500** | **1,309,975** | **1,129,975** | **762,360** | **1,200** | — |

*Source:* Team calculations.

14. Illustrative models for the coir value chain focus on fiber production and marketing and in the processing of residual products generated in the extraction process. A key benefit observed along this chain, beyond high profits at various levels (ranging from Rs 167,800 to Rs 760,000 per year), is its capacity to generate employment: 40 additional working days for a nano-enterprise involved in marketing, 300 days for a PG/EG producing fiber, and over 1,000 days for a small pith processing enterprise.

## Other Financial Indicators

15. Tables 6.5 to 6.7 present important indicators of the viability and profitability of the financial models. The ratio of incremental net benefits per Rs of investment will form the basis for the assessment of the overall project benefits derived from enterprise promotion. The NPV is calculated over all incremental inflows and outflows, including the costs of financing investments and working capital, for a five-year period. All NPV of incremental incomes are positive and for most cases considerably above the initial investment costs. Costs benefit ratios have also been estimated and show values ranging between 1.01 and 1.52.

**Table 6.5. Financial Indicators for the Millet Value Chain**

| Activity/Value Chain Actors | Investment (Rs) | Annual Net Benefits (Rs) | | | Incremental Net Benefits per Rs of investment | NPV of incr. income (Rs) | Cost-Benefit |
|---|---|---|---|---|---|---|---|
| | | Without Project | With Project* | Incremental Values | | | |
| Millet farmers - SHG members | 8,280 | 8,550 | 15,440 | 6,890 | 0.83 | 15,856 | 1.37 |
| Millet aggregation and cleaning - PG/EG | 350,000 | 30,000 | 243,880 | 213,880 | 0.61 | 786,400 | 1.13 |
| Millet processing - individual enterprise (micro) | 720,000 | 0 | 2,045,180 | 2,045,180 | 2.84 | 6,035,807 | 1.04 |

***At full development**
*Source:* Team calculations.

**Table 6.6. Financial Indicators for the Dairy Value Chain**

| Activity/Value chain actors | Investment (Rs) | Annual Net Benefits (Rs) | | | Incremental Net Benefits per Rs of investment | NPV of incr. income (Rs) | Cost - Benefit |
|---|---|---|---|---|---|---|---|
| | | Without Project | With Project* | Incr. Values | | | |
| Dairy farmers - SHG members | 25,000 | 30,050 | 45,564 | 15,514 | 0.62 | 4,622 | 1.02 |
| Milk aggregation - PG/EG | 153,000 | 73,788 | 102,706 | 28,918 | 0.19 | 190,686 | 1.02 |
| Milk processing - PCs | 2,085,000 | 0 | 4,275,161 | 4,275,161 | 2.05 | 11,919,642 | 1.03 |
| Feed mixing unit - individual enterprise (micro) | 694,000 | 0 | 626,891 | 626,891 | 0.90 | 1,854,349 | 1.05 |

*** At full development**
**Source: Team calculations.**

**Table 6.7. Financial Indicators for Coir Value Chain**

| Activity/Value chain actors | Investment (Rs) | Annual Net Benefits (Rs) | | | Incremental Net Benefits per Rs of investment | NPV of incr. income (Rs) | Cost - Benefit |
|---|---|---|---|---|---|---|---|
| | | Without Project | With Project* | Incr. Values | | | |
| Coir fibre production - PG/EG | 330,000 | 0 | 178,137 | 178,137 | 0.54 | 631,892 | 1.52 |
| Coir fibre marketing - Individual enterprise (nano) | 230,000 | 84,591 | 252,429 | 167,838 | 0.73 | 434,851 | 1.01 |
| Coir pith processing plant - individual enterprise (small) | 1,502,000 | 0 | 762,360 | 762,360 | 0.51 | 1,983,765 | 1.22 |

*** At full development**
***Source:* Team calculations.**

## Economic Analysis

16. **Benefit stream.** The analysis attempts to identify quantifiable benefits that relate directly to the activities undertaken following the implementation of the project components, or that can be directly attributable to the project. Incremental quantifiable benefits are derived from the illustrative models and comprise three main elements: (a) total incremental net benefits accruing from enterprise development within the value chains promoted by the project in the farm, off-farm, and non-farm sectors; (b) overall employment generated by such

enterprises, measured in terms of additional working days per year; and (c) total number of beneficiaries linked to government employment schemes.

