



WORLD BANK



Environmental and Social Systems Assessment (ESSA)

RAISING AND ACCELERATING MSME PRODUCTIVITY (RAMP) - P172226

DRAFT FOR CONSULTATIONS

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List of Abbreviations:

ACM	Asbestos Containing Material
BEE	Bureau of Energy Efficiency
CLCSTUS	Credit Linked Capital Subsidy and Technology Upgradation
CMIE	Centre for Monitoring Indian Economy
CPCB	Central Pollution Control Board
CPF	Country Partnership Framework
CPSE	Central Public Sector Enterprises
CSO	Civil Society Organizations
DLI	Disbursement Linked Indicator
DLR	Disbursement Linked Results
DPE	Department of Public Enterprises
EoDB	Ease of Doing Business
ESSA	Environmental and Social Systems Assessment
GDP	Gross Domestic Product
GoI	Government of India
GRS	Grievance Redress Service
IndEA	India Enterprise Architecture
INMP	Integrated National MSME Portal
IVA	Independent Verification Agency
Lean	Lean Manufacturing Competitiveness
M&E	Monitoring and Evaluation
MCRRP	MSME competitiveness – A post COVID Resilience and Recovery Programme
MDA	Ministries, Department and Agencies
MoF	Ministry of Finance
MoSME	Ministry of Micro, Small and Medium Enterprise

MoU	Memorandum of Understanding
MSEFC	Micro and Small Enterprises Facilitation Councils
MSME	Micro, Small and Medium Enterprise
NBFC	Non-Bank Financing Companies
ODR	Online Dispute Resolution
PforR	Program for Results
PFM	Public Financial Management
PIU	Project Implementation Unit
RA	Results Area
RAMP	Raising and Accelerating MSME Productivity
RECP	Resource Efficiency and Cleaner Production
RBI	Reserve Bank of India
SCD	Systematic Country Diagnostic
SIDBI	Small Industries Development Bank of India
SIP	Strategic Investment Plan
TFP	Total Factor Productivity
ToC	Theory of Change
TReDS	Trade Receivables Discounting System
ZED	Zero Defect Zero Effect

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Executive Summary

The Government of India has long recognized the specific financing needs of MSMEs and has taken several steps to reach this underserved segment, including with World Bank Group Support. There is considerable deployment of public funds with limited effectiveness in many cases. There are over 58 million enterprises in India, most of which are MSMEs. Given the magnitude of the target group and their geographical spread across the country, there is substantial potential to develop more technology-based networks and platforms which would facilitate ministries, department and agencies (MDAs) not only to reach MSMEs on a larger, cost-effective scale with support, but also to deliver these support services.

The Ministry of Micro, Small and Medium Enterprises (MoMSME) is seeking to increase the scale of its support to MSMEs as well as the quality of its interventions. The reform agenda it is planning to implement in furtherance of these objectives establishes the Ministry as a strategic partner to introduce international best practices in the design and implementation of MSME programs. This provides an important new entry point for World Bank Group support. The primary project engagement would be through support to the MoMSME which, in turn, will contribute to the efforts of the Government of India to enhance firm productivity and creation of jobs. This would encompass interventions that strengthen: (i) institutions and governance of targeted MSME programs, and (ii) market access, firm capabilities and access to finance. The World Bank program is not directly supporting investments but seeks to improve the mechanism of MSME financing.

The proposed PforR operation (RAMP) will support a part of the overall government's "MSME competitiveness – A post COVID Resilience and Recovery Programme" – with a focus on the Government's thematic areas of "Policy and Governance", "Access" (markets, technology and finance) and "Knowledge Dissemination".

The demand from the client is for a results-based instrument. While Investment Project Financing (IPF) would provide an opportunity to support specific interventions for MSMEs, it would not be the best option where the goal is to strengthen country capacity at the federal and state levels to deliver on the MSME agenda. The interventions under the PforR operation aim to augment country system solutions in following ways: (i) elevate the overall capacity and institutional mechanisms within the MoMSME to deliver on its mandate; (ii) strengthen capacity and institutions in five states to deliver on the MSME agenda and (iii) demonstrate results in the key areas of firm capabilities and access to markets and finance, while innovating and more effectively utilizing the systems and procedures of MoMSME and focus states. The PforR also provides the most suitable instrument to mainstream the four key thematic areas of change targeted by the operation. This includes – across the different schemes and programs: (i) greater inclusiveness of women-headed businesses; (ii) facilitation of "green" investments; (iii) scale up of technology solutions; and (iv) increase in use of private sector service providers.

The ESSA Scope and Methodology

An Environmental and Social Systems Assessment (ESSA) of the proposed PforR Operation was undertaken by the World Bank to understand the environmental and social risks, benefits, impacts and opportunities of the existing policy and practices on the ground. The assessment is also part of the World Bank's preparation in line with the requirements of OP/BP 9.00. The assessments were carried out through a comprehensive review of relevant government policies, legislation, institutional roles, program procedures, assessment study of earlier national programs in five states and an analysis of the extent to which these are consistent with Bank OP/BP 9.00. Further, actions to address gaps to enhance risk mitigation were identified and detailed. The ESSA methodology included analysis of information/data on GoI's MSME Support Program, and consultations with key stakeholders mainly at the level of national government.

The 5 states which will be included in the proposed operation's scope are Punjab, Rajasthan, Gujarat, Maharashtra and Tamil Nadu. Each state will prepare a State level MSME Sector Investment Plan (SIP) which will set out the initiatives to be taken by the State during the five year life of the MCRRP. This SIP will not – in principle - be sector-specific although some states may choose to have sector priorities. In the context of the SIP, the PforR will support the development of the SIP and actions needed to extend the availability and uptake of the targeted Federal level schemes being supported under Results Area II of the operation. Given that there is no specific sector focus (beyond being an MSME) to the SIP. The SIP will also include a capacity building program to strengthen state level institutional requirements to effectively implement the SIP. This will be done via federally financed "gap financing" to participating states. Given this approach, most of the information presented in this ESSA is presenting a generic environmental and social systems assessment based on the national level legislation.

Environmental Systems

The risk screening suggests that the overall environmental impact of the operation is likely to be positive. Institutional strengthening of MSME related agencies and technology upgrades in the MSMEs being a part of the program will result in overall human and environmental wellbeing and reduce risks of environmental pollution arising from manufacturing operations.

However, environmental risks could arise in some places during implementation due to improper location, planning, execution and management of schemes, especially in areas where the environmental pollution control regulation enforcement is weak. The risks likely to arise are: (i) contamination of receiving water bodies due to polluting industrial wastewater discharges (ii) occupational health and safety practices of workers in the MSME operations (iii) community health and safety risks arising from poor management of MSME emissions (i.e. waste disposal, air emissions, etc.). However, these risks are expected to be managed mainly by the Gol's relevant legislation and enforcement mechanisms. In addition, the ESSA suggest development of a '*Strategy to Strengthen Environment and Social Management*' which will be then integrated into the SIPs to be prepared by the states.

Social Systems

The assessment reviewed the social policies and procedures (both at National and State level) and found them to be adequate. The assessment finds an enabling policy and legal framework that will promote: decentralized planning, implementation and monitoring, active participation and safeguarding the interests of vulnerable sections (women, scheduled caste and scheduled tribe communities) be it through targeting or membership in local governance institutions or in community level groups. However, due to vast inter-state variations and the urgent need to strengthen last-mile service delivery, challenges were observed, although impact of the identified social benefits outweighs the program related social risks. Most of the risks are manageable and can be mitigated through localized implementation strategies, better local oversight and enhanced accountability.

Key Findings

Environmental Issues

The key findings of ESSA on environmental systems are:

- a. The national and states governments have well-developed environment legislations. However, the implementation setup to address environmental challenges of RAMP needs to be further strengthened.
- b. Non-compliance with the environmental permits, exceeding discharge limits, poor monitoring and enforcement by government authorities, and improper technology selection may affect the environment negatively.
- c. The Program's existing institutional systems needs further strengthening for environmental management especially related to due diligence and monitoring aspects.

Social Issues

For this program, ESSA has been developed to assist in screening, assessment, identification of social risks as per applicable requirements of Government of India legislations during the implementation and operation phases. The ESSA will also help in making the program inclusive so that the entrepreneurs from marginalized communities and women entrepreneurs are not left out.

The key findings on social systems are:

- a. **Limited Institutional Capacity:** The Legislations at the national and state level are well-developed from a social perspective. The federal level schemes supported under the program have clear targets to improve outreach to vulnerable groups and first-generation SC/ST/Women entrepreneurs. However, roles and responsibilities of nodal officers at the state and district levels on management of social inclusion aspects (for instance: targeted training, tailor-made business development courses, awareness and outreach strategies for SC/ST/Women entrepreneurs) were largely found to be missing.
- b. **Limited awareness among enterprises on occupational health safety issues:** There is a lack of awareness among enterprises on the benefits which they can prevail after obtaining scheme-related registration/ licenses and adhering to occupational health and safety norms¹. Scheme and state-level officials conduct sessions to promote awareness registration/license and benefits. However, these sessions are not effective because a) they don't ensure complete participation of owners due to lack of prior effective communication about the sessions, b) women beneficiaries and beneficiaries from Aspirational districts/Schedule V Areas do not participate and c) Enterprises largely perceive OHS aspects and scheme-related registration to be a bottleneck.
- c. **State-level departments do not have a consolidated MIS/database disaggregated by social and gender status:** Across various schemes run by the federal government and schemes operated by the state governments, a consolidated MIS system that provides information disaggregated by gender and social status is missing. Investments in strengthening such a database at the state level will help in building targeted training and capacity building initiatives to reach SC/ST/women entrepreneurs.

Key Operation Actions

¹ This finding is based on a review of secondary literature related to labor management and OHS aspects in the MSE sector.

Key actions agreed with GoI to address the environmental and social risks and gaps identified in ESSA, though PforR component of the Operation, mainly encompasses:

Strategy to Strengthen Environment and Social Management:

The national and state governments have well-developed environmental and social legislations, although the implementation setup to address the environmental/social inclusion challenges of the Program needs to be strengthened. To address this, it is proposed to develop a strategy document - '**Strategy to Strengthen Environment and Social Management**' which will seek to outline the communication, behavior change and capacity building plan around E&S aspects; and the risk screening and management mechanism associated with MSME operations at the federal and state levels. The strategy document will also have a special focus to include action-oriented recommendations on Occupational Health and Safety (OHS) issues to be integrated in the SIPs. The draft strategy document will be prepared before project negotiations with the Department of Economic Affairs, GoI and will be finalized with stakeholder consultations during the first year of the project implementation.

Environment

- (1) Building institutional capacity to address environmental issues for monitoring and due diligence.
- (2) Assist development of detailed checklists, standard operating procedures, guidelines etc. to ensure adequate environmental permits are in place for the MSMEs which will benefit from the program.
- (3) Ensure Occupational Health and Safety (OHS) aspects are not compromised in operations, OHS regulatory compliance is in place and all accidents/incidents are recorded and reported to the authorities.

Social

- **Labor management and Occupational Health and Safety oversight** will be integrated into the Strategic Investment Plans developed for states.
- **Strengthening/convergence of state-level MIS systems** to reflect disaggregation by social and gender status of entrepreneurs
- **Strengthening of feedback/Grievance Redressal Mechanism (GRM) at the state and district-level:** The SIPs will include interventions to localize the feedback mechanism at the state-level as well capacity measures to improve the functions of DICs to build effective information flows targeting first-generation entrepreneurs from SC/ST communities.
- **Land management:** Assist in developing screening checklists to ensure that there are risks of involuntary resettlement and/or loss of livelihoods associated with investments supported under the Program.
- **Awareness and training programs** targeting first-generation entrepreneurs from aspirations districts, women entrepreneurs and SC/ST entrepreneurs.

Environmental and Social Risk Ratings

Given the scope of the Operation, its types and scale of program support, geographic focus, and previous experience with Bank projects of the central and state Governments, the risk rating is 'moderate' from the environmental and social risk perspective.

Stakeholder Consultations and Disclosure:

[Will be finalized post comments from MoMSME and consultations with relevant stakeholders]

1. Background and Introduction

1.1 National Context:

India is a lower middle-income country with a population of over 1.3 billion people and while the country has made substantial progress in improving overall economic outcomes, productivity levels are still relatively low. Labor productivity in India's industry sector is lower than that of China, Russia South Africa, Malaysia and Brazil. Of the 140 countries benchmarked in the World Economic Forum (WEF) Global Competitiveness Report, India's was ranked 68 in 2019. This is to a large extent because the country is not maintaining the pace with other similarly ranked countries. India displays significant shortcomings in some of the basic enablers of competitiveness in areas including ICT adoption, skills base, product market efficiency and trade openness.

Economic growth has failed to generate enough jobs for India's expanding working age population and the growth rate has decelerated in the past two years. Underlying this weak performance is the issue of productivity. To enable productivity growth and job creation, particularly of good quality jobs, the Micro Small and Medium Enterprises (MSME²) sector plays a pivotal role in broader sector competitiveness, with the potential to provide specialization to the value chain in the form of inputs and support activities. However, many of these enterprises are unproductive and lack dynamism with low value addition per worker. This is exacerbated by policies that hamper the growth of its most efficient producers and overprotect its least efficient ones. The outcome has been low MSME productivity rates that constrain the sector's competitiveness and suppress growth and job-creation potential. Enhancing productivity and increasing the domestic and export market shares of Indian MSMEs is key to job creation and remains an urgent national economic priority for the Government of India (GoI).

1.2 Sectoral (or multi-sectoral) and Institutional Context of the Program

The firm landscape in India is dominated by small firms who account for a large share of the non-farm employment in India. The most common firm size in India is of one worker.³ Around 94.6% firms have less than 5 workers and 99% of the firms have less than 10 workers and the share of larger establishments is negligible. Indian MSMEs employ a large fraction of non-farm employment with around 77% of the non-farm employment is in firms with less than ten workers. Indian MSMEs also do not grow with age. India's stunted firm dynamics has been highlighted as a key area of concern in the India Systematic Country Diagnostic (SCD).⁴The average number of employees for a 40-year-old Indian plant is almost the same as for its five-year-old counterpart. These skewed patterns of size and growth impose huge productivity costs. Evidence suggests that this productivity gap is largely due to inefficiencies arising from weaknesses in both the investment climate and in the utilization of inputs at the firm level.

Recognizing the constraints to productivity growth of MSMEs, the Reserve Bank of India (RBI) constituted the Expert Committee on MSMEs to undertake a comprehensive review of the sector and recommend long-term solutions. The report identified a broad and substantive set of sector policy, institutional, legal and regulatory constraints requiring

² MSME revised classification 1st July 2020: Manufacturing Enterprises and Enterprises rendering services (Investment in Plant and Machinery or Equipment and Annual turnover in INR Crore – Micro <1 &<5; Small <10 &<50 and Medium <50 &<250 respectively)

³By way of a high performing example, the modal firm in the United States has about 45 workers. See Hsieh and Olken 2014. "The Missing 'Missing' Middle". Journal of Economic Perspectives

⁴World Bank. 2018. "India - Systematic Country Diagnostic: Realizing the Promise of Prosperity." Washington, D.C.

attention. The report also highlighted specific challenges faced at the firm level in areas such as formalization and digitization and, more specifically, access to knowledge and marketing services, timely and adequate finance and the availability of skilled manpower. The potential for MSME development via a more holistic “ecosystems” approach to factor and product market opportunities was also noted.

The Department for Promotion of Industry and Trade (DPITT) has coordinated (across line ministries and states) and monitored reforms related to the business environment through the life cycle of the business.

A further significant explanatory aspect of the poor productivity levels are the several information and market failures at the micro and meso-economic level in product and factor markets that result in sub-optimal investments in improving firm capabilities and market access. Firm upgrading may require the development and adoption of new management capabilities, internal processes, products, exploring new markets and implementing new technologies. Given the risks surrounding the returns from these activities, firms may underinvest or mismanage the absorption of productivity-enhancing products, process and market innovation.