17. Incremental net benefits per unit of investment are estimated as the ratio between the incremental net income after financing costs (with project at full development) and the total investments facilitated by the project through direct support, linkages with financial institutions, and convergence programs. The average ratio by enterprise type is then multiplied by their relative investment costs, converted to economic values by applying a Standard Conversion Factor of 0.9, and aggregated for the respective numbers of individual and collective enterprises to be supported by the project. An enterprise survival rate of 70 percent is assumed with the purpose of providing conservative estimates.

18. The overall employment generated within the supported value chains is calculated as a function of the average employment generated annually by enterprise type and the number of enterprises supported, which adds up to about 4.6 million additional working days per year (with project at full development), or over 19,550 full time jobs annually,[49] comprising all stages in the value chain, from additional labor hired for primary production to jobs created for value addition and marketing. Those additional working days are then valued at the opportunity costs of labor by converting financial wage rates to economic with a Conversion Factor of 0.8, accounting for the prevailing unemployment rates in rural areas of Tamil Nadu. A conservative employee retention rate of 75 percent is also assumed.

19. According to end-of-project targets, about 400,000 people would be linked to government employment schemes. For the purpose of this analysis, the National Rural Employment Guarantee Act (NREGA) scheme has been used as a benchmark. NREGA guarantees 150 days of wage employment to eligible rural populations. Consistently with the employment generated within the project value chains, such benefits have been valued at the shadow price of labor and with a 75 percent success rate adjustment.

**Table 6.8. Incremental Annual Returns per Unit of Investment and Incremental Annual Labor Days Generated, by Sector**

| **Individual/ Collective** | **Incremental net benefits per Rs of Investment** | | | | **Incremental Labor (working days/year)** | | | |
|---|---|---|---|---|---|---|---|---|
| | Dairy | Millet | Coir | **Average** | Dairy | Millet | Coir | **Average** |
| Farmers | 0.62 | 0.83 | — | **0.73** | 35 | 8 | — | **22** |
| PGs/EGs | 0.19 | 0.61 | 0.54 | **0.45** | 91 | 148 | 300 | **119** |
| PCs | 2.05 | — | — | **2.05** | 250 | — | — | **250** |
| Nano enterprise | — | — | 0.73 | **0.73** | — | — | 40 | **40** |
| Microenterprise | 0.90 | 2.84 | — | **1.87** | 600 | 100 | — | **350** |
| Small enterprise | — | — | 0.51 | **0.51** | — | — | 1,200 | **1,200** |

*Source:* Team calculations.

20. **Costs stream**. Incremental economic costs have been calculated by the removal of price contingencies and taxes/duties. There are no recurrent costs anticipated beyond project completion as business support activities are meant to become self-sustainable within the project implementation timeframe. Total economic costs for the TNRTP are estimated at US$133.2 million, including IBRD credit and contributions from the GoTN, valued in economic terms.

21. **Results of the analysis.** The period of analysis is 20 years to account for the phasing and gestation of the proposed interventions. Given the above benefit and costs streams, the

[49] Assuming 240 working days per year.

base case scenario IRR is 37 percent, and the base case NPV, discounted at 10 percent, is US$253.7 million.

22. **Sensitivity analysis.** A sensitivity analysis was conducted to assess the variations in benefits and costs and for the various lags in the realization of benefits. Under the worst-case scenario (20 percent cost increase, 30 percent benefits decrease or two years lag in the realization of benefits), IRRs remain within acceptable values, well above the discount rate used for the analysis. Switching values were also calculated and are as follows: 72 percent for project benefits and 256 percent for total project costs. Both tests prove the robustness of the base case results.

**Table 6.9. Results of the Economic Analysis**

| TNRTP Benefits | | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Years 8–20 |
|---|---|---|---|---|---|---|---|---|---|
| Incremental net benefits from value chain employment generation and community-based training | US$ | 0 | 0 | 563,591 | 2,307,067 | 5,748,683 | 7,911,269 | 9,889,086 | 9,889,086 |
| Incremental net benefits from enterprise promotion | US$ | 0 | 0 | 2,269,167 | 9,294,699 | 22,641,602 | 34,107,871 | 42,634,839 | 42,634,839 |
| Incremental net benefits from convergence with government schemes | US$ | 0 | 0 | 5,373,134 | 10,746,269 | 13,432,836 | 13,432,836 | 13,432,836 | 13,432,836 |
| Total TNRTP benefits | US$ | 0 | 0 | 8,205,892 | 22,348,035 | 41,823,120 | 55,451,976 | 65,956,761 | 65,956,761 |
| **Total TNRTP economic costs** | US$ | 15,881,724 | 27,813,052 | 39,251,341 | 26,922,260 | 13,464,595 | 9,917,315 | — | — |
| **Net Incremental Benefits TNRTP** | US$ | -15,881,724 | -27,813,052 | -31,045,449 | -4,574,225 | 28,358,526 | 45,534,660 | 65,956,761 | 65,956,761 |

| | |
|---|---|
| NPV @ 10% (US$) | 253,706,652 |
| IRR | 37% |

*Source:* Team calculations.

**Table 6.10. Sensitivity Analysis**

| Sensitivity Analysis | Base Case | Costs Increase | | | Increase of Benefits | | Decrease of Benefits | | | Delay of Benefits | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | +10% | +20% | +30% | +10% | +20% | −10% | −20% | −30% | 1 Year | 2 Years |
| **IRR** | **37%** | 34% | 32% | 30% | 40% | 43% | 34% | 31% | 27% | 30% | 25% |
| **NPV (US$)** | 253,706,652 | 243,780,570 | 233,854,487 | 223,928,405 | 289,003,399 | 324,300,147 | 218,409,904 | 183,113,157 | 147,816,409 | 212,705,925 | 175,432,537 |

*Source:* Team calculations.

## Annex 7: Women: Entrepreneurs, led Enterprises and Labor Force Participation

## INDIA: Tamil Nadu Rural Transformation Project

1. Women in India comprise 20.5 percent of the labor force and 13.7 percent of entrepreneurs in the registered MSME sector (4th MSME Census). Although considered to be pro-poor and inclusive, women's employment and entrepreneurship in the MSME sector is less than one-fifth of the total. Approximately 78 percent of women enterprises belong to the services sector and the vast majority of women entrepreneurs are micro enterprises that operate in the informal sector. Thus, women entrepreneurship is largely skewed toward smaller-size firms. Women entrepreneurs are underfinanced and underserved (business training, knowledge, networks, and so on). Access to formal/external finance and business networking is the biggest barrier to growth and development for women-owned MSMEs, according to the Global Entrepreneurship and Development Institute's Index for 2014.[50] Around 73 percent of the total demand for finance among women-owned businesses in India remains unmet (International Finance Cooperation 2014).

2. A general lack of awareness and sensitivity in understanding the unique needs of women–owned enterprises and low confidence in their entrepreneurial ability have contributed to significant gaps in demand and supply for credit. Lack of property rights reduces women's access to finance and increases their dependence on male family members. Women also face inordinate delays in accessing credit and often have to rely on men to access finance. Additionally, access to finance is also affected by unequal access to networks and skills in relationship management. From a demand-side perspective, women lack knowledge about available finance options, advantages and disadvantages, costs of various options, and benefits of borrowing, and so on. This lack of knowledge generates reluctance to access finance from formal channels. Women constitute one-fifth of the sector's total workforce, with female-owned businesses comprising nearly 14 percent of registered and 9 percent of unregistered MSMEs. Such enterprises are mostly home-based and small, employing fewer workers on average than businesses owned by men. The largest percentage of women-owned MSMEs is in the readymade garment industry, followed by food products and beverages and the textile industries.

3. **Women and enterprises.** To better understand the situation of women in the economic sphere, an expanded Social Assessment was undertaken by the project. The Social Assessment revealed that nearly 60 percent of economically active women in the target areas were engaged as casual laborers and agricultural laborers and about 10 percent were into economic activities. Of these, most were individual activities followed by family enterprises and 14 percent had employees. The major constraints identified in expanding economic activities were: (a) lack of working capital (65 percent), (b) non-availability of finance at low interest rates (57 percent), (c) non-availability of raw material (49 percent), (d) delayed payments from buyers (44 percent), (e) health issues related with their activity (42 percent), (f) lack of equipment/machinery (30 percent), (g) lack of business knowledge (23 percent), (h) difficulty in marketing (22 percent), and (i) shortage of skilled labor (14 percent). A gender action plan has been designed to specifically address the constraints that women entrepreneurs and women-led enterprises face with respect to

[50] India ranks in the bottom five of 30 countries surveyed for conditions that foster 'high potential' women entrepreneurship.

business development and advisory series, access to finance, access to markets, training, and mentoring.