Improving access to MSME finance is another important area of public intervention. The Government of India has long recognized the specific financing needs of MSMEs and has taken several steps to reach this underserved segment, including with World Bank Group Support. There is considerable deployment of public funds, hindered in effectiveness by overlapping guarantees and gross underutilization/over-leverage of the funds. A risk factor for lending to small firms is the problem of delayed payments by large-scale buyers. Estimates indicate that the average debtor days of the MSMEs is quite large and it has been consistently running over 90 days (In 2017-18, this was approx. 210 days).⁵

Scalability challenges, in addition to the investment climate and market failures is a further frontier for action. There are over 58 million enterprises in India, most of which are MSMEs. Given the magnitude of the target group and their geographical spread across the country, direct interventions to provide support to MSMEs can be prohibitively costly in terms of time, human resources and infrastructure. There is substantial potential to develop more technology-based networks and platforms which would facilitate Ministries, Department and Agencies (MDAs) not only to reach MSMEs on a larger, cost-effective scale with support, but also to deliver these support services. Two Portals, MSME Samahdaan (managed by the Ministry of MSME -<https://msme.gov.in/>) and the India Enterprise Portal, integrate smaller ones and could be developed further for this purpose.

Women-owned MSMEs: Overview barriers and key constraints

A final area are the additional constraints in India faced by women-owned MSMEs. Overall, the share of female entrepreneurs is low in India compared to other countries. There are significant gender disparities in access to inputs, skills, technology, business networks and credit (arising from a lack of collateral from asset ownership) and this is an important area for policy and program attention.

The government recognizes that addressing these challenges and implementing technology-based and private sector driven solutions is further complicated by the sector’s institutional and federal-state context. A key player in this

⁵Report of the RBI constituted Expert Committee on MSMEs.

sector is the Small Industries Development Bank of India (SIDBI). Moreover, the MSME agenda is not confined to federal MDAs - there are a myriad of State-level initiatives. This in turn poses multiple challenges to move from a “schemes-based” approach to a “systems-based” approach to the government’s support to the MSME sector. A “systems” approach does not mean to imply a “one size fits all” approach. The Indian States present a wide diversity of MSME endowments, and flexibility is required to effectively address the specific State challenges that come with this diversity. However, it requires new approaches to federal-state partnerships in fostering a productivity-based MSME program. There is a need to strengthen the monitoring and evaluation (M&E) architecture of the MSME program to support evidence-based policies and interventions.

Although data on women labor force, literacy, health aspects etc., are being generated regularly through regular Censuses and Surveys but data on women entrepreneurship at national level is rather scanty. Therefore, during Sixth Economic Census, questions related to women entrepreneurship in proprietary ownership were added. It covers sex, religion, social group, economic activity, number of workers employed (hired and not hired) and source of finance.

The total number of establishments owned by women entrepreneurs was 8,050,819 out of which 5,243,044 constituting about 65.12 % of the total establishments were in rural areas and the remaining 2,807,775 (34.88%) were located in urban areas. Further, about 6,697,354 establishments i.e., 83.19% operated without hired workers and 1,353,465 (16.31%) operated with hired workers. The percentage of establishments without hired workers in rural areas was 86.85% whereas, in urban areas, it was 76.33%. The number of women establishments involved in agricultural activities was 2,761,767 constituting 34.3 % of the total number of establishments owned by women. It has been observed that 8.05 million out of the total 58.5 million establishments were run by women entrepreneurs in India which is around 13.76 % of the total number of establishments. Total workers engaged in women owned & run establishments were 13.48 million persons, which is 10.24% of the total number of workers engaged in India under different economic activities.

The details of five top states in terms of percentage share in total number of women owned establishments in the country are: i) Tamil Nadu (13.51%) ii) Kerala (11.35%), iii) Andhra Pradesh (10.56%), iv) West Bengal (10.33%) and v) Maharashtra (8.25%). The top five economic activities as per establishments owned by women entrepreneurs were: i) Agriculture (34.3%), ii) Manufacturing (29.8%), iii) Trade (18.23%), iv) Other Services (5.38%) and Accommodation & food services (2.77%).

Total number of agricultural establishments were 2.76 million constituting 34.3% of the total establishments owned by women, whereas, about 5.29 million establishments (65.7%) were involved in non-agricultural activities. In agricultural sector majority of establishments i.e., 2.54 million establishments (92.20%) pertains to livestock, followed by forestry and logging (4.51%), agriculture other than crop production (1.89) and fisheries and aquaculture (1.4%).

In non-agricultural sector, about 2.4 million establishments (45.36%) were engaged in manufacturing activity. Other important activities were trading (28.57%), other services (8.18 %), accommodation and food services (4.22%) and education (4.1%).

Collectively, these women-owned enterprises contribute 3.09 percent of industrial output and employ over 8 million people. Approximately, 78 percent of women enterprises belong to the services sector, which is followed by manufacturing. Women entrepreneurship is largely skewed towards smaller sized firms, as almost 98 percent of

women-owned businesses are micro-enterprises. As with the broader MSME sector, access to formal finance is a key barrier to the growth of women-owned businesses, leading to over 90 percent of finance requirements being met through informal sources.

The number of female entrepreneurs has doubled over the past ten years to about 10 million outside the agricultural sector mostly due to the rise in enterprises without hired workers. Their share rose in all sectors, and women now account nearly half of total entrepreneurs without workers in manufacturing. In services and trade their shares have also grown but remained modest at about 10% of total. Given the often-marginal nature of these activities, this can result from lack of wage employment opportunities elsewhere in the Indian economy. Despite solid GDP growth over the past decade only 4 million new jobs were created for women between 2000 and 2010, mostly in salaried employment in urban areas, while the female working age population not in school increased by 60 million over the period. The remaining 58 million net new jobs were all taken by men. This suggests that the reason for the rise in female entrepreneurship can be a lack of other employment opportunities. However, not all the rise in entrepreneurship may be captured by employment data if they work only some part of the month or year.

The share of female entrepreneurs that employ at least one person is small and has remained roughly stable over the decade. This suggests that problems remain for women to become entrepreneurs with workers despite the high sustained growth of the Indian economy in the past decade. They are most active the Southern and Eastern parts of the country. The regional concentration of entrepreneurs suggests, as with labor force participation (Sorsa 2015), that cultural factors can play a role in determining female entrepreneurship in India.

Female entrepreneurs with workers are most active in services, followed by manufacturing and trade. A more detailed sectoral breakdown shows that there are large differences between men's and women's activities. Apart from retail trade, which is the most important sector for both females and males, nearly half of female entrepreneurs with workers operate in traditionally female sectors. These are wearing apparel, education, health, and other personal services (beauty treatment, hairdressing, cleaning of textile, household maintenance etc.). In contrast, male entrepreneurs with workers are dispersed in more diverse activities.

Female entrepreneurs with workers tend to be more educated on average than female those without workers, with about six years of schooling versus four respectively. This confirms the findings of previous research on differences in educational levels on types of entrepreneurship (Ardagna and Lusardi, 2008). Interestingly, although female entrepreneurs with workers are much fewer than male entrepreneurs with workers, female owned firms have more workers and are more likely to maintain accounts and to use a computer.

The other key barrier women entrepreneurs face is a huge transaction cost. As depicted by a recent World Bank study in Sub-Saharan Africa, the rate of informal firms is high especially for those that are women-owned and in the poorest countries, despite a total of 107 business regulatory reforms recorded by Doing Business across 40 economies in the region. Through an experiment in Malawi, the study established an effective and replicable design to offer informal firms support to formalize, costing much less than the typical private sector development intervention. The study shows that one of the primary barriers to registration for women-owned firms is transaction costs. When registration is made virtually costless, an overwhelming number of women-owned firms (73%) choose to register. However, when offered the chance to engage in costless registration for taxes, almost no firms select to pursue this option. Combining business registration with an information session at a bank including the offer of a

business bank account leads to an increased use of formal financial services, and results in increases in women owned firms sales and profits of 28% and 20% respectively. On the other hand, business registration on its own is not as effective in improving access to financial services and does not result in enhanced sales and profits.

Moreover, women traditionally participate in value chain nodes with lower economic return than men. Women's participation in the production of a specific crop is oftentimes related to the crop's assumed value and is thereby usually limited to local consumption and the local market. Men are more likely to participate in export commodities, or in markets where there is a greater economic return.

At the national level, 20% of enterprises in the unorganized food processing sector are owned by women with significant inter-state variations. Further, stark differences are visible by types of enterprises; specifically, between female own-account enterprises (OAEs) and female establishments. For instance, 22% of OAEs at the national level are women-owned vis-à-vis 5% of 'establishments' are women-owned. Even in middle-income states such as Andhra Pradesh and Maharashtra, female OAEs account for about 9% of the enterprises in food processing as compared with 2.7% and 1.4% of 'female-owned establishments' respectively. Clearly, the specific gender gap in the context of the project components is limited scalability prospects experienced by WOE's despite their significant presence in the informal food processing sector.

1.3 State Context

The State context for MSME support varies as industry profile across states differs substantially and MSME support interventions need to have the flexibility to respond to these state level differences. The identified states have undertaken legislative reforms and are implementing a number of initiatives to enhance Ease of Doing Business (EoDB) environment through improved regulatory service provision for MSMEs.

States are proactively enhancing provisions for critical inputs into MSME competitiveness such as serviced industrial land and power availability. It is felt that there is a need to better integrate across existing state interventions and the implementation of a central government program into a more holistic MSME support architecture.

Outreach of the central government schemes focusing on competitiveness is low, with state schemes and portals having a higher outreach in terms of MSMEs reached. MSE-CDP scheme (although not included in the PforR boundary) has the most uptake at the state level in terms of budgetary outlay and number of MSMEs covered through the creation of common infrastructure. The central government schemes are implemented through the MSME Development Institutes (MDIs) and contracted service providers directly overseen by the Ministry, which makes effective coordination and integration difficult given the substantial state support programs for MSMEs.

States have a much larger architecture for identification, outreach and service provision to firms through the staff of the Industries Department and the District Industries Centers (DICs), present in every district. This architecture can be better leveraged to enhance the number of firms covered by flagship MoMSME schemes.

States are running state-level portals for single window clearance and for grievance redressal with a relatively large number of firms accessing services through state-level portals. These portals currently do not integrate or report data into national portals run by the MoMSME.

Number of MSMEs across India in the financial year 2019, by type is as follows: Rural 32.49, Urban 30.90, total 63.39⁶ (in INR millions). A brief outline of the MSME sector in each of the participating states in this project is outlined below:

1.3.1 Punjab

MSME Sector Overview Statistics - Punjab	Units
Total no. of MSMEs	0.267 Million (2.67 lacs)
Micro/Small/Medium	0.214 (2.14)/0.032 (0.32)/0.021 (0.21) million/(lacs)
Share of Micro Units in MSMEs	80%
Employment in MSME Sector	2.27 million (22.7 lacs)
Contribution to exports	51.38%
State Scheme for Make in India and ZED	2,521 units registered
Total number of ZED Certified entities	2,521 registered, 26 awarded rating (Bronze 11, Silver 13, Gold 1, Diamond 1)
Framework for M/o MSME schemes & Grievance Redressal Mechanisms	<ul style="list-style-type: none"> • Time bound Grievance Redressal Mechanism on Invest Punjab Business First Portal, State's single window • Grievance Redressal through Public Grievances Portal, Govt. on Punjab

Several initiatives by the state to improve Ease of Doing Business (EoDB) such as:

- 100% Implementation of Business Reforms Action Plan 2019
- Punjab Right to Business Act, 2020 to enable eco-system for new MSMEs to establish and operate for 3.5 years
- MSME & MSE Facilitation Councils for settlement of disputes on delayed payments (270+ cases disposed by MSE Facilitation Councils)
- 'Make in Punjab' Policy to give preference to goods manufactured in the State in public procurement
- Dedicated online portal for regulatory & fiscal incentives
- Dedicated Marketing Cell to provide necessary marketing assistance to MSMEs including E-commerce platforms
- District Level Export Promotion Committees under chairmanship of DCs to facilitate exports
- Relaxed Factories Act, Contract Labour Act & Industrial Disputes Act
- No Labour Inspections for MSMEs through Self Certification
- Higher FAR allowed
- Exemption from PPCB consent management White & Green category through Self Certification

The state has also identified critical gaps in schemes and areas to be addressed as there are areas yet to be covered by schemes. The need to revamp or streamline of schemes has also been identified which include the provision for Project Management Units (PMU) in schemes, working capital support, promotion of industry and disbursement of outstanding arrears under discontinued schemes like MEIS Scheme. The state government has also offered several recommendations which include:

- Reducing Regulatory Burden on MSMEs (No approvals required for gestation period)

⁶<https://www.statista.com/statistics/718232/india-number-of-msmes-by-type/>

- Technology upgradation fund for MSME sector on the pattern of Technology Upgradation Fund (TUF) Scheme
- Strengthening DICs
- Specific Schemes for land locked States like Punjab
- Price Control Mechanism of PNG by GoI
- Extension of AtmaNirbhar Bharat package to MSMEs with turnover less than INR 100 crore (1,000 million) but credit more than INR 25 crore (250 million).
- Special Mention Account (SMA) 2 (accounts are ones with a delay of between 61 and 90 day) norms to be relaxed for export units covered under Export Credit Guarantee Corporation (ECGC) scheme

1.3.2 Rajasthan

MSME Sector Overview Statistics – Rajasthan	Units
Total no. of MSMEs	0.146 Million (1.46lacs)
Micro/Small/Medium	0.13 (1.30)/0.016 (0.016)/0.0047 (0.047) million/(lacs)
Share of Micro Units in MSMEs	88.8%
Employment in MSME Sector	0.617 million (6.17 lacs)
Contribution to exports	INR 48,705 Crores (INR 487,050 million)
Loan Disbursement to MSMEs	INR 54,028 crore (INR 540,280 million)
Total number of ZED Certified entities	7 awarded rating (Bronze 4 and Silver 3)

The state has taken several initiatives to improve Ease of Doing Business (EoDB). Rajasthan MSME Act, 2019 to provide for exemption from approvals and inspections under all State Acts; portals operationalized for online approvals in Departments-Labour, Factories & Boilers Department, Rajasthan Pollution Control Board (RPCB), Industries Department, Controller of Drugs, Consumer Affairs, Cooperative, Excise Department, Local Self Government and Urban Development and Housing (UDH); single window enabling and clearance system. The <http://swcs.rajasthan.gov.in> is a single point online clearance system for seeking time bound approvals for more than 90 statutory approvals relating to 15 departments. The state was declared one of India's "Top Achiever States" in implementation of the Business Reform Action Plan 2017.

The implementation framework for Grievance Redressal Mechanisms (GRM) in the state has a two-tier committee formation at the District and State level. The Dispute Resolution Mechanism (DRM) has several functions such as addressing grievances and offering suggestions, reviewing and monitoring the pendency in various departments related to investment and operation of the enterprises, recommend disciplinary action against the delinquent officials responsible for creating hurdles and expedite the execution of suggestions regarding simplification of rules, investment promotion and improving the scenario for doing business.

The challenges encountered by MSMEs in the states are similar to the other states. Regarding environmental issues, the specific challenges are need for new CETPs and upgradation of the existing ones, maintenance of CETPs and regulatory and advisory services. the challenges posed by Covid 19 are also similar to other states including the issue of paying minimum electricity bills during lockdown periods.

The gaps in the schemes that need to be addressed have been identified and include lack of any special provision for industries in backward and most backward areas in MSME assistance scheme, no special provision for development of MSME parks, no special provision for support to exporters and no specialized industrial parks for artisans, craftsmen and micro enterprises. To address these gaps and streamline the process, the formulation of a new MSME

Promotion & Development Scheme is under consideration. A new Handicraft Development Policy draft is in progress and a new Cluster Development Scheme is being prepared in line with GoI Cluster Development Scheme.

New opportunities that must be exploited have been identified such as technology upgradation, e-marketing and manufacturing of pharmaceutical, chemicals and medical equipment.

1.3.3 Gujarat

MSME Sector Overview Statistics - Gujarat	Units
Total no. of MSMEs	3.5 Million (35 lacs)
Micro/Small/Medium	0.73 (7.3)/0.12 (1.2)/0.005 (0.05) million/(lacs)
Share of Micro Units in MSMEs	85%
Employment in MSME Sector	5.07 million (50.7lacs)
Contribution to exports	20.82% (Small and medium units have major share)
Total number of ZED Certified entities	52 awarded rating (Bronze 21, Silver 20, Gold 10, Diamond 1)

All major sectors are covered with incentive scheme. In last 5 years total 32,157 units have benefitted from the State' Industrial Policy 2015 with an amount of INR 5,246 crore (INR 52,460 million) which also attracted investment of INR 36,975 Crore (INR 369,750 million) and generated employment for 2,65,396 people. There are MSME specific schemes and sector specific schemes. INR 1,450 Crore (INR 14,500 million) has been approved exclusively for MSME specific schemes for the year 2020-21. The state has taken several initiatives to enhance ease of doing business. These include:

- Single window clearance act 2017 - Investor Facilitation Portal (IFP) has been developed which provides access to 160+ applications of 15 departments under one platform. Over 480,000 applications have been made so far.
- Easy availability of loans up to INR 5 crore (INR 50 million) in 7 days and more than INR 5 crore in 21 days covered under the MOU of the state government with State Bank of India and Bank of Baroda.
- Labour Laws Ordinance 2020 exempts new enterprises for a period of 1,200 days from almost all labour laws in the State.
- Recently notified 12-hour work shifts in factories with maximum 72 hours in a week
- Gujarat Land Bank portal is offering a fully digitized and GIS based mapping of industrial land available across the state along with information on infrastructure, utilities, training institutes, etc. is readily available at <https://gujarat.ncog.gov.in/indextb/admin/gisModulePublic>
- Implemented 187 reform points of State Level Business Reform Action Plan (SLBRAP) in 2019 and 218-reform points under the District Level Business Reform Action Plan (DLBRAP) which will provide access to new permissions
- Established MSME Helpdesks in 10 districts which covers all the districts of for handholding and other necessary support to MSMEs.
- Industrial Disputes Act Amendments: Upper limit for the employer to seek the government's permission for lay-offs, retrenchment or closure increased from 100 laborers to 300 laborers

The state has an online grievance redress mechanism where the portal allows the applicant/investor to raise a grievance online and the grievance will be forwarded to the concerned department automatically. The

applicant/investor can track the status of the grievance through the dashboard. If the grievance is not closed within stipulated timeframe, it will be automatically escalated to the higher level.

The challenges faced by MSMEs in the state include financial assistance, low lending for start-up and first-generation units, technology upgradation constraints, low production efficiency, inadequate marketing strategy, low priority for innovation, lack of knowledge regarding availability of raw materials in domestic market at competitive prices and low access to knowledge regarding export opportunities. Covid 19 posed a different set of challenges that are similar to other states. These include the demand, supply and finance, reverse migration of labour, price variation of key raw materials, supply chain disruption, low consumer demand and massive impacts on exports to Europe and the US.

Some of the gaps in Schemes and areas to be addressed include the requirement for strict enforcement of quality standards, training and skilling programmes, environmental protection measures, promotion of service sector industry, setting up of common facility centres, product development centres, innovation centres and cluster development.

The Covid 19 pandemic has had a major adverse impact on the MSME sector, however, some opportunities have also been identified. The IT sector can take the lead by making headway on e-commerce websites, cyber security and digital payments. The health sector can play a major role in manufacturing of pharma drug, PPE kits, masks, sanitation chambers, sanitation devices, cost effective ventilators, sanitizers and disinfectants. These will require a robust supply chain management through online delivery, retail and seize the opportunity to service newer markets because of supply chain disruptions in existing companies.

1.3.4 Maharashtra

MSME Sector Overview Statistics - Maharashtra	Units
Total no. of MSMEs	1,768 Million (17.68lacs)
Micro/Small/Medium	1.561 (15.61)/0.199 (1.99)/0.008 (0.08) million/(lacs)
Share of Micro Units in MSMEs	88%
Employment in MSME Sector	9.111 million (91.11lacs)
Total number of ZED Certified entities	55 awarded rating (Bronze 23, Silver 21, Gold 10, Diamond 1)
Framework for M/o MSME schemes & Grievance Redressal Mechanisms	<ul style="list-style-type: none"> • Single Window MAITRI platform provided to address grievances with respect to obtaining various approvals/permissions from State Government authorities. • MAITRI helpdesk provided by Gol under AtmaNirbhar Bharat Programme - online application available http://www.mh-indpkg.in

The state has taken a variety of initiatives to address EoDB. These initiatives include single window portal 'MAITRI' for various G2B services which also facilitates application for land allotment and water connection in MIDC area, investor queries responded in 3 working days, auto-renewal of Consent to Operate is provided based on self-certification, auto-calculated tax details available online, payment related to State excise taxes are enabled through the online portal – Government Receipt Accounting System (GRAS), inspection prior to registration is not required for registration under S&E Act and a simplified grievance redressal mechanism i.e. Champions MSME Portal to address the issues faced by MSMEs developed by MoMSME.

The challenges faced by MSMEs in the state include unavailability of adequate and timely credit, high cost of credit, lack of modern/innovative technology, unavailability of skilled manpower, complex labour laws, inadequate marketing support and related facilities, inadequate MSE facilitation councils and support for exports for MSMEs. The Covid 19 specific challenges are similar to other states.

Recommendations for the sector include strengthening of MSE facilitation councils by providing required changes in the MSMED Act 2006 and rules made there under and marketing support to MSMEs. The state has reported opportunities seized due to Covid 19 and these include hyper local distribution – deliver at doorstep, homepreneurs - new micro entrepreneurs who started from home, especially women entrepreneurs, diversification and e-commerce.

1.3.5 Tamil Nadu

MSME Sector Overview Statistics – Tamil Nadu	Units
Total no. of MSMEs	4.98 Million (49.8 lacs)
Share of Micro Units in MSMEs	87%
Employment in MSME Sector	14.87 million (148.7 lacs)
Contribution to exports	49.66%
Total number of ZED Certified entities	39 awarded rating (Bronze 12, Silver 19, Gold 8)
Framework for M/o MSME schemes & Grievance Redressal Mechanisms	Access to database: Udyam Registration, GeM Portal & Champions Portal

The state has the Tamil Nadu Business Facilitation Act & Rules, 2018 which has the objective to ensure time-bound processing of applications for establishing/expanding a manufacturing/service enterprise, including renewals. The coverage includes enterprises engaged in manufacturing, services and setting up of industrial infrastructure parks. The services include pre-establishment stage, pre-operations stage, renewal stage, incentives and other clearances.

Initiatives under consideration for EoDB include the automatic renewal of licenses on payment in respect of renewal of licenses of contractors under provision of the Contract Labour (regulation and Abolition) Act 1970, renewal of licenses under the Factories Act 1948, renewal of licenses for drug manufacturing/selling/storage under Drugs and Cosmetics Act, 1940 and renewal of trade licenses.

The challenges for MSMEs in the state are expanding credit flows - facilitating those outside the formal banking sector, cheaper credit to those already in the formal banking sector and co-opt NBFCs and State Financial Institutions (SFI) to focus more on MSME lending at concessional rates. In addition, the recapitalizing SFI for MSME lending could increase their share in this space. Marketability - lack of expertise in product development in designing, packaging and marketing strategy due to the changing environment around them and lack of availability of database on products and export data. Capacity building; backward and forward linkages. Delayed payments - delay in realization of receivables thereby increasing their operating cycle of working capital and reducing their ability to fulfill the existing commitments and a concerted effort to increase the use of TReDS system need to be implemented.

The impact of Covid 19 has been identified by the state. The pre-lockdown issues include general economic slowdown, BS VI transition in auto sector, closure of Chinese markets for raw materials especially in coir sector and loss of order from western markets. The post lockdown issue include extended Lockdowns, exit of migrant labour, liquidity crunch and shortage of labour, shrinkage in orders, commitments could not be fulfilled, reduced capacity utilization, raising cost of production due to social distancing and SOP, disruption of supply-chain activities, short supply of raw materials and default on payments. These have resulted in unsustainable cost of debt and need for liquidity, low capital base and considerable dependence on personal collateral, unclear strategy to facilitate the

return of migrant workers and easing of movement of goods and raw materials to restore supply chains and rapid shrinkage of demand and delayed payment cycles.

Covid 19 has also presented new opportunities which to the state which include manufacturing - medical devices, technical textiles such as PPE kits and masks, hygiene products and pharmaceutical and ancillaries. In the service sector - medical devices servicing, online freight services and e-learning, e-health, e-commerce.

2. Program description

The Gol program – entitled “MSME competitiveness – A post COVID Resilience and Recovery Programme” (MCRRP) is a five-year USD3.9 billion nationwide initiative. The over-arching MCRRP strategy is to partner more closely with states to facilitate greater scale and quality of impact of MSME support interventions in order to promote increased sector competitiveness. This will in turn fuel business growth and job creation. The MCRRP will strengthen the MSME sector eco-system through a series of institutional, policy and program actions across the following Results Areas:

- i. Dissemination of knowledge
- ii. Access to finance
- iii. Access to technology
- iv. Creation of common facility infrastructure
- v. Facilitating access to markets
- vi. Policy and governance for facilitation and ease of doing business

Key thematic areas of priority for the MCRRP are fourfold. These are (i) closing the gender gap that impedes women-headed businesses for accessing financial and non-financial services; (ii) facilitating green investments by MSMEs; (iii) innovating technology solutions to scale up the delivery of cost-efficient financial and non-financial services; (iv) mobilizing private sector providers to expand market-driven product delivery quality.

Table 1. Government of India’s MSME Program (MCRRP) and PforR Scope

	Government program	Program supported by the PforR	Reasons for non-alignment
Objective	Facilitate increased scale and quality of impact of MSME support interventions in order to promote increased sector competitiveness.	Strengthening institutions and markets to enhance MSME productivity.	The PforR operation is fully aligned with the MCRRP objective, but with prioritized focus on facilitating: (i) institution-building; (ii) stronger state-level ownership and management of MSME schemes: and (ii) the four thematic priorities.
Duration	2021-2025	2021-2025	The MCRRP is a first mover program with an initial 5-year time horizon. This can be
Geographic coverage	National	Focused on Five participating states – Gujarat, Maharashtra, Punjab, Rajasthan, Tamil Nadu	The PforR focuses on selected States who have confirmed readiness to comply with Raising and Accelerating MSME Productivity (RAMP) eligibility requirements with a view to expansion to additional States, subject to performance of initiative.
Results Areas	1) Dissemination of knowledge 2) Access to finance	The PforR will through two Results areas support MCRRP Results	MCRRP RA 4 is being supported by a USD250m Asian Development Bank program.

	Government program	Program supported by the PforR	Reasons for non-alignment
	3) Access to technology 4) Creation of common facility infrastructure 5) Facilitating access to markets 6) Policy and governance for facilitation and ease of doing business	Areas 1-3, 5, 6.	The PforR will be supporting common infrastructure beneficiaries indirectly through support to the other MCRRP Results Areas
Overall Financing	USD 3.9 billion	USD 500 million	

Program Result areas:

The Program is designed around two broad Results Areas (RAs) and four cross cutting themes. The two result areas are (i) Strengthening Institutions and the Governance of the MSME Program; (ii) Support for Firm Capabilities and Access to Finance. The four recurring themes across interventions in the two RAs include – (i) Gender i.e., improving outcomes for women entrepreneurs through greater access to MSME support programs; (ii) Greening i.e., supporting the adoption of RECP practices by MSMEs; (iii) Technology i.e., use of technology platforms to effectively deliver MSME support services at scale; and (iv) Private Sector i.e., the key role of the private sector in delivering services to MSMEs.

Results Area I: Strengthening Institutions and Governance of the MSME Program

The first Results Area (RA) will target results at the Federal level to address the institutional capacity and coordination constraints. The activities will focus on institutional change at the MoMSME and a shift of the MoMSME from a “scheme-based” to a “systems-based” approach to productivity improvements across the MSME sectors. Key areas for consideration of the program include:

- Streamlining and improving existing MSME program outcomes
- Strengthening MoMSME: This could involve a range of actions including -amendments to the MSME Act of 2006 (Enterprise Code) -The MoMSME plans to prepare this new MSME law with the support of this project; enhancing Policy Capabilities of the MoMSME; a Special Purpose Vehicle (SPV) for implementing MSME schemes.
- Strengthening M&E framework and practices:

Results Area II: Support to Firm Capabilities and Access to Finance and Markets

The second RA will target outcomes and results incorporating key State level measures to address failures in market access, firm capabilities and access to finance. The team will, in consultation with the MoMSME, plan 5 (five) states partnerships, which will be integral to the operation. The principal market failures to be tackled may vary by State (and/or sector), but common to all interventions will be the sustained effort, wherever feasible, to bring private sector involvement to the implementation of market-based solutions to remove barriers which prevent MSMEs from upgrading their capabilities and accessing key markets.

The interventions will include technology-driven and platform solutions to achieve economies of scale and connectivity in the outreach of better-quality market-based, private sector service provision. The project can build

upon two portals, the MSME Sambandh (managed by the Ministry) and the India Enterprise Portal. The project design and implementation will be informed by the considerable body of expertise on digital platforms and markets within the WBG including the Digital Platform Surveys, the Industry Digitization toolkit, the e-Commerce Survey and the Digital Trade Regulatory Readiness Assessment. Through revamping existing schemes/introducing new approaches, the program will support the MoMSME to improve the effectiveness of interventions, operating initially in targeted states, with the prospect of further expansion, based on performance and results. State-level uptake and ownership of the services is key to achieve the desired outcomes in this RA. Efforts will be made to understand the special challenges faced by female entrepreneurs and ensure adequate coverage of female-owned enterprises.

The design of these interventions will be developed, in close partnership with the MoMSME and the States during preparation, and will include:

- **Enhancing Firm Capabilities:** Consider international experiences for potential adoption of a multi-level “funnel” approach to firm capability enhancement. First - use online platforms to provide enterprises with some core services - information, diagnostics and light-touch training at volume and low cost; Second, more in-depth and “face-to-face” intensive, stage to target those firms with more potential and provide a more strategically focused support on specialized dimensions of capabilities and/or value chain connection.
- **Strengthening Access to Markets:** Explore cross cutting interventions through market information, quality certification and platforms (to reduce information asymmetries) as well as strengthening value chain linkages in select value chains. Interventions to support MSME access to domestic and/or international markets. Implemented with the active participation of local public and private stakeholders (e.g. export promotion agencies, business associations, logistic service providers or quality certification institutions), these initiatives are expected to provide substantial benefits to MSMEs.
- **Mitigating Risk in MSME Financing:** The focus would be on a major MoMSME scheme that seeks to reduce the risk profile of MSME lending and would complement other initiatives under SIDBI and RBI to foster MSME finance. Weaknesses in the Ministry’s current Credit Guarantee Trust Fund for Micro and Small Enterprises (CGTMSE) program have resulted in a diminished impact in addressing the capital requirement of the underserved market. Discussions with industry practitioners indicate that this credit guarantee scheme can be adapted to better meet demand which can be an important contributory action to address market failure. The Program seeks to strengthen the existing key tools for de-risking. In addition, improving the existing interventions of the MoMSME in this space as well as strengthening of the Trade Receivable Electronic Discounts Platforms (TReDS) will be explored.

These two RAs would be supported by a well-developed communications strategy, Technical Assistance and Capacity Building programs and coordination with other major public and private sector stakeholders at the Federal and State level.

2.1 Program Development Objective(s)(PDO) and Indicators:

The Program Development Objective is to strengthen institutions and markets to enhance MSME productivity.

PDO Level Results Indicators:

The Key Performance Indicators are proposed to measure progress towards this PDO:

- **MSME productivity increased** - Measured in terms of average firm turnover.
- **Increased Institutional Performance** - measured in terms of:(i) MSME federal scheme outreach in participating States; (ii) transparency and accountability for results of publicly funded schemes; (iii) completed implementation

of state level SIPs.

- **Expanded and more inclusive market service demand** - Measured in terms of Usage of platform and online services; Access to finance for women-headed firms; Access to finance for green investments; Access to Finance to MSMEs (via TReDS) (Amount(USD))

Disbursement will be conditional on achievement of specific results. The choice of Disbursement Linked Indicators (DLIs) and values allocated to them are based on the following: (a) the significance of the activity, output, or outcome in the results chain; (b) the perceived need to introduce a financial incentive to deliver the activity, output, or outcome; (c) measurability and ease of verification; and (d) the capacity of GoI and partner States to achieve the DLIs during the implementation period of the Program. The detailed description/definitions of each DLI are provided in PAD. Table 2 below presents the selection of DLIs and their allocations in a summary table:

Table 2. RAs, DLIs and Allocation (USD million)

RA	DLI	Allocation
RA 1: Strengthening Institutions and Governance of the MSME Program	DLI-1: Strengthening coordination and institutions at the Federal level	85
	DLI-2: Building and integrating technology platforms	45
	DLI-3: Building and Leveraging State Capacity	120
RA 2: Support to Firm Capabilities and Access to Finance	DLI-4: Enhancing Firm Capabilities	75
	DLI-5: Strengthening the Receivable Financing market	65
	DLI-6: Enhancing Guarantee Products	55
	DLI-7: Expanding Access to Online Dispute Resolution	55

2.2 Program Scope

RAMP is a five-year operation. The total estimated program expenditure over the operation period is US\$3,899 million which will be financed by, (a) MoMSME financing (national support) of US\$3,399 million; and (b) World Bank support of USD 500 million. The proposed World Bank financing will provide additional funds for implementing the MoMSME support program strategy outlined in the 2020 GoI Program Document, Implementing MSME Competitiveness: A Post COVID Resilience and Recovery Program.