4. **Job and wage employment for women.** Employment data shows that not only in India but also in Tamil Nadu, the labor force participation rates of women are dropping relative to men. Some key factors behind this are: (a) women bearing greater share of household responsibilities, (b) gender bias in expectations with respect to women and men resulting in limited education and skills investments in girls/women reducing their chances of gaining remunerative jobs, and (c) mobility constraints due to predictable and safe transportation facilities and safety concerns. Newer research shows that unskilled and low-skilled women agriculture workers move into agriculture processing and allied sector jobs in the rural areas, as the first level of transition from agriculture jobs. However, diminishing prospects in the agricultural sector in states like Tamil Nadu have not seen a corresponding increase in job opportunities in other sectors in the rural, rural–urban, and urban areas which can absorb women thus, leaving many of them unemployed and underemployed.

5. The Social Assessment for the project with respect to women's employment revealed that among the potential beneficiary population, 63 percent of the respondent women are either into employment or wage labor. Forty-six percent each get work for about 91 to 180 days and over 180 days, followed by 5 percent who get work for about 31 to 90 days, and 3 percent for about 30 days and less. Only 5 percent of those in employment/wage labor have undergone training and the rest (95 percent) have not had any training. The key constraints identified by those who are either employed or into wage labor were managing household chores, delayed payment of wages/salary, underpayment, and health issues related to work. Lack of finance was reported by 51 percent as the reason for being employed or in wage labor, and not being involved in any economic activity; 25 percent stated that they did not have the required skills; 13 percent were not sure about what activity to undertake; and 8 percent had no specific reasons. Sixty-five percent reported that they were interested in undertaking economic activity if they were provided with all required support and the rest (35 percent) were not interested.

6. **Gender action plan.** Based on the field reality, local, and global program experience, TNRTP has designed a gender action plan that specifically addresses these key aspects as presented in table A7.1. Given that women-led enterprises are also a potential avenue for enhancing women's labor force participation, as women entrepreneurs tend to hire other women, the project will reach a large number of beneficiaries through this strategy.

**Table A7. 1. Gender Action Plan**

| | Key Aspects | Project-specific Strategy |
|---|---|---|
| **Women Entrepreneurs and Women-led Enterprises** | | |
| 1. | Targeting | Women entrepreneurs in SHGs who have confidence in negotiating social norms; basic assets – physical, skills, knowledge, and/or resources including financial, decision-making skills, and access to some social networks and information. |
| 2. | One-stop facility | Advice to enhance their level of investment and risk taking, the decision to compete, the degree of sophistication and formalization of their activity, and the type of activities and sectors in which they engage. |
| 3. | Financing | Access to separate savings accounts and carefully designed subsidies for women entrepreneurs through a matching grant to enable investments in women-led enterprises, control over income and assets, and effective separation between business and household financial responsibilities for women. |
| 4. | Risk mitigation | MGP for risk mitigation of investments in women enterprises by financial institutions and establishing the viability and profitability of women-led enterprises |

| | | |
|---|---|---|
| 3. | Mentoring | Ongoing support to micro and small entrepreneurs for increased profitability, better survival rates, employee management, and a growth trajectory. |
| 4. | Training | Adoption of advanced business practices, such as marketing strategies and human resources management. |
| 5. | Cluster approach | Access to networks and information, increase access to networks of suppliers, and reduce (gender sensitive and financial) costs of accessing them. |
| 6. | Crossover sectors | Women to enter male-dominated sectors with the support of mentors – acknowledged local experts – which could potentially be more profitable. |
| **Skills for Jobs and Self-Employment** | | |
| 1. | Priority areas | Research, screening, and partnerships that focus on priority areas for skills enhancement and employment for women. |
| 2. | New areas | Explore and create necessary modules for skills training for women in upcoming sectors such as the food processing industry, horticulture. |
| 3. | Community Skills Schools | Support enhancement of skills for women in existing areas of employment, including masonry and technical repairs to enhance returns. |
| 4. | Life skills training | Life skills training for women to build their self-efficacy, negotiate gender constraints, improve their communication and comprehension, and manage their time and problems effectively. This will help with both jobs and self-employment. |

## Annex 8: Participating Financial Institutions (PFI): Eligibility Criteria & Selection Process

## INDIA: Tamil Nadu Rural Transformation Project

1. A PFI will be selected on the basis of a set of PFI eligibility criteria, which include compliance with laws and prudential norms and regulations, maintenance of a healthy financial status, and sound lending policies and procedures. To be (become and remain) a PFI, commercial banks, non-bank financial institutions, and microfinance institutions would have to meet, at all times, a set of financial and management criteria and have signed a respective legal agreement (as a MGF Fund Manager, user of MGP) with the SPMU, which is a registered legal entity and will be implementing the project on behalf of the GoTN. The Project Implementation Plan - PIP for MPG will set forth the eligibility criteria for PFIs, eligibility criteria for the investments to benefit from financial instruments under the project, and the procedures for all parties involved.

2. **Due diligence.** Potential PFIs are individually appraised by an international consultant with relevant experience hired by the SPMU in coordination with the World Bank and the Fund Manager, with particular attention given to the overall lending capabilities, and financial and portfolio performance. The PFI shall have a satisfactory financial and management structure, satisfactory risk-based capital adequacy, an acceptable asset quality and lending performance, adequate liquidity, and the organization, management, and technical staff and other resources required for the efficient carrying out of the operations. The outcome of the due diligence will be communicated to the GoTN and the World Bank (and it will be subject to the World Bank's 'no objection') before signing the respective legal agreements.

- The same standards shall be used to constantly monitor the continued eligibility of an active PFI.
- For participation in the project, a potential PFI (commercial bank, non-bank financial institutions, or microfinance institutions) will be required to meet the following criteria:

### A. General Standards

(a) Be in compliance with all applicable banking and other relevant laws and prudential regulations of the respective regulator;

(b) Be interested and committed to servicing the range of clients, who are the intended beneficiaries of the project;

(c) Undergo an annual audit that is conducted in accordance with the International Standards on Auditing by an audit company acceptable to the World Bank for the purposes of audit of financial institutions, with an unqualified audit opinion; and

(d) Have the necessary staff, knowledge, and physical and other resources to implement the credit line under the project.

### B. Financial Standards

At all times, meet the prudential regulations issued by the respective regulator, with a particular focus on the following:

(a) Ensure the required minimum level of capital as established by the respective regulator from time to time;

(b) Limit its exposure to a single, related, connected borrower, and insider parties to a percentage of the PFIs' total capital, as defined and prescribed by the respective regulator; maintain, at all times, the required minimum capital adequacy ratio as established by the respective regulator;

(c) Maintain a level of loan loss provisions, at all times, at least equal to the minimum required by the respective regulator;

(d) Be in full compliance with the legal reserve requirements of the respective regulator;

(e) Meet the minimum level of liquidity ratio as established by the respective regulator;

(f) Meet the maximum risk exposure limits in respect of deposits of private individuals as established by the respective regulator; and

(g) Maintain the permissible open foreign currency position limits – i) Have a positive net income for the current and immediately preceding financial years, as reflected in the financial statements audited in accordance with International Standards on Auditing; and ii) Have acceptable asset quality and quality management policies, procedures, and skills, including, nonperforming loans (NPLs) (loans overdue by 90 days or more placed in non-accrual status should not exceed, on average, 5 percent of the gross loans portfolio).[51]

**C. Corporate Governance and Managerial Standards**

(a) Have a Board of Directors, responsible for setting the overall policy of the financial institution and perform appropriate oversight of the financial institution's operations;

(b) Have a qualified and capable management team;

(c) Have a sound business plan and appropriate budgeting and budget control procedures;

(d) Have sound lending policies and procedures, including in respect of the entire credit cycle, problem loan management, write-offs of assets, credit approval authority;

(e) Have satisfactory internal control and audit procedures, including accounting principles and procedures, and financial documents, internal controls and reporting, and operational controls, confirmed by external auditors;

(f) Not be exposed to undue interest rate risk, confirmed by annual audited financial statements; and

(g) Have an internal reporting and MIS capable of providing sufficient information necessary for managing the financial institution's operations, performance, and risks.

[51] There will be a separate NPL ratio – expected to be lower – set for NBFCs, and a separate NPL ratio for banks.