M&E: The RAMP Program supports the strengthening of the M&E framework and capacity building through interventions at the Federal and State levels under RA1 as well as RA2 through the following: (a) Improving the M&E capacity of the MoMSME through an enhanced M&E operational framework incorporating a “best practices” M&E approach; capacity building of MoMSME M&E Team and upgrading MIS systems of the MoMSME; incorporating an Annual State of MSME Sector Report and three ‘rigorous’ Impact Assessments as DLRs, (b) Dashboards for Data and Program monitoring under the Champions Portal, (c) Capacity building of states and upgrading their MIS systems for M&E of SIPs. (d) Improved Data reporting for CGTMSE.

Economic Rationale: The MSME sector contributes about 45% to manufacturing output, and over 28% of the GDP, and accounts for a large share of the employment in India.⁷ Around 77 percent of the non-farm employment is in firms with less than ten workers.⁸ Indian firms are small and do not grow over time. The most common firm size in

⁷RBI, June 2019, The Report of the ‘Expert Committee on Micro, Small and Medium Enterprises’

⁸GoI. Sixth Economic Census (2012-13)

India is of one worker and around 99 percent of the firms have less than 10 workers.⁹ These skewed patterns of size and growth impose huge productivity costs.¹¹ This is worrying because long-term growth and job creation are driven by productivity growth. The support under the RAMP operation addresses identified market failures and institutional capacity limitations, which constrain productivity growth of MSMEs. The investments in this Program are focused on making public spending on MSME support in India more efficient and strengthening markets for BDS, technical and financial services to MSMEs.

Firm Capabilities: There is a lack of awareness from MSMEs about the benefits from using these services and the uncertainty surrounding returns from some of these investments. There are also information gaps about the quality of service providers. Support through RAMP will improve the quality, coverage and delivery of the existing Firm Capabilities schemes and strengthen the market for BDS. This will be done by increased outreach and awareness to create a demand for these services, support for the supply side MSME support ecosystem in priority States (and more broadly across India), strengthening the quality of service providers through training and accreditation and developing a transparent system of feedback and information on service providers.

TReDS: TReDS is an invoice marketplace for discounting and factoring of payables. Fintech platforms such as TReDS are digitizing the factoring process, reducing costs and improving efficiency, as well as improving the ease for collecting repayment from third parties. Invoice financing, whether as supply chain financing, reverse factoring, traditional factoring or discounting, provides a simple, convenient and accessible financing product that can help MSMEs bridge financing gaps created by long payment terms. In this respect, TReDS has great potential to help meet the liquidity and financing needs of MSMEs. However, weaknesses in the structure have created challenges to incentivize buyers to participate in the platform and FIs to scale-up financing volumes. RAMP support will address some of these constraints.

CGTMSE: Within the MSME access to financial ecosystem, CGTMSE plays a vital role as a credit enabler for underserved MSEs. The Trust has broad reach with 116 Member Lending Institutions (MLIs), comprised of Public Sector Banks, Private Sector Banks, Regional Rural Banks, Foreign Banks, Non-Bank Financial Companies, and Small Finance Banks. This proximity to the financial sector has helped the Trust to adjust credit guarantee features that are responsive to credit constraints detected in the marketplace. There are two glaring gaps in the MSE financing systems – The first is the difficulties faced by women owned MSEs in accessing credit. The second is the absence of a system of tracking of greening (RECP) investments, and the sub-optimal financing for such investments, given the positive externalities generated by these investments. RAMP support on CGTMSE will address both these gaps.

ODR for delayed payments: MSME delayed payments disputes are usually small value transactions of a relatively standard nature, which are generally amenable to ODR. It is particularly suitable for India and other large countries with widespread technology and a large number of MSMEs spread over a large geographical area. ODR addresses the timing and capacity concerns experienced with MSEFCs, by enabling multiple accredited and trained mediators to provide services remotely, even if they are not based in the respective location. It is a time and resource efficient way of dispute resolution related to delayed payments to MSME suppliers. It has the potential to reduce financial barriers to access for suppliers and buyers who may incur costs or be forced to take time off from work to attend in-person conciliation/arbitration sessions. ODR is generally 90 percent cheaper in comparison to face to face arbitration. Moreover, pricing by private service providers for ODR appear to be comparable to fees charged by MSEFCs.

⁹ By way of a high performing example, the modal firm in the United States has about 45 workers. See Hsieh and Olken 2014. “The Missing ‘Missing’ Middle”. *Journal of Economic Perspectives*

¹⁰ Gol. Sixth Economic Census (2012-13)

¹¹ Contrast this with the United States, where firm employment grows eightfold over 40 years, or Mexico, where it doubles. While a 35-year-old plant is 9.3 times more productive than a five-year-old plant in the United States, it is only 1.5 times higher in India. See Hsieh and Klenow. 2014. “The Life-Cycle of Plants in India and Mexico”. *The Quarterly Journal of Economics*

Building and Integrating Technology Platforms: This will support the provision of integrated services for MSMEs in a cost-effective manner and at scale. The intervention will strengthen the market for BDS and technical services by providing a platform where MSMEs and suppliers of services can come together. Information gaps will be addressed through the feedback and rating systems for service providers, as well as the outreach done by the MoMSME and states on the benefits of such interventions.

Table 3 provides further details on the PforR program boundary and resultant five-year expenditure framework. Details on the specific MoMSME programs to be included in the program boundary are listed, together with the additional amount of USD 60 million to be transferred to the States to support the preparation and implementation of the SIP. The PforR contributes 48% to The Program.

Table 3. RAMP PforR Program Boundary and Expenditure Framework

RAMP PforR Program Boundary and Expenditure Framework										
Program Boundary		FY20-21	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26	Total		
		Figures in IR (Millions)	Figures in USD (millions)							
1	Establishment Expenditure for the Centre	Secretariat	224.20	\$ 2.99	\$ 3.14	\$ 3.30	\$ 3.46	\$ 3.63		
		Development Commissioner (MSME)	344.30	\$ 4.59	\$ 4.82	\$ 5.06	\$ 5.31	\$ 5.58		
			568.50	7.58	7.96	8.36	8.77	9.21	\$ 41.88	
2	Technology Upgradation and Quality Certification	Credit linked Capital Subsidy and Technology Upgradation Scheme	6,539.10	\$ 87.19	\$ 91.55	\$ 96.12	\$ 100.93	\$ 105.98		
		Credit linked Capital Subsidy and Technology Upgradation Scheme – States	1,514.40	\$ 20.19	\$ 21.20	\$ 22.26	\$ 23.37	\$ 24.54		
			8,053.50	107.38	112.75	118.39	124.31	130.52	\$ 593.34	
3	Marketing Promotion Scheme	Procurement and Marketing Support Schemes	545.90	\$ 7.28	\$ 7.64	\$ 8.02	\$ 8.43	\$ 8.85		
		Procurement and Marketing Support Schemes – States	290.00	\$ 3.87	\$ 4.06	\$ 4.26	\$ 4.48	\$ 4.70		
		Marketing Assistance Scheme	0.40	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01		
		International Cooperation Scheme	200.00	\$ 2.67	\$ 2.80	\$ 2.94	\$ 3.09	\$ 3.24		
			1,036.30	13.82	14.51	15.23	16.00	16.80	\$ 76.35	
4	Entrepreneurship and Skill Development	Promotional services Institutions and Programme - States	2568.8	\$ 34.25	\$ 35.96	\$ 37.76	\$ 39.65	\$ 41.63		
		Information, Education and Communication Assistance to Training Institutions	554.50	\$ 7.39	\$ 7.76	\$ 8.15	\$ 8.56	\$ 8.99		
		Rajiv Gandhi Udhaymi Mitra Yojna	65.5	\$ 0.87	\$ 0.92	\$ 0.96	\$ 1.01	\$ 1.06		
			300.00	\$ 4.00	\$ 4.20	\$ 4.41	\$ 4.63	\$ 4.86		
			3,488.80	46.52	48.84	51.29	53.85	56.54	\$ 257.04	
5	Infrastructure Development Programme	Infrastructure Development and Capacity Building - Cluster Development Scheme	8,017.00							
		Establishment of New Technology centers	2,000.00							
		Infrastructure Development and Capacity Building – EAP Component	4,000.00							
			14,017.00							
6	Research and Evaluation Studies	Database Research Evaluation and Other Office Support Programme	272.5	\$ 3.63	\$ 3.82	\$ 4.01	\$ 4.21	\$ 4.42		
		Survey, Studies and Policy Research	12.6	\$ 0.17	\$ 0.18	\$ 0.19	\$ 0.19	\$ 0.20		
			285.1	3.80	3.99	4.19	4.40	4.62	\$ 21.00	
	MoMSME Schemes								\$ 989.62	
	Federal Funding Gap		\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 60.00	
	Program Boundary Total								\$ 1,049.62	
	PforR Share of Total								48%	
		27,449.20								

2.3 Geographic Scope of the Program:

The program will be implemented in 5 selected states. The five states have been identified and agreed with the MoMSME as focus states for the RAMP program based on commitment to improving the business environment demonstrated by improvement in rankings of a national Ease of Doing Business Index implemented by the NITI Aayog; presence of a critical mass of MSMEs in the state; commitment to carrying out a state-level diagnostic exercise and developing a state-level strategic plan that commits financing to be converged from other relevant schemes and programs; and commitment of state share of financing for the program. These states account for approximately 54% of all registered MSMEs nationally as per registration data available with MoMSME. The selected states are Punjab, Rajasthan, Gujarat, Maharashtra and Tamil Nadu.

Support to states will focus on the following three areas:

- Developing and implementing evidence-based MSME-support strategic plans
- Building institutional capacity to better implement MSME support program and
- Scaling up the provision of quality MSME support services and access to credit to a larger pool of firms, with an increased focus on women-owned enterprises

3. Environmental and Social Systems Assessment (ESSA)

3.1 Introduction to ESSA

For each proposed PforR operation, the World Bank assesses, at the Program level, the potential environmental and Social (E&S) effects of the PforR, including direct, indirect, induced, and cumulative effects as relevant; the borrower's capacity in terms of the legal framework, regulatory authority, organizational capacity, and performance to manage those effects; and the likelihood that the proposed operation achieves its E&S objectives.

The ESSA provides a comprehensive review of relevant government systems and procedures that address environmental and social issues associated with the Program. The ESSA describes the extent to which the applicable government environmental and social policies, legislations, program procedures and institutional systems are consistent with the six 'core principles' of OP/BP 9.00 and recommends actions to address the gaps and to enhance performance during Program implementation. The core principles are:

- a. Promote environmental and social sustainability in the Program design; avoid, minimize, or mitigate adverse impacts, and promote informed decision-making relating to the Program's environmental and social impacts;
- b. Avoid, minimize, or mitigate adverse impacts on natural habitats and physical cultural resources resulting from the Program;
- c. Protect public and worker safety against the potential risks associated with: (i) construction and/or operations of facilities or other operational practices under the Program; (ii) exposure to toxic chemicals, hazardous wastes, and other dangerous materials under the Program; and, (iii) reconstruction or rehabilitation of infrastructure located in areas prone to natural hazards;
- d. Manage land acquisition and loss of access to natural resources in a way that avoids or minimizes displacement, and assist the affected people in improving, or at the minimum restoring, their livelihoods and living standards;
- e. Give due consideration to the cultural appropriateness of, and equitable access to, Program benefits, giving special attention to the rights and interests of the Indigenous Peoples and to the needs or concerns of vulnerable groups;
- f. Avoid exacerbating social conflict, especially in fragile states, post-conflict areas, or areas subject to territorial disputes.

Specific objectives of ESSA can be listed as (i) to identify the potential environmental and social impacts/risks applicable to the Program interventions, (ii) to review the policy and legal framework related to management of environmental and social impacts of the Program interventions, (iii) to assess the institutional capacity for environmental and social impact management within the Program system, (iv) to assess the Program system performance with respect to the core principles of the PforR instrument and identify gaps in the Program's performance, (v) to include assessment of M&E systems for environment and social issues, and (vi) to describe actions to fill the gaps that will input into the Operation Action Plan in order to strengthen the Program's performance with respect to the core principles of the PforR instrument.

3.2 Methodology Adopted for ESSA

ESSA refers both to the process for evaluating the acceptability of a borrower's system for managing the Program's E&S risks in the particular operational context, and to the final report that is an output of that process. The ESSA process is a multistep methodology in which the World Bank team analyzes the E&S effects, including indirect and cumulative effects, of activities associated with the defined Program; analyzes the borrower's systems for managing the identified E&S effects, including reviewing practices and the performance track record; compares the borrower's systems - laws, regulations, standards, procedures, and implementation performance against the core principles and key planning elements to identify any significant differences between them that could affect Program performance; and recommends measures to address capacity and performance on policy issues and specific operational aspects

relevant to managing the Program risks such as staff training, implementing institutional capacity building programs, developing and adopting internal operational guidelines.

The World Bank ESSA team and the borrower worked closely to identify and consider the range of E&S effects that may be relevant to the Program. The PforR approach distinguishes specific roles and responsibilities regarding major steps and tasks at the various phases of the program cycle.

The World Bank team prepared this ESSA report that provides an overview and analysis of the Gol's as well as five state government's policies and regulatory frameworks for the environmental and social aspects of the participating MSME units/clusters. The ESSA discusses relevant environmental and social national legislations for the MSME sector. Apart from the national legislations, there are a number of state level environment regulations which are also considered prior to implementing activities in any state.

Equally, during the implementation of this project, the national and state governments may enact other environment related legislation, therefore it would also be important to track those and refer to the National and State environment and pollution control departments and agencies during implementation. Further, the ESSA specifically evaluates modalities at the National and State level to help women owned MSMEs access credit, enhance business development skills, participate in trainings and networks/platforms to aid the sustainability of their business and growth. The ESSA also focuses on labor and safety standards as well as inclusionary and self-employment promotion strategies adopted by states.

3.3 Consultations and Disclosure

The World Bank ESSA team consulted the designated personnel in the MoMSME and state nodal agencies (Punjab E&S representative as a strategic and representative example) to assess the level of environmental regulatory compliance among the MSME units and the track record that supports compliance. If there are instances of non-compliance, the consultations also sought to identify these and assess what actions were taken to address such non-compliances. Since this PforR is sector agnostic but the environment and social risks may vary significantly for different states and sectors, the consultations sought to get a sense of the type of industries/clusters that the state would encourage or recommend to participate in the PforR project and the environmental and social challenges, concerns and risks associated by these industries. The consultation enquiries included the issues related to the capacity of the industries/industry associations or cluster associations to address these challenges, concerns and risks.

It was relevant to note that among the different sectors/clusters identified in Punjab, there was one which had minimal air, water, solid waste or noise issues in their operations. In contrast, operations in another sector/cluster involved generation of hazardous solid waste which is disposed in government designated disposal sites and thereafter, these wastes are collected and appropriately managed by the government agencies. This industrial cluster also has a green belt around the cluster to prevent any potential impacts on neighboring communities. Yet another cluster reported that there are wastewater discharges as part of their processes but there are operational CETPs to manage these discharges while CETPs are under construction in some other clusters. It is understandable that this disparity of air emissions, wastewater discharges, solid waste and even hazardous waste generation will depend on the industry type, the processes involved to manufacture the products and the scale of operations. However, it was learnt from the consultations that government officials are strict while conducting their compliance inspections and in general, the industries comply with the applicable environmental regulations. It was also learnt that regulatory compliance in all respects is a prerequisite to be a beneficiary for any government scheme, therefore, all support to

MSMEs under this Program will only involve registered and compliant industries. It may also be noted that since the scale of MSMEs is not large and ranges from micro to medium enterprises, the cumulative potential adverse environmental impacts are also relatively small and therefore, these can be managed adequately through enhanced awareness, capacity building, hand holding, technology upgradation, increased access to finance and markets and also through incentives for enhanced environmental performance which are directly linked to business growth.