## Annex 9: Design Principles for Producer Collective in TNRTP

## INDIA: Tamil Nadu Rural Transformation Project

1. Primary producer 'organizations or collectives' are institutions with the ability to protect small farmers to participate successfully in competitive markets (Trebbin and Hassler 2012) as well as enhance their production efficiency and reduce risks. Organizations of producers enhance margins due to economies of scale apart from lowering transaction cost for the other players associated in the commodity/subsector, such as input supplier, bulk buyer, and/or retail consumer. Though a number of critical design factors still remain unanswered, the PC as an enterprise of small and marginal farmers/producers has proved to be a powerful vehicle to empower small farmers/producers and improve their quality of life leading to better rural development in India.[52]

2. In India, the producer organization or PC is a generic name that presently represents different forms of community organizations/enterprises, such as large cooperatives, Primary Agriculture Cooperative Society (PACS), SHG, Federation of SHGs, common interest groups, farmers club. Thus, it is evident that several models of PCs have been tried out at scale in the country starting from the cooperative, different variants in cooperative in various states (like self-help cooperatives, mutually aided cooperatives, and so on) to the very recent Producer Company model. The ingredients of successes/failures of such organizations is widely varied and a body of research work has already been developed on it.

3. Though the cooperative movement in India has been the oldest, the efficacy of the model, as well as its replicability issue has been a cause of concern for policy makers. In the present market situation, primary producers are always at the losing end. Not only are the producers fragmented and away from the market, but there are issues like lack of infrastructure and credit, information asymmetry, changing product demand, climate change, and market failures, where the middlemen and other players are in control. The World Bank's experience in multiple rural livelihood projects shows that with the existence of strong collectives of producer organizations, the sustainability of the initiative increases. Meaningful and relevant interventions of the collectives where significant income enhancement has happened at the producer level, has been the key to its success.

4. The situation in Tamil Nadu is not very different from the rest of the country. Apart from AAVIN (Tamil Nadu Co-op Milk Producers' Federation Ltd) and the cooperatives promoted by NGOs, such as Dhan Foundation/Key Stone Foundation, there are no major successful models. Presently 212 Producer Companies are promoted by NABARD (170) and the SFAC (42). This is apart from the existing 30+ PCs either promoted by the producers themselves or by local NGOs. Most of the Producer Companies promoted are very new and none has initiated significant business transactions till date. The membership size is very small, with an average of 250 members. According to the state-level SFAC and NABARD officials, the collectives face several issues, such as difficulty in raising working capital, bank loan, and so on as there are no collaterals. Presently, financing to collectives is dependent on the relationship of the promoting institutions

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[52] Producer Company in India: A Study of Performance and Organizations – Sukhpal Singh and Tarunvir Singh, 2013

and financial institutions. Moreover, increasing membership in collectives is difficult as producers, in most cases, are not convinced.

5. Strong producer collectives are a function of several factors. Several studies and round tables on collectives of producers have been conducted in the recent past in India. These studies, workshops, and round tables have identified some critical elements for success. These are scale of operation, the product type and product mix, subsector involved, and professional support. However, none of these are silver bullets in isolation and the argument is to bring together as many elements as possible to increase the possibility of success.

| Factors/Variables – Findings from Studies/Round Tables[53] | Design Incorporations |
|---|---|
| **Size of collectives:** Presently the size varies from 100–1,000 members. The optimum size of a collective ranges from 500–1,500 shareholder/members depending on the commodity/subsector. However, bigger membership base of 2,000 are showing enhanced performance. | The size of the PC has been decided to be around 1,500–2,500 members. However, flexibility is given in tribal areas to reduce the size to a minimum of 500. |
| **Structure of collectives**: Need of an organic link between the producers and their organizations. Collective need to be multi-tiered and the base unit with a membership size of 15–20. | Multi-tier organization has been designed. The primary groups at the hamlet level consisting of 15–20 producers are termed as subgroups, which aggregate at the village level to form the PG. The PGs federate to form PCs at a higher level of geography –mostly at a sub-district or district level. The level will be finally decided based on the commodity/subsector involvement, as well as considering the operational feasibility. |
| **Paid-up capital:** The paid-up capital at the collectives' level is extremely low (1–5 lakh), and signifies low ownership of members, as well as lesser capital availability at the collective level for business purposes. | It is mandatory to put in at least Rs 1,000 per member/shareholder – leading to a share capital of Rs 20–25 lakhs (for a membership base of 2,000–2,500). This will create enough capital at the PC level to leverage external funding or to initiate business. Nearly 50 percent of the start-up fund will be an equity grant matching the paid-up capital raised by the PC from the members. |
| **Financial support to PCs:** There are several issues and for cooperative presently, there is not enough focus. If registered as a company, then the difficulty is in accessing grant. Experience shows that initial grant support (such as in MPDPIP where collectives were provided with a one-time support of Rs 25 lakhs) has been very successful in strengthening the PCs. Presently, the SFAC is providing equity matching grant support, however, it is only meant for Producer Company and many collectives have difficulty in accessing that. It is recommended that a grant support at the early stage of the collectives will be a requisite for strengthening it. | A start-up capital designed in TNRTP to prime up activity at the PC level. This will be a flexi-use fund, to be given in tranches. The fund can be used by the PC to fund critical investment or expenses like margin money for infrastructure, used as collateral to leverage credit, working capital use, viability gap financing, and so on. |
| **Access to capital**: There are several issues. Lack of a quality business plan is the first impediment. Second, in many cases, three years of balance sheet is required for the banks to extend loan, which acts as a roadblock. Because financial institutions are also not very comfortable with the PC business, the chances of extending a loan is slim. However, probability enhances significantly if the PC is able to demonstrate and generate business volumes in the initial years. | Multi-pronged efforts to deal with the issue. The OSF to support the PC develop sound business plans. The hired TSA will also support the OSF in this initiative. Second, the start-up fund along with the raised shareholder equity will help prime up business action, which would then help gain bankers' confidence. Third the PC is eligible for MGF to be provided with the bank finance. |

[53] Producer Company in India: A Study of Performance and Organizations – Sukhpal Singh and Tarunvir Singh, 2013 and Proceeding of National Round Table Discussions on Optimal Design of Farmer Producer Organizations, Xavier Institute of Management, 2016.

| | |
|---|---|
| **Facilitation/handholding support to the PCs**: Intensive handholding support to the collectives for a period of 3–3.5 years is extremely critical to set up systems and process which are paramount for long-term sustainability. | TSA with strong understanding and wide experience of promoting PCs will be hired by the project from the very first day to give shape to the initiative. Post PC formation, the TSA will provide intense handholding support across several domains. |
| **Governance in PC**: Survival of a PC is contingent on a strong governance mechanism and various dimensions are important, such as clarity of mission, strong sense of accountability, responsibility, leadership and social inclusion, demand and service delivery driven, effective management with the external actors. | A series of training programs has been designed, for the PC leadership and leaders from PGs so that there is a seamless effort toward strengthening governance. Trainings inputs to be followed up and strengthened by TSA efforts. |
| **Professional management of PCs**: Evidences show that the quality of human resource managing the collectives is extremely important. Moreover, there is a high turnover of staff and staff skill sets are also not adequately strong enough in many instances. | A specialized training program has been planned for the Chief Executive Officers of the PC, apart from the intensive training of the staff of the PC. |
| **Inter-linkage between similar type of organizations**: Network (both vertical and horizontal) between different PCs operating in the same space and same/similar sector enhances efficiency. However, it has been completely neglected except in some recent initiatives in Madhya Pradesh. | Value chain strengthening will bring in strong collaboration between different PCs, both for vertical and horizontal integration. This will not only increase the scale of economy but will also enhance efficiency. |
| **Compliance load**: The compliance load of a collective can be enormous depending on the legal entity they are registered as. Most of the collectives find it extremely difficult to adhere to all the fiduciary and legal requirements without any external support. | During the project phase the TSA is supposed to support the PC with the compliances. In the post-project scenario, the OSF would be taking up that role, on a cost recovery basis. |
| **Incentivizing performance**: There needs to be a system of incentivizing performance of collectives. This brings in increased effectiveness and efficiency. | To incentivize performance, the start-up fund disbursement has been designed accordingly so that the best performing PC receives the maximum entitlement. The matching grant loan support is also to incentivize repayment. |
| **Convergence with existing schemes**: This is mainly overlooked and focused supports to collectives are mostly absent. | It is expected that the maximum realization for long-term investment will be from convergence. This will be based on the business plan, which will clearly articulate the convergence need and the project team will work on that plan. |