4. Institutional Assessment

The RAMP Program implementation will require a Memorandum of Understanding (MoU) signed between the MoMSME, the states that are part of the RAMP Program and DFS, RBI and the CGTMSE at SIDBI, by Program effectiveness date. The MoU will highlight the roles and responsibilities of all parties. It will also include Program implementation arrangements and the results and DLIs that are to be achieved. In addition, a Steering Committee chaired by the Secretary, MoMSME will be established. Members of the committee will include representatives from the five states as well as the MDAs participating in the Program (DFS, RBI, CGTMSE at SIDBI). The Committee will be responsible for providing oversight, strategic guidance, and policy direction for all activities under the RAMP Program. The Committee will meet quarterly or more frequently as required. PforR also requires establishing a Project Implementation Unit (PIU) at the MoMSME. The PIU will be responsible for monitoring and implementing the program. The PIU will include specialized technical personnel, as well as a M&E specialist, Gender Specialist and Environment Specialist. The PIU will prepare progress reports based on inputs from the respective component managers (from within the MoMSME, CGTMSE at SIDBI, DFS and RBI), as well as from state PIUs. Financial reports will be prepared on a monthly basis. PIUs will also be formed in each of the five participated states. The state PIUs will be responsible for preparation and implementation of the SIPs and for providing inputs to the National PIU.

MoMSME has a department and staff working on Environmental issues related to MSME sector and also the states has environmental nodal officers. The roles of the different institutions that will be involved in this project are well defined and they have extensive experience to deliver their respective roles. According to national legislations, the MoMSME is conducting a simple due diligence for checking if the participating MSMEs has 'consent to establish' and 'consent to operate'. In terms of the enforcement of the regulatory guidelines, the consultations with government officials indicates that enforcement is strict and under the schemes supported by this project, non-compliant industries are pre-screened and those that later become non-compliant during the roll out of the schemes are cautioned before the support to them is withdrawn. In addition, capacity building and institutional strengthening is incorporated into the design of the PforR Program, its Results Framework, and the DLIs. It is a core focus of Results Area 1. While the project will be strengthening institutional arrangements for enhancing the Government's MCRRP program, a '*Strategy to Strengthen Environment and Social Management*' will also be developed as a result of this ESSA. The Strategy will include capacity building strategies and actions both for MoMSME and states specifically for environment and social management aspects. The '*Strategy to Strengthen Environment and Social Management*' document which will be developed by MoMSME before Project Effectiveness date will identify the staff hiring needs, training plans, E&S due diligence criteria and M&E arrangements. In addition to E&S awareness raising and due-diligence improvement aspects, the '*Strategy to Strengthen Environment and Social Management*' and the project's operational manual will provide guidance regarding capacity building requirements for enhancing greening and social inclusion aspects of the proposed PforR.

5. Legal and regulatory framework applicable to the program

Micro, small, and medium-sized enterprises (MSMEs) are amongst the most important sectors of India's economy. Owing to their labour intensive operations, they provide employment opportunity for millions of individuals and have contributed largely towards economic development of the nation.

Although the scales of operations are small in nature, the MSME sector primarily has industrial operations which could lead to adverse environmental impact due to the sheer number of units. Such impacts are especially reflected in resource and emission intensive sectors. High shop floor pollution, occupational health hazards, hazardous waste generation, toxic emissions and effluent discharge, low energy efficiency, polluting processes, etc. are some key environmental issues of the MSME sector.

Social issues in Indian SME sector pertaining to use of child or forced labour also exists in small measure. Exploitation of workforce vis-à-vis payments and work hour structure continues to prevail in some units within the MSME sector.

While their regulatory compliances have been less than desirable in the past, there have been considerable efforts to mainstream MSME compliances through various initiatives led by Central and State Governments; banks and FIs. The efforts in the recent past to improve regulatory compliances and environmental management at MSMEs include:

- Sensitization of MSMEs about environmental impacts of industries including public health and safety issues.
- Awareness building on environmental regulatory obligations, and compliance requirements
- Labour laws and environment, health and safety aspects and the importance in MSME operations
- Potential and feasibility of Combined Effluent Treatment Plants (CETPs) facilities to address economies of scale
- Adoption of cleaner production methods including integration of Energy Efficiency and lean manufacturing processes and
- Integration of environmental management aspects into credit risk management by the banks and FIs.

Many of the above initiatives were successfully implemented by the banks and FIs – for example, environmental management through credit risk management is effectively addressed through SME Finance and Development Project financed by the World Bank; Resource/Energy Efficiency is promoted through KfW, JICA, and World Bank – GEF projects; etc. Therefore, it is imperative for the financiers to assess E&S risks more effectively, to minimize credit risks.

The ESMF prepared for the World Bank MSME Growth Innovation and Inclusive Finance Project by Small Industries Development Bank of India (SIDBI) has outlined the roles and responsibilities of the MSMEs to address the environmental risks. These include:

- Fully comply with all Central and State or local regulatory requirements
- Mandatory valid Consent to Operate and fully comply with all consent conditions/requirements
- Conduct self-check for regulatory compliance(s) and rectify any lapses
- Share copies of all regulatory compliance and other related documents with relevant government ministries, agencies and departments
- Disclose outstanding issues/show cause notices issued by SPCB with respect to violation of norms and remedial actions initiated thereof, including requirement for implementation of any specific emission reduction or pollution prevention measure(s), if any, stipulated by the State or Central Pollution Control Board etc.

A 2016 publication, under the Project “Scaling up Sustainable Development of MSME Clusters in India” with the financial assistance of the European Union and implemented by the Foundation for MSME Clusters (FMC) along with Global Reporting Initiative (GRI), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), Indian Institute for Corporate Affairs (IICA), Small Industries Development Bank of India (SIDBI) and the United Nations Industrial Development Organization (UNIDO) has highlighted several learnings. These include that there is very low general awareness about the public schemes of assistance among the enterprises; awareness about issues pertaining to energy efficiency, environment and social issues is significantly low and sustainability issues are largely looked upon by the enterprises merely as compliance driven and not that these can also have a business case. The report also highlights that the feedback from the FMC survey clearly indicates that MSMEs also look upon sustainability issues primarily from the aspect of need to comply to statutory regulations entailing a certain element of compulsion. The likely economic benefits of adopting environment-friendly production techniques are hardly understood or appreciated.

The concern of the MSMEs regarding aspects such as energy consumption, environmental impact, over-exploitation of natural resources; and workers’ health and safety and social well-being were gauged in this study. workers’ health, safety, and social well-being emerged as the major concern of MSME owners. Energy efficiency and environmental management emerged as a second priority area for concern.

The study also found that of the 46 clusters surveyed, 20% have suffered employment reversals due to pollution related challenges and the regulatory issues posed by the government. In Tirupur (Tamil Nadu) dyeing cluster, improper effluent treatment technologies in CETPs had led to the closure of enterprises due to non-compliance to pollution control norms. It was reported that the existing regulatory framework adopts a rigid approach that mandates “*Comply or Close Down*” which may give way to a more “*Comply and Benefit*” approach. The study found that in view of these findings of the High Level Committee, a strong case for a serious review of the entire legal structure relating to environmental protection and reduction/elimination of pollution calls for an urgent overhauling of the administrative structure for implementing these laws, rules and regulations. A simple and enforceable legal framework and efficient administrative structure are essential for high level of compliance by all stakeholders, including MSMEs. This however cannot be undertaken effectively without linkages with other public and private sector stakeholders and in particular the development framework.

The recently concluded World Bank ‘Financing Energy Efficiency at MSMEs’ (FEEM) Project has clearly identified that environment and energy best practices in India perceive assessments such as energy audits as a compliance tool rather than an exercise that can result in high and direct benefits. It was found that very few recommendations from energy audits translated into actual investments due to lack of adequate and deep technical know-how, inability to comprehend government schemes and benefit from them, lack of ability and/or willingness to pay for technical advice, limited or no access to external finance, and high transaction costs. The project also found that MSMEs did not have access to business-friendly, timely and adequate finance at competitive rates from financial institutions (FIs). As Energy Efficiency investments (EE) do not generate additional revenue and since the format of the energy audit reports was not amenable to EE being treated as bankable, EE initiatives were not seen in the realm of traditional financing options by the FIs. Due to the semi-formal nature of MSMEs, they often failed to meet the credit norms of FIs. Even where the MSMEs were willing to invest in EE options, it was challenging for them to find appropriate and reliable vendors, those whose products and services were geared for the smaller enterprises. Although the FEEM project classified as Environment Category B at time of appraisal, it did not trigger any social safeguard policies. As part of the capacity building, efforts were made to sensitize the SMEs and energy auditors on energy and environment co-benefits of the project. Further, efforts were made to sensitize FIs to integrate environmental compliance as part of SME loan processing and appraisal.

The ESMF of the MSME Growth Innovation and Inclusive Finance Project has outlined that SIDBI has laid out in its Environment and Social Policy that SIDBI's initiatives in the past and future are aimed to reduce environmental and social risks by promoting:

- Compliance to applicable Indian environmental and labour legislations
- Cleaner production methods
- Energy and water saving methods
- Utilization of appropriate technologies
- No use of child labour and forced labour

As the projects financed by SIDBI are small and medium, it will ensure the above by:

- Capacity building of their staff on environmental and social risk management procedures
- Regular training and awareness of their staff
- Creating awareness for industry borrowers
- Strengthening Environment and Social procedures by integrating E&S consideration in all phases of life cycle.
- Updating Environment and Social Management Framework

The Ministry of Environment, Forests and Climate Change (MoEF&CC), GoI, periodically formulates/updates environmental acts, which further supplemented by rules and regulations. Central Pollution Control Board (CPCB) acts as the central agency for overall coordination with state agencies, State Pollution Control Boards (SPCBs), are mandated to enforce provisions of the rules. SPCB however, have been vested with authority to make those rules more stringent as per the requirement of the state.

Regulatory requirements vis-à-vis social issues are governed by various acts, rules and regulations, prominent of which is Factories Act, 1948 and subsequent amendments. These detail various measures to be taken by any industry operator for health and safety of the workers. Issues of use of child labour, forced labour, compensation, working hours, right to form associations, etc. have been addressed by the Indian government under corresponding acts and rules listed in the following section.

Indian constitution provides the basic principles of environment protection and preservation through Articles 48A and 51A (g), included during 42nd amendment in 1976. These articles provide that the State shall endeavour to protect and improve the environment and to safeguard the forests and wildlife of the country (Article 48A). Every citizen of India has a duty to protect and improve the natural environment and to have compassion for living creatures [Article 51A (g)].

Based on above principles, Government of India, has laid down various Acts and Rules to ensure environmental perseverance and protection. The relevant Indian Environmental and social laws applicable to SMEs are listed below.

5.1 Environmental and Social Laws, Regulations and Policies:

- National Environment Policy, 2006
- Environment (Protection) Act, 1986 (as amended in 1991) and Environment (Protection) Rules, 1986
- Environmental Impact Assessment Notification, 2006 and subsequent amendments
- Water (Prevention and Control of Pollution) Act, 1974 (as amended in 1988) & Water (Prevention and Control of Pollution) Rules, 1975 (as amended in 2011)
- Water Cess (Prevention and Control of Pollution) Act, 1977 (as amended in 1992) & Water Cess (Prevention and Control of Pollution) Rules, 1978.

- Air (Prevention and Control of Pollution) Act, 1981 (as amended in 1987) and Air (Prevention and Control of Pollution) Rules, 1982
- Noise Pollution (Regulation and Control) (Amendment) Rules, 2000
- Municipal Solid Wastes (Management & Handling) Rules, 2000
- The e-waste Management (Management & Handling) Rules 2011
- Bio-Medical Waste (Management and Handling) Rules, 1998
- Hazardous Wastes(Management, Handling and Transboundary Movement) Rules, 2008
- The Forest Conservation Act, 1980 (as amended in 1988).
- The Wildlife Protection Act, 1972 (amended in 2006)
- Coastal Regulation Zone (CRZ) Notification, 2011 and subsequent amendments

Apart from these, there are guidelines:

- CPCB & SPCBs Guidelines for Classification of Industries in to Red, Organic and Green Category.
- CPCB & SPCBs Standards for Emissions or Discharge of Environmental Pollutants from Various Industries.
- Eco-sensitive Zones and Protected Area declared under Environmental (Protection) Act 1986.

5.2 Health & Safety Regulations:

- The National Environment Tribunal Act, 1995
- The National Environment Appellate Authority Act, 1997
- Factories Act, 1948, Factories Rules, Factories (Amendment) Act, 1987 and Model Rules
- Manufacture, Storage and Import of Hazardous Chemical (MSIHC) Rules, 1989 and subsequent amendments
- Chemical Accident (Emergency Planning, Preparedness and Response) Rules, 1996
- Public Liability Insurance Act, 1991 amended in 1992 and public liability Insurance Rules 1991 amended in 1993
- The Biological Diversity Act, 2002 and Biological diversity rules 2004
- The Insecticides Act, 1968 and the Insecticide Rules, 1971.
- National Green Tribunal Act, 2010 (No. 19 of 2010)

5.3 Social Laws:

- Child Labour (Prohibition and Regulation) Act, 1986
- Bonded Labour System (Abolition) Act, 1976
- Minimum Wages Act, 1948 step and they will not know about the O
- Workmen's Compensation (Amendment) Act 2009
- The Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act (RFCTLARR), 2013
- The Payment of Wages Act, 1936
- The Maternity Benefit (amendment) Act, 2017
- The Payment of Gratuity Act, 1972
- The ESI (Employee state insurance) Act, 1948
- The Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013
- Building & Other Construction workers (Regulation of Employment & Condition of Service) Act, 1996
- The Scheduled Tribes and other Traditional Forest Dwellers (Recognition of Forest Rights) Act, 2006
- The Right to Information Act, 2005

5.4 Summary of Potential Environmental Risks:

The Ministry of Environment, Forests and Climate Change (MoEF&CC), Government of India, periodically formulates/update environmental acts, which are further supplemented by rules and regulations. Central Pollution Control Board (CPCB) acts as the central agency for overall coordination with state agencies - State Pollution Control Boards (SPCBs) are mandated to enforce provisions of the rules. SPCBs however, have been vested with authority to make those rules more stringent as per the requirement of the state.

Although the scales of operations in the MSME units are small in nature, the MSME sector also has industrial operations which could lead to adverse environmental impact due to the sheer number of units. This is especially reflected in resource and emission intensive trades such as metal finishing, leather tanning, dry cleaning, printing and dyeing, brewing, food processing, chemical production, etc. High shop floor pollution, occupational health hazards, hazardous waste generation, toxic emissions and effluent discharge, poor energy efficiency, polluting processes, etc. are some key environmental issues of the MSME sector. Although these small individual units may not pose significant environmental risks, these units are often located in clusters and the cumulative emissions/ wastewater discharges/ waste generation or noise pollution can pose relatively higher risks unless these environmental risks are addressed at the unit level or at the cluster level. Therefore, it is important to assess the cluster level environmental risks and strengthen the required systems to address these risks. The attached environmental due diligence form ([Annex 2](#)) as a part of the '*Strategy to Strengthen Environment and Social Management*' to be developed by MoMSME may be used by the industries to assess the applicability and check their compliance status with respect to the different environmental parameters. Industries can first assess which of the different parameters apply to their industry and then check if they possess the valid permits/licenses/certificates to meet compliance.

The ESSA team is not considering the exclusion of "Red category" sectors as it is felt that the greening and gender inclusions have huge potential for improved E&S in these sectors. However, the World Bank group lists certain activities and sectors as part of its "Exclusion list" and these would also apply for the RAMP Program. [Annex 2](#) presents the environmental due diligence form and the activities and sectors which are ineligible for financing supported under this Program.

To assess the potential environmental impact of industries and harmonize the 'Criteria of categorization' of industries, directives were issued by (CPCB) under Section 18(1)(b) of the Water (Prevention & Control of Pollution), Act, 1974 to all SPCBs/PCCs to maintain uniformity in categorization of industries as red, green and orange as per list finalized by CPCB.

The process of categorization was earlier primarily based on the size of the industries and consumption of resources. There was demand from the SPCBs/PCCs and industrial associations for categorization of the industrial sectors in a more transparent manner. Accordingly, a 'Working Group' was formed in 2015 comprising of the members from CPCB and other State pollution boards was constituted to revisit the criteria of categorization of industries and recommend measures for making the system transparent and rational.

The Working Group developed the criteria of categorization of industrial sectors based on the Pollution Index which is a function of the emissions (air pollutants), effluents (water pollutants), hazardous wastes generated and consumption of resources. The Pollution Index (PI) of any industrial sector is a number from 0 to 100 and the increasing value of PI denotes the increasing degree of pollution load from the industrial sector. The CPCB, SPCBs and MoEFCC finalized the following criteria on 'Range of Pollution Index' for the purpose of categorization of industrial sectors.

The composite score and the weightages considered for the categorization are outlined below:

Criteria assigned for PI Score	Marks
Air Pollution Score based on parameters namely PM, CO, NOx, SOx, HMs, Benzene, Ammonia and other toxic parameters relevant to the industry.	40 Marks
Water Pollution Score based on parameters namely pH, TSS, NH3-N, BOD, Phenol and other toxic pollutants relevant to the industry.	40 Marks
Hazardous wastes (landfillable, incinerable, recyclable) as generated by the industry.	20 Marks
<p><i>Note:</i></p> <ul style="list-style-type: none"> Parameters to be decided on the basis of the nature of the wastes generating from the industrial sector. Industries having only either water pollution or air pollution, the score will be normalized with respect to 100. 	

The final categorization was done in consultation with MoEFCC and CPCB in 2016 and the Range of Pollution Index for the purpose of categorization of industrial sectors were suggested. The final categorization is as follows:

Table4: Categorization of Industries

Category of Industrial Sector	Categorization prior to 2016	Categorization post 2016
Red	85	60
Orange	73	83
Green	86	63
White	---	36
Total	244	242

In the new categorization, some of the industrial sectors have been either deleted due to duplication or merged with similar type of sectors on account of same. Similarly, some of the industrial sectors are split into more sectors on account of variation in the raw materials/manufacturing process. As a result, the final totals of the existing and proposed categorization are different.

While their regulatory compliances have been less than desirable in the past, there have been considerable efforts to mainstream MSME compliances through various initiatives led by Central and State Governments, and banks and financial institutions. The efforts in the recent past to improve regulatory compliances and environmental management at MSMEs include:

- Sensitization of MSMEs about environmental impacts of industries including public health & safety issues.
- Awareness building environmental regulatory obligations, and compliance requirements
- Labour laws and environment, health and safety aspects and the importance in MSME operations
- Combined effluent treatment facilities to address economies of scale
- Adoption of cleaner production methods including integration of Energy Efficiency and lean manufacturing processes and
- Integration of environmental management aspects into credit risk management by the banks and FIs.

All PforR operations 'Operate within an adequate legal and regulatory framework to guide environmental and social impact assessment at the Program level'. This section provides an overview of GoI and regulatory framework for the environmental and social aspects of the MSME sector. The relevant environmental national legislation for the MSME sector is presented the table attached as [2](#). Apart from the national legislation discussed below, there are a number

of state level environment regulations which would also need to be considered prior to implementing activities in any state. Equally, during the implementation of this project, the national and state governments may enact other environment related legislation, therefore it would also be important to track and refer to the National and State environment and pollution control departments and agencies during implementation.

5.5. Summary of Potential Social Risks

The proposed Result Areas of the Program do not require significant land and hence no risks pertaining to land acquisition and/or resettlement are perceived during the preparation phase. At the state-level, state strategic investment plans might include supporting the preparation of investment plans (SIPs) which may include upgradation of common facility centers(CFCs). The E&S screening checklist and the '*Strategy to Strengthen Environment and Social Management*' to be prepared will include screening provisions on identification of issues related to land acquisition and resettlement.

Only few laws are applicable to enterprises of all sizes such as the Minimum Wages Act of 1948. As far as legal registration of manufacturing firms is concerned, the employment threshold of ten is a major marking point in the sense that all those employing ten or more workers and using electric power (20 or more if power is not used) are required to register under the Factories Act of 1948. As for the formation of trade unions, the minimum requirement is the consent of seven regular employees. The labor laws that constitute a cost, in addition to minimum wages, to the employer are: contribution to employees' provident fund (EPF), payment of gratuity and payment of retrenchment compensation. All these are, however, applicable to units above certain threshold levels. Similarly, the main business law that constitutes a cost is payment of income tax. Other business laws, such as payment of value added tax (VAT), are not a direct cost to the enterprises since they have to be collected from the purchaser of goods and handed over to the government. Non-compliance to different labor laws and business regulations is an expected social risk associated with the operation. A 2014 ILO report¹²notes that the phenomenon of "casualization of labor"was widely present across states. The study further found prevailing inter-state variations in the usage of casual labor. More than half of the total workers in Maharashtra (58 per cent) were casual workers, whereas in Tamil Nadu this number was relatively less at 40 per cent. While registration is not mandatory, a large section of the enterprises had one or more registration. The percentage of MSEs without any registration was only one per cent in Maharashtra, while it was 30 per cent in Tamil Nadu and 49 per cent in Odisha. Government inspections of enterprises was common in Maharashtra (94 per cent), although the proportion of MSEs being inspected was relatively less in Tamil Nadu (64per cent).

At the national level, the share of SC-ST ownership has declined over the period, SC-ST enterprises tend to be smaller, more rural than urban, have a greater share of owner-operated (single employee) units. The inter-state variation in share of ST-SC businesses reveals that with the exception of the tribal majority north-eastern states, SC and ST businesses are under-represented as compared to their share in state populations. The sectoral mix varies considerably by rural-urban location as well as by the caste and gender of the owner. The gender-caste overlap indicates that the share of female-owned and female-managed enterprises is significantly greater among SC-ST-owned enterprises, than those owned by Others, and especially by Hindu upper-castes. The majority of the MSME workforce is employed in non-SC-ST owned firms.

¹²Labour Laws and Growth of Micro and Small Enterprises, ILO, 2014

Overall, the ESSA notes that there are clear caste and gender disparities in ownership of registered manufacturing MSMEs. The planned interventions under the operation will need to strengthen institutional capacity at the state-level to improve delivery of targeted training and capacity enhancement skills to SC/ST and women entrepreneurs.

India also exhibits the third highest gender gap in entrepreneurship globally. This can be attributed to the many barriers that women entrepreneurs face both in starting and scaling up a business - access to education and training, legal and cultural barriers and infrastructure-related challenges, among others. But the biggest disadvantage faced by women owned MSMEs is their inability to access capital to meet the growth needs of their business. Credit constraints have been cited as a reason for discontinuing their businesses by 43% of women entrepreneurs, as compared to just 26% of the male entrepreneurs (GEM, 2014). Access to financial resources was observed to be the greatest constraining factor in the entrepreneurial ecosystem for women in India by the Gender GEDI Index (2014) and Women Entrepreneurial Environment Index (WEEI).

6. Assessment of Environment and Social Management Systems

6.1 Assessment of Environment Management Systems

To control and properly manage pollutants, federal, state and local governments have developed environmental regulations that organizations must comply with or face penalties, fines and liability. Facilities often respond to these regulations and problems with successful solutions designed to meet the latest regulations but rarely coordinate their environmental activities into an overall management system. Environmental issues are becoming more complex, and the cost of waste management continues to rise. The traditional way of addressing environmental issues in a reactive, ad-hoc, end-of-pipe manner has proven to be highly inefficient. Increasingly, businesses have realized that environmental problems would be better managed in a systematic way.

Many environmental laws have been enacted along with the creation of regulatory agencies to implement these laws. However, the command and control (C&C) approach which represents the traditional form of governance largely adopted in India has failed to reduce industrial pollution. With the spate of industrial accidents in recent years, investor scrutiny is getting increasingly focused on environmental risk liability. Customers are also showing higher levels of loyalty to companies which are environmentally conscious.

Environmental reporting by Indian industry lags significantly behind those found in the developed countries except for a few companies. Environmental reporting in India is still in its infancy. Although the environmental legislation, is adequate, the reasons for inadequate environmental disclosure is possibly due to insufficient procedures applied to Indian companies by stakeholders, environmental groups, the general public and importantly the government agencies. To motivate the companies to adopt meaningful environmental reporting, rewards for good quality of environmental reporting may be instituted, similar to the rewards for good environmental performance. Improving the E&S reporting systems will be a part of the '*Strategy to Strengthen Environment and Social Management*' to be prepared by MoMSME as a part of this PforR.

6.1.1 Environmental management systems at the National Level

The CPCB lays out the national level guidelines for environmental management and the states follow the CPCB guidelines for environmental management in the state. The State Pollution Control Boards (SPCBs) are the nodal agencies in the state to enforce the compliance with the CPCB guidelines and also define the State specific guidelines for each industry category. Several resolutions were made during National Level Conferences held in 2015 and it was decided that SPCBs/PCCs may issue consent to the industries as follows - 5 years for Red category of industries, 10

years for Orange category, 15 years for Green category industries and no consent would be required for non-polluting industries. Further, it was also decided that no Red category industry will be permitted to establish in eco-sensitive areas and protected areas.

For the industrial sectors which do not fall under any of the above categories, decision with regard to its categorization will be taken at the level of concerned SPCB/PCC by a committee headed by the Member Secretary, SPCB/PCC and comprising of two senior cadre Engineers/ Scientists of the SPCB/ PCC in accordance with the scoring-criteria specified in this document.

The SPCBs regularly monitor and inspect the industries to check for compliance and issue notices for non-compliance.

6.1.2 Potential Environmental Opportunities

Voluntary monitoring and compliance by industries needs to be strengthened with industry associations and cluster management organizations. There is a need to put in place disclosure mechanism for the adherence to responsibility practices. These business responsibility practices, and disclosure norms should be finalized only after wide-ranging consultations within the respective industry associations. The associations should take full responsibility to ensure that the monitoring and evaluation mechanisms function satisfactorily. The monitoring should be done not only for the individual enterprises but also for the cluster as a whole so that the concept of joint and shared responsibility is achieved. The involvement of local communities and media will further ensure the same.

To catalyze momentum for greener production, collaboration and convergence is essential. Industry and government with the different institutional agencies and bodies to need to collaborate and take concrete steps to implement identified sub-projects. Convergence involves the package of services or support under a single initiative that targets a sector or cluster. Clusters of similar enterprises located in close proximity in geographical areas provide a unique opportunity to facilitate convergence and coordination among the stakeholders and some may also require capacity building.

The way forward would include mapping and selection of MSME clusters for special interventions; setting up platforms for Government-Industry consultations and collaboration; reform government’s environmental regulatory mechanisms and promoting market-based instruments. These can be integrated into the SIPs to be prepared. The draft National Resource Efficiency Policy, 2019¹³ needs to be implemented urgently to provide a structure and implementation target for recycling and resource consumption.

A few green potential production initiatives and the related environmental opportunities and benefits are outlined in the table below:

Greening Aspects	Initiatives	Benefits
Procurement	Encourage vendors to adopt green supply chains including green transport - give preference to local vendors to reduce ‘embedded energy’ in products.	MSMEs can position themselves as ‘proactively green’ so that customers and consumers can make informed choices to buy from such MSMEs.
Process	Initiatives to adopt: <ul style="list-style-type: none"> • Clean energy use – Piped gas, solar energy etc. • Waste heat recovery 	<ul style="list-style-type: none"> • Clean energy will reduce compliance related emissions and improve workplace conditions and environment • Waste heat recovery will reduce energy costs

¹³<http://moef.gov.in/wp-content/uploads/2019/07/Draft-National-Resourc.pdf>

Greening Aspects	Initiatives	Benefits
	<ul style="list-style-type: none"> Energy Efficiency (EE) Enhanced environmental performance 	<ul style="list-style-type: none"> Energy audits will help assess EE potential Cleaner workplace and enhanced OHS for worker health and improved cluster and community environment
Packaging	Use of recyclable/biodegradable materials	Green packaging demonstrates commitment towards greening and can also create opportunities for recovery of packaging costs
Delivery to markets	Use only vehicles complying with BS VI, EVs, and if feasible non-motorized vehicles	Lower environmental footprints of products can position MSME as 'environmentally conscious' therefore appeal to premium customers/markets.
Practice 4 Rs	<ul style="list-style-type: none"> <u>Reduce</u>: Assess process for resource efficiency, reduce waste <u>Recover</u>: Assess potential to recover the process wastes for potential reuse or channelize to proper waste recyclers <u>Reuse</u>: Assess potential to reuse waste (sell to other MSME or create new MSMEs) to make products from wastes <u>Recycle</u>: Develop or integrate with existing systems for enhanced recycling 	Reduced waste - cost savings; reduced waste disposal volumes – enhanced profitability and enhanced positioning as green MSME which can appeal to conscious customers and provide access to premium markets. Sell waste – enhanced profitability. These initiatives have the potential for ripple effect for other MSME units thereby be perceived as a market leader.

The Bureau of Energy Efficiency(BEE) has prepared the list below outlining the sector-wise EE technologies and the approximate energy saving potential in each sector.

Table 5: Energy efficient technologies and practices and energy saving potential

Sector	Sr. No.	Recommendation (Efficient Technology/ Retrofit/ Operating Practice)	Approximate energy saving potential (%)
Building-Hotel, Hospitals	1	Energy efficient water-cooled system	2%
Building-Hotel, Hospitals	2	EE air cooled chiller with variable speed primary pump	1%
Chemical	3	New Transformer with on load tap changer	1.5-2.5%
Chemical	4	High Efficiency Thermic fluid Pumps	15-20
Chemical	5	Vertical agitator system	15-20%
Chemical	6	Energy efficient gas fired hot air generator system	20-30%
Chemical	7	Thyristor based temperature	11%
Chemical	8	VFD installation at PDC machine	8%
Drug and Pharma	9	LPG fired boiler	30%
Drug and Pharma	10	Automatic oxygen analyser and control system in boiler	5-7%
Drug and Pharma	11	VFD in brine supply pumps	3-5%
Drug and Pharma	12	VFD screw chiller	4%
Auto Components	13	Coil size/design optimization for induction billet heaters	10-25%
Auto Components	14	Efficient Electrical grinders	5-10%
Auto Components	15	Valve based arrangement to reduce power consumption during holding time of HydraulicPower pack in Machining Centers (VMC)	5-10%
Auto Components	16	Efficient IR Heaters for Paint Baking Oven	10-20%

Sector	Sr. No.	Recommendation (Efficient Technology/ Retrofit/ Operating Practice)	Approximate energy saving potential (%)
Auto Components	17	Temperature controller for cooling tower fan	10-25%
Auto Components	18	Steam generator (Higher efficiency)	10-20%
Auto Components	19	Variable Refrigerant volume (VRV) AC system	1.06%
Auto Components	20	Arrest air leakage with increasing piping size	3%
Brass	21	Energy efficient gas fired pit furnace	20-30%
Brass	22	Energy efficient re-heating furnace	10-15%
Bricks	23	Zig-Zag Firing	5-10%
Bricks	24	Induced draft fans in brick kilns	5-7%
Ceramics	25	Low Thermal Mass Cars in Tunnel Kiln for Sanitary wares	30-35%
Ceramics	26	Hot air of cooling zone of tunnel kiln as combustion air /preheating raw material	15-20%
Ceramics	27	Improved Insulation in oil fired kiln	3-5%
Ceramics	28	Use of hot air of cooling zone of tunnel kiln as combustion air /preheating raw material	5-10%
Chemical	29	Energy efficient tray dryer system	30-40%
Chemical	30	Installation of waste heat recovery system in spray dryer	15-20%
Chemical	31	Air cooled condenser	3-5%
Coir	32	Energy efficient chulha	15-20%
Coir	33	Installation of energy efficient chulha	15-20%
Coir	34	Installation of solar water heating system	100%
Cold Storage	35	Air curtains	15-20%
Cold Storage	36	Efficient direct drive compressors and inverter based refrigeration system	10-15%
Cold Storage	37	Installation or effective use of air curtains	2-3%
Dairy	38	Condensate recovery system for boiler	10-15%
Dairy	39	PLC based mechanical type pouch filling machine.	5-8%
Dairy	40	FRP blade for cooling tower	8-10%
Dairy	41	Installation of condensate recovery system for boiler	10-15%
Dairy	42	Replacing metallic blades for cooling tower with FRP blade to save energy.	5-7%
Dairy	43	Improvement in chilled water pipeline insulation to prevent the heat ingress and thus energy loss.	5-10%
Dairy	44	EE pumps	3-5%
Dairy	45	Installation of insulated ice built tank	3-5%
Electroplating	46	Air amplifier gun	10-15%
Electroplating	47	Variable frequency drives	10-25%
Food	48	Energy efficient motors	20-30%
Food	49	Roaster / dryer	10-15%
Food	50	Insulation of roaster / dryer	5-7%
Forging	51	Bearing and belt alignment	10-15%
Forging	52	Coil for Induction billet heaters	10-25%
Forging	53	Special purpose machine	10-15%
Forging	54	Induction Heater	30-40%
Forging	55	Veneering at Heat Treatment furnace	5-7%
Forging	56	Installation of oxygen monitoring and control system in forging furnace	10-15%
Forging	57	Damper Valves	10-15%
Forging	58	Gas fired Automatic Furnace	10-25%

6.1.3 Potential Environmental Benefits

The publication, under the Project “Scaling up Sustainable Development of MSME Clusters in India¹⁴” found that there is a well-established, proven business case for green production systems. Cleaner production, adoption of waste minimization measures, commercial use of industrial wastes, good house-keeping are measures that have the potential to reduce costs of production, increase production efficiencies, improve worker’s health and safety and, more often than not, even improve the quality of the final products and enhance the brand image of the company. However, this positive or forward-looking aspect of potential environmental benefits and sustainable development is yet to be grasped by a large majority of the MSMEs. In view of this, it is felt that there is a need to generate greater awareness amongst MSMEs regarding the economic benefits of good environmental practices so that they come forward more willingly to adopt such measures.

The encouraging finding in the same study outline that 70% entrepreneurs mentioned that they are willing to adopt appropriate measures to address sustainability issues in their businesses if knowledge and handholding is provided.

This Program seeks to provide support to the MSME sector through the government schemes that involve initiatives to promote increased institutional and firm capabilities, market development services and access to finance. There is a stated focus to enhance MSME productivity with a clear direction to achieve this through sustainable greening initiatives. Studies have indicated that increasing number of customers are expressing their preference to transact with companies which are environmentally conscious. Proactive efforts towards environmental compliance and excellence accompanied by transparent voluntary reporting and disclosure can give industries a tangible business edge for growth, access to premium markets and ease of access to finance.

6.1.4 Potential Environmental Impacts

The potential environmental impacts will depend largely on the MSME sectors that are part of this project. Although the individual MSME units are expected to have relatively small environmental impacts due to their size of operations, it is also to be noted that these industries generally do not use the most energy efficient or advanced clean technologies due to various reasons including the challenges related to the awareness of current cutting edge technologies, availability of these technologies for such small scale operations, reluctance of technology vendors to service such small scale operations as the transaction costs are relatively higher for small ticket clients and lack of after sales service and the associated costs and access to finance to procure. Moreover, the management and workers require capacity building and customized training to operate such sophisticated machinery.

6.1.5 Gaps and Risks in the Environmental System

Since MSME financing under the project is not limited to any specific sector, the environmental issues to be encountered are expected to be varied in nature with complexities depending largely upon the specific sector. Generally, MSMEs tend to have a relatively lower level of awareness, capacity and willingness to manage environmental concerns. Investment in pollution prevention and management is often perceived as costly with no financial return. Banks and financial institutions involved in lending to MSMEs need to understand such complexities and assess the risks. To help MoMSME and the participating states in managing environmental risks in financing to MSMEs and to help improve environmental performance of MSMEs, a framework approach is being adopted, encompassing: i) creating awareness and capacity within MoMSME and the participating banks on potential environmental issues related to the subprojects and sectors; ii) development of an environment management

¹⁴<https://fmc.org.in/wp-content/uploads/2012/10/Policy-Paper-SCP-Scheme.pdf>

framework including simple screening and assessment templates to address environmental concerns in their financing operations.

Although the scales of operations are small in nature, the MSME sector also has industrial operations which could lead to adverse environmental impact due to the sheer number of units. Such nature is especially reflected in resource and emission intensive trades such as metal finishing, leather tanning, dry cleaning, printing and dyeing, brewing, food processing, chemical production, etc. High shop floor pollution, occupational health and safety hazards, hazardous waste generation, toxic emissions and effluent discharge, low energy efficiency, polluting processes, etc. are some key environmental issues of MSME sector.

While their regulatory compliances have been less than desirable in the past, there have been considerable efforts over the recent years to mainstream MSME compliances through various initiatives led by Central and State Governments, and banks and financial institutions. The efforts in the recent past to improve regulatory compliances and environmental management at MSMEs include:

- Sensitization of MSMEs about environmental impacts of industries including public health & safety issues
- Awareness building environmental regulatory obligations, and compliance requirements
- Labour laws and environment, health and safety aspects and the importance in MSME operations
- Combined effluent treatment facilities to address economies of scale
- Adoption of cleaner production methods including integration of Energy Efficiency and lean manufacturing processes.
- Integration of environmental management aspects into credit risk management by the banks and FIs.

The national and state governments have well-developed environmental legislation, although the implementation capacity to address the environmental and social challenges of the Program needs to be strengthened. To address this, the ESSA Team feels that there is need to develop a strategy document - '*Strategy to Strengthen Environment and Social Management*'. This strategy document will seek to outline the a) communication, behavior change and capacity building plan around E&S aspects; and b) the risk screening and management mechanism associated with MSME operations at the federal and state levels.

The document will outline the activities, tasks, lead roles and responsibilities of the PIU with the support and guidance of MoMSME and the State nodal agencies. The document will also seek to strengthen the E&S screening and monitoring criteria and outline the training curriculum for nodal E&S officers to assist the industry units understand the importance and benefits of E&S compliance and strive to achieve these, not only to minimize business risks but to also to enhance competitiveness. The proposed communication and capacity building plan will also enable the E&S nodal officers to adopt an alternative approach and serve as facilitators alongside their compliance enforcement roles. This is likely to have positive spillover impacts and improve compliance through collaboration and contribute to institutional strengthening. These training and capacity building initiatives will have defined milestones and timelines along with the necessary resource allocations. The strategy will also incentivize development of consolidated MIS systems disaggregated by gender and social groups across 2 of the 3 recipient states. The strategy document will have provisions to ensure that the small enterprises are not lost in the system and due diligence mechanism will include them. The strategy document will also have a special focus to include action-oriented recommendations on Occupational Health and Safety (OHS) issues to be integrated in the SIPs. The draft strategy document will be prepared before project negotiations with the Department of Economic Affairs, GoI and will be finalized with stakeholder consultations during the first year of the project implementation.

6.2 Assessment of Social Management Systems

6.2.1 Social management aspects and key social concerns:

MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth.

Ownership of MSE Enterprises: Social Category Wise:

There are clear caste and gender disparities in ownership of registered manufacturing MSMEs, where SCs and STs are under-represented compared to their population shares, OBCs are roughly equal to their population share and “Others” and Hindu upper castes (non-SC-ST-OBC Hindus) are over-represented¹⁵. Caste disparities have marginally increased over 2001-2 and 2006-7, whereas gender disparities have marginally decreased. Proportions of SC, ST, OBC and female-ownership are higher in rural compared to urban areas.

At the national level, the socially backward groups owned almost 66.27% of MSMEs¹⁶, though bulk of that can be attributed to OBCs owning in 49.72%. The representation of SC and ST owners in MSME sector was low at 12.45% and 4.10% respectively. In rural areas, almost 73.67% of MSMEs were owned by socially backward groups, of which 51.59% belonged to the OBCs. In urban areas, almost 58.68% belonged to the socially backward groups, of which 47.80% belonged to the OBCs. The analysis of enterprises owned by socially backward groups in each of the three segments of MSME sector reveals that the Micro sector had 66.42% of enterprises owned by socially backward group, whereas Small and Medium sectors had 36.80% and 24.94% of enterprises owned by socially backward groups respectively.

Credit Guarantee Trust Fund for MSEs (CGTMSE): Social aspects

Guarantees are provided for extending collateral free lending to Micro and Small Enterprises through banks and financial institutions (including NBFCs). The Scheme covers collateral free credit facility (term loan and/ or working capital) extended by eligible lending institutions to new and existing micro and small enterprises up to Rs. 200 lakh per borrowing unit. The guarantee cover provided is up to 75% of the credit facility upto Rs. 50 lakh (85% for loans up to Rs. 5 lakh provided to micro enterprises, 80% for MSEs owned / operated by women and all loans to NER) with a uniform guarantee at 75% of the credit exposure above Rs. 50 lakh and up to Rs. 200 lakh. A composite all in Annual Guarantee Fee upto 1.80% p.a. of the credit facility sanctioned is charged, with the minimum Guarantee Fee being 1% p.a.

Scheme for Micro & Small Enterprises Cluster Development Programme (MSE-CDP): Social aspects

The Ministry has adopted the cluster development approach as a key strategy for enhancing the productivity and competitiveness as well as capacity building of Micro and Small Enterprises (MSEs) and their collectives in the country. The objective of the scheme is to support the sustainability and growth of MSEs by addressing common

¹⁵ENTREPRENEURSHIP OR SURVIVAL? CASTE AND GENDER OF SMALL BUSINESS IN INDIA; AshwiniDesphande, 2013

¹⁶MoMSME Annual Report, 2018-2019

issues such as improvement of technology, skills and quality, market access, access to capital etc. The scheme provides funding support for setting up of Common Display Centres (CDC) for Women Entrepreneurs - Association of Women Entrepreneurs.

The key challenges that require 'equitable' solutions

1. **Technology upgradation for competitiveness:** access to technology is being promoted by various schemes and programs. "It is said that Information Communication and Technology (ICT) can play a bigger role for MSMEs as they face stiffer competition from their rival neighboring countries (China, Indonesia, Philippines and Thailand). Hence, the need of the hour is upgradation of technology. For Indian MSME's to become competitive, it has to adopt the best international practices and constantly upgrade its technology."
2. **Access to finance:**
 - a. Financing obstacles affect small firms more than large firms. This exacerbates rural-urban divide (since, rural areas will have smaller enterprises), unless better financing modes are made available for all.
 - b. The lack of collateral for some borrowers and/or clear recourse legislation (e.g. ability to claim collateral) however, can complicate the possibilities to do collateral-based lending (e.g. asset-based, real estate or equipment lending). The linked social implication is that certain social groups might have better access unless financing structures are better designed to avoid exclusion (don't know if it is already happening)
 - c. Access to markets and marketing/export promotion: Women and SC/ST entrepreneurs are likely to have skewed access to markets, both domestic and international, thereby restricting their scalability.
 - d. **Caste:** Several studies find clear and persistent caste and gender disparities in virtually all enterprise characteristics in the registered manufacturing MSME sector.
 - e. **Gender:** Women still represent a clear minority of entrepreneurs nearly everywhere. Furthermore, they generally choose to start and manage firms in different industries than those chosen by men. These industries, primarily retail distribution, education and other service industries, are often perceived as contributing less to economic performance and growth than manufacturing and higher technology activities. Overall, there appear to be market failures and impediments which operate to limit the extent to which women become entrepreneurs and their prospects for success.

6.2.2 Key Social Opportunities

The Program has opportunities to maximize positive social impacts and improve social sustainability of the MSME eco-system in India through adopting the following key interventions:

- Offer non-financial services such as training and mentoring to women and SC/ST entrepreneurs on a continuous basis.
- Engage business correspondents and external facilitators to create awareness on loan offerings and schemes for SC/ST and women entrepreneurs and help with the application processes
- Build partnerships with business/industry associations in providing credit referrals and undertakings, thereby reducing credit risks for lenders
- Use qualitative credit assessment mechanisms as an alternative to traditional appraisal processes in evaluating women-led SMEs and first-generation SC/ST entrepreneurs
- Use technology-based workflow and online credit application for small ticket loans to address manpower constraints
- Conduct gender sensitization programs to avoid biases

6.2.3 Gender Gap Assessment

Barriers faced by women entrepreneurs in scaling up: Gender gaps relevant in the context of the proposed operation:

Access to finance

Based on the 4th MSME Survey Census of Registered and Unregistered MSMEs, 2006 and the 2011-12 report of the Ministry of MSME, there are 321,000 registered and 2.69 million unregistered women owned MSMEs in India. These 3.01 million enterprises were segmented into micro, small, and medium enterprises. The financing demand for each of these comprises of working capital needs, financing of long-term assets, and investment demand. The total combined demand for finance by women owned MSMEs, using 2012 data as a base, is approximately Indian rupees 8.68 trillion (\$158 billion), which includes both debt and equity.

Ninety-four percent of micro, small, and medium enterprises in India operate without formal licenses or registration. Approximately 29 percent belong to the manufacturing sector. MSMEs in the services sector, comprising of the remaining 71 percent and mostly operate in conventional transaction-based industries. There is also a need to address some of the more obvious barriers that prevent women entrepreneurs from approaching financial institutions, such as a lack of women relationship managers and the need for support from a male family member to access credit. Finally, financial institutions should consider options such as advisory desks at selected bank branches to offer information on products and services tailored to women-owned enterprises. Providing non-financial services (NFS) and training, along with access to financial products, will offer holistic growth opportunities to women entrepreneurs. Although the financing needs for women-owned enterprises are not radically different from the needs of male-owned enterprises, the level of financial exclusion is higher due to a combination of factors. Also, the social status of women and prevalent social norms in India influence perceptions of financial institutions and the ability of women entrepreneurs to access finance.

In 2012, the number of microfinance clients in India was 90 million. Of these, nearly 95 percent were women who primarily accessed loans for income-generating activities. Microfinance loans for seed capital allow women borrowers build credit habits and become more bankable. Thus, microfinance plays a key role in expanding access to finance for low-income women aspiring to become entrepreneurs.

However, microfinance is effective in serving the needs of tiny enterprises which do not have as much potential to contribute to GDP and employment generation when compared with micro, small, and medium enterprises. MSMEs in India are constrained by microfinance's mono-product environment, singular delivery model, lack of flexibility, and shorter-tenure loans with limited amount of credit. In this environment, microfinance is limited to providing working capital to tiny home-based income generating activities.

Intra-household dynamics

Female entrepreneurship in poor countries can be a critical pathway to development. However, across the world, women are less likely than men to succeed as micro-entrepreneurs: They invest less in their businesses and earn less profit. While research has revealed that this is because of intra-household dynamics, especially relationships with spouses, less is known on how exactly this happens.

A World Bank study uses data from a qualitative study in Accra, Ghana, between January 2016 and June 2017 to show how women's business decisions were influenced by several household-related factors.

One important factor is the desire for their partner to bear responsibility for certain expenses. Since men are expected to meet large and essential needs of the household, women entrepreneurs hide income and savings, and sometimes explicitly limit business growth, as a mark of respect for their husbands who would continue to pay for items like housing, school fees and food. Another factor is the need to provide for the family's daily provisions and long-term security.

To do this, women prioritized savings over investment. In addition, insecurities about their marriage also made them prioritize savings. These findings suggest that it is a mistake to assume that economic decision-making for women is an individual process. Efforts to support women micro-entrepreneurs need to keep in consideration women's responsibilities within their households. For instance, capital subsidy programs, a common policy to support female entrepreneurship, will have different effects on women and will depend on how her business defines her intra-household relationships.

Access to business-development skills (BDS)

Micro entrepreneurs are likely to face a number of constraints that limit their business growth. Among these are: marketing (identifying sources of demand, finding customers, developing business linkages, adapting products and services to meet buyer requirements); input supply, including access to raw materials, supplies, and equipment; technical/production; legal and regulatory compliance and harassment; affordable and accessible transportation; access to business facilities and infrastructure; and human resource development and management problems (Barton 1997). These constraints do not affect men's and women's businesses in the same way, since men-owned and women-owned businesses do not operate in the same sectors or locations, or have equal access, control, and use of the same resources and marketing outlets.

A number of constraints specific to women-owned businesses and business growth, such as their use of informal networks for lack of access to formal channels and the limitations of such networks in increasing production and market opportunities, are cited in the microenterprise literature. Other reasons given for slow or no business growth among women's businesses are the more risk averse nature of women entrepreneurs compared to men due to family welfare priorities as well as women's tendency to diversify rather than specialize to minimize risk (Downing 1990). The main constraints women entrepreneurs face to their business growth continue to be limitations on their access to the public sphere, markets, information, and networks, and their concentration in lower value-added sectors such as food production and sewing. These constraints are linked to the policy, market, and cultural environment in which women micro entrepreneurs navigate rather than some inherent characteristic of women.

Female entrepreneurship policies in India

The **Ministry of Women and Child Development** has several ambitious programs for female self-employment:

Support to Training & Employment Programme for Women (STEP) was launched in 1986 to help groups of vulnerable women to set up their own business to get out of poverty and improve their social status. The first stage of the process is the creation of a Self-Help Group (SHG) that will help women to build self-confidence and give them a first experience of money management by collection of savings and lending to individual members. A business plan is then prepared by a non-government organization (NGO) with a focus on traditional sectors of employment relevant to the specific area. Members of the SHG then receive suitable vocational training, and fixed assets as well as working capital requirements are financed jointly through a government grant and the NGO grant/loan or a bank loan. Government subsidies are then phased out over a period of 5 years with the ultimate goal of self-sufficiency. STEP also provides support services such as health check-ups and childcare for the duration of the project and organizes general awareness programs about nutrition and gender issues.

The National Credit Fund for Women, also known as **Rashtriya Mahila Kosh(RMK)** was set up in 1993 provides access to micro-credit to poor Indian women, by making loans to microfinance institutions (MFI) involved in women empowerment. Non-profit organizations can apply for a loan from RMK, including NGOs, Cooperative societies, Government organizations, or State Women Development Corporations (state-level equivalents of the Ministry of Women & Child Development), provided the organization has sufficient experience in credit management. RMK also finances agricultural vocational trainings through a dozen partner institutions across India.

The **Swayam Sidha Scheme**, also known as Integrated Women Empowerment Programme was launched in 2001 and ended in 2008, its objectives are similar to STEP, except that it put more emphasis on the first stage of STEP. After the creation of the initial Self-Help Groups, the Swayam Sidha Scheme requires the SHGs to federate into Village Societies, including representatives of each SHG and local functionaries. The Village Societies will then federate into Block Societies, (the block being the administrative unit directly under the district) that can ask for registration as non-profit society. The aim is to strengthen the links between women SHGs to make them more powerful. This hierarchical structure is also meant to provide a single channel for the delivery of the various schemes of the Ministry of Women and Child Development.

Besides actions of the Ministry of Women and Child Development, certain schemes of the **Ministry of Micro, Small and Medium Enterprises** (Ministry of MSME) and its Development Commissioner, give preferential treatment to women. This preferential treatment is usually shared with SC/ST categories, North-Eastern states, and sometimes with micro-enterprises (defined in terms of the size of fixed assets). Under the **Prime Minister's Employment Generation Programme(PMEGP)** discussed in Box 2 the share of the government grant in setting up a micro-enterprise rise from 15% to 25% in urban areas and from 25% to 35% in rural areas when the beneficiary is a woman. Additionally, the share of the project cost to be supported by the beneficiary drops from 10% to 5%, the remaining 70% to 60% being covered by a bank loan.

Under the **Micro and Small Enterprises - Cluster Development Programme(MSE – CDP)** created in 2007, clusters with more than 50% of female-owned enterprises benefit from a government grant of 90% for “Soft Interventions” (organization of training sessions and seminars, hiring of business consultants etc.) and for “Hard Interventions” (creation of common facility centres, such as testing centres, warehouses, effluent treatment plant etc.) instead of a government grant of respectively 75% and 70% for low-priority clusters. The government grant is also raised to 80% (instead of 60%) for “Infrastructure Development” (construction of roads, power or water distribution networks etc.) and the minimum threshold to benefit from soft interventions is lowered from 25 to 20 cluster units.

Under the **Credit Guarantee Fund Scheme for Micro and Small Enterprises**, launched in 2000, the guarantee cover for women-owned businesses in case of default is extended to 80% of the bank loan instead of 75%.

The **Trade Related Entrepreneurship Assistance and Development (TREAD) for Women** aims at improving access to credit for female entrepreneurs in non-agricultural activities. The objective is to mobilize the help of local NGOs to formulate business plans and obtain bank loans for one or several female entrepreneurs and provide technical training and business advice. The government grant amounts to 30% of the total project cost, which in the guidelines of TREAD includes not only fixed assets and working capital but also training and consultancy fees and participation in product

6.2.4 Key Social Impacts

The assessment finds an enabling policy and legal framework that will promote: decentralized planning, implementation and monitoring, active participation and safeguarding the interests of vulnerable sections (women, scheduled caste and scheduled tribe communities) be it through targeting or membership in local governance institutions or in community level groups. As a result, adverse social impacts of planned investments are found to be limited at this stage.

However, due to persistent inter-state variations, the urgent need to strengthen last-mile service delivery, and the need to improve oversight of OHS/labor management at the unit/cluster level challenges were observed. However, the impact of the identified social benefits outweighs the program related social risks. Most of the risks are manageable and can be mitigated through localized implementation strategies and better local oversight.

6.2.5 Key Social Risks and Gaps

Land management: The Program does not intend to do any land acquisition or resettlement. Hence, social risks related to land acquisition and/or resettlement are not applicable. Strengthening of cluster facilities proposed are going to be small in nature. The proposed PforR will be supporting mainly the improved mechanisms (including improvements in technical, digital, M&E, institutional aspects) for the preparation of the SIPs. There can be secondary impact during the operationalization of these SIPs which may lead to localized civil works, renovations, etc. Govt's environmental and social legislation is strong enough to manage the risks associated with these secondary impacts. In addition, the Strategy document to be prepared by MoMSME will improve the existing systems as well as outputs of the activities under Results Area 1 and 2.

Risks of exclusion for SC/ST entrepreneurs: Due to pre-existing exclusion experienced by SC/ST communities and first-generation entrepreneurs, the risks of exclusion and program benefits not reaching entrepreneurs from Aspirational districts and/or Schedule V areas persist. Review of program interventions suggests no special measures have been planned to focus on specific needs of tribal groups, and other vulnerable population including scheduled caste population. For equitable benefit sharing and ensuring inclusion of SC and ST, special institutional mechanism and efforts are required to be put in place such as providing handholding support for longer duration compared to other areas. Targeted interventions to reach entrepreneurs from SC/ST communities need to be embedded into the state strategic investment plans.

Labor management and OHS related risks:

Although the micro-enterprises are exempt from many labor and business regulatory laws, small enterprises, especially those with ten or more workers, have to conform to a number of regulations. Although some of the pilot states under the Program have provided exemption from certain approvals of state government for establishment and operation within the state for a period of 3 years which enables the MSMEs to setup their unit and start operations quickly. However, under this Program only those MSMEs will be supported that are already established, registered, operational and compliant with all central and state government legislations including all E&S legislations.

Labor law enforcement in India is carried out both by the central government through the Office of the Chief Labor Commissioner and by the various state governments through their respective labor commissioners. Inspection by the central government officials is confined to central public sector enterprises and large private corporate sector enterprises that do not fit into our category of MSEs (Mukhopadhyay, 2010). State governments are responsible for

enforcements of both central and state labor laws in enterprises that do not come under the purview of the central government inspection and that includes MSEs.

Studies have found that the share of registered units among the total enterprises covered under the Fourth Census of Micro, Small and Medium Enterprises is only six per cent. One main reason is the small size of the enterprises (below ten workers) and the other is the lack of awareness of the registration. Secondary literature also found the time-consuming nature of the process of conforming to a number of business regulatory laws and rules, dominance of micro-enterprises often engaged in simple labor-intensive activities, especially in rural areas as reasons for non-compliance and non-registration of enterprises.

However, for development of the MSME sector a streamlined mechanism of compliance with priority labor laws at the state level and incentivizing registration of small enterprises is important. The Strategy document will also have a special focus related to monitoring the occupational Health and Safety compliance of the MSMEs.

7. Assessment of Program Consistency with Core Principles in the Policy on PforR Financing

Core Principle 1:

Core principle 1 outlines the promotion of environmental and social sustainability in the Program design; avoid, minimize, or mitigate adverse impacts, and promote informed decision-making relating to the Program's environmental and social impacts.

Environmental legislation at the national and state level for the conservation and management of the environment and on pollution management are in place as is the institutional structure for the management of the environment. Therefore, procedures and clearances required for environmental protection are well defined. Existing legislation also help minimize or mitigate possible adverse impacts on the natural habitats, archaeological sites and cultural resources. However, environment specific capacity building activities is presently insufficient and nodal environmental officers are expected to ensure compliance with required environmental standards. Therefore, the existing due diligence mechanism of the MoMSME scheme will be strengthened by introducing a '*Strategy to Strengthen Environment and Social Management*' to the program. The program will also seek to encourage greening initiatives by supporting the adoption of RECP practices by MSMEs. The strategy document to strengthen environment and social management and the project's operational manual will provide the necessary guidance to build capacity and enhance greening initiatives and social inclusion aspects in the Program.

Core Principle 2:

Core principle 2 encourages to avoid, minimize, or mitigate adverse impacts on natural habitats and physical cultural resources resulting from the Program.

Supporting existing MSMEs under Results Area 2 (including ZED, Lean, etc.) are expected to be through small interventions and therefore unlikely to significantly disturb natural habitats or environmentally sensitive zones or require any associated rehabilitation. There are well defined legislation at the national and state level for the conservation, management, impact minimization and mitigation of any environment issue identified and also for pollution management, including an institutional structure defining the authorities in-charge of various activities and conservation areas. Existing legislation and institutional systems also help minimize or mitigate possible adverse impacts on cultural resources.

Core Principle 3:

Core principle 3 instils a strong focus to protect public and worker safety against the potential risks associated with:

- Construction and/or operations of facilities or other operational practices under the Program;
- Exposure to toxic chemicals, hazardous wastes, and other dangerous materials under the Program; and,
- Reconstruction or rehabilitation of infrastructure located in areas prone to natural hazards.

Most envisaged activities are small scale and no large construction activities are foreseen as a part of the program boundary. In case of renovation works (energy efficiency related) under ZED or similar schemes, generation of Asbestos Containing Material (ACM) may also be produced. GoI has strong legislation in place for managing construction site impacts and ACM disposal. The Directorate General Factory Advice Service & Labour Institutes (DGFASLI) under Schedule – XIV: Handling and processing of Asbestos, manufacture of any article of Asbestos and any other process of manufacture or otherwise in which Asbestos is used in any form [Model Factories Rules 120 (MFR 120) under Section 87]¹⁷ has clearly laid out the guidelines related to Asbestos.

Core Principle 4:

Avoid or minimize land acquisition and related adverse impacts: Avoid or minimize displacement, and assist the affected people in improving, or at the minimum restoring, their livelihoods and living standards.

The planned investments under the Program will be restricted to existing land available for Common Facility Centers and MSME clusters. The ESSA does not foresee risks related to land acquisition, loss of livelihoods and/or involuntary resettlement at the preparatory stage. The E&S screening checklist will include a screening criterion on land availability and ownership to rule-out instances of forced acquisition and involuntary resettlement.

Core Principle 5:

Give due consideration to the cultural appropriateness of, and equitable access to, Program benefits, giving special attention to the rights and interests of Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities, and to the needs or concerns of vulnerable groups.

At the national level, the share of SC-ST ownership has declined over the period, SC-ST enterprises tend to be smaller, more rural than urban, have a greater share of owner-operated (single employee) units. The inter-state variation in share of ST-SC businesses reveals that with the exception of the tribal majority north-eastern states, SC and ST businesses are under-represented as compared to their share in state populations. The sectoral mix varies considerably by rural-urban location as well as by the caste and gender of the owner. The gender-caste overlap indicates that the share of female-owned and female-managed enterprises is significantly greater among SC-ST-owned enterprises, than those owned by Others, and especially by Hindu upper-castes. The majority of the MSME workforce is employed in non-SC-ST owned firms.

Overall, the ESSA notes that there are clear caste and gender disparities in ownership of registered manufacturing MSMEs. The planned interventions under the operation will strengthen institutional capacity at the state-level to improve delivery of targeted training, improved access to finance and capacity enhancement skills to SC/ST and women entrepreneurs.

¹⁷<https://dgfasli.gov.in/model-rules-part-ii/handling-and-processing-asbestos-manufacture-any-article-asbestos-and-any-other>

Core Principle 6:

Avoid exacerbating social conflict, especially in fragile states, post-conflict areas, or areas subject to territorial disputes.

RAMP will be supporting existing MSMEs and improvements will be generally environmental neutral or friendly in nature. So minimal risks in terms of conflict were observed. However, there is a risk of fully covering the needs of MSMEs in Aspirational or backward districts, and with the improvements suggested in this ESSA this risk will be avoided. The planned interventions under RAMP will also strengthen access to finance and provision of trainings to SME entrepreneurs on difficult-to-reach districts of the participating states. Planned investments are not foreseen to exacerbate social conflicts in Left-Wing Extremist (LWE) areas.

8 Consultation and Disclosure

Consultations have been conducted both at the national level and at state level (only with Punjab as a strategic sample) as part of Environmental and Social Systems Assessment (ESSA) preparation works. State officials responsible for the CLCS-TUS and CDP programs were consulted to receive information regarding the existing due diligence mechanisms for accepting MSMEs in their respective schemes. During the consultations it was understood that, the government's consent to establishment and consent to operation permits are the most widely and successfully used due diligence documents. State officials also agreed to have a due diligence screening form as a part of the RAMP program which will improve the awareness and monitoring capability of scheme representatives during evaluation and monitoring of the MSME supports.

It was mentioned during the first consultation with the Punjab State nodal counterpart that these clusters do not have any track record of non-compliance regarding environmental or social laws and regulations and have also been selected by the central agencies to receive support for growth. The selection process also considered units and clusters based on several parameters including their environmental and social regulatory compliance.

A second meeting was held with the State counterparts in Punjab and this meeting had a total of 12 participants from the different State offices which demonstrates excellent participation and several participants responded to the questions asked. It was learnt that there are almost no or negligible instances of non-compliances of environmental regulations and we expect to receive a few sample compliance certificates issued by the State Pollution Control Boards (SPCB). The SPCB is apparently quite strict and regularly inspects the units and monitors the environmental performances.

The Mohali metal cluster is very sophisticated and even has a greenbelt. However, other clusters do not have greenbelts but there are opportunities to develop these in adjacent government lands. It was outlined that some of the clusters, such as manufacture of machinery for edible oil extraction from crops, do not require CETPs as their processes do not involve polluting effluents. Other clusters either have operational CETPs or these are being constructed using the grants they have received from the government. The clarity regarding which of these clusters are expecting to construct CETPs was not very clear at the meeting as several participants spoke, however, we expect to have greater clarity on this once we receive the filled-out checklists from each cluster.

The Mohali cluster generates two types of solid waste – hazardous and non-hazardous. The hazardous wastes are disposed in a government designated site and is further managed by the state government. The non-hazardous wastes are disposed for collection and management by the municipal authorities.

The industries do not engage extensively in green initiatives other than some rooftop solar installations. The participants have expressed that the MSMEs would like to pursue Energy Efficiency initiatives but need handholding support for the same.

For Occupational Health and Safety (OHS), the workers in the larger units are registered with Employees' State Insurance (ESI) Hospitals and get their medical checkup and treatments from these hospitals. Currently there is no system in place at the unit level to document accident or incident history.

The data for women owned enterprises is available and will be provided to us in the checklists. However, there are no specific incentives for Women owned enterprises.

The need for Capacity Building was emphasized and this capacity building is required on all aspects including technology, and management of environment and social aspects.

Citizen Engagement and Grievance Redress Mechanism

Grievance Monitoring by MoMSME

The Ministry attends to all the grievances on Centralized Public Grievance Redress and Monitoring System (CPGRAMS). The Ministry has started an MSME internet grievance monitoring system (eSAMADHAAN) to track and monitor other grievances and suggestions received in the Ministry.

MSME SAMADHAAN: To Address Delayed Payment to MSEs

The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 deal with the issues relating to the Delayed Payments to Micro and Small Enterprises (MSEs) by the buyers to the MSE supplier. In the case of delay in payment beyond 45 days, MSEs suppliers may approach the Micro and Small Enterprises Facilitation Council (MSEFC) constituted under the Act in all States/UTs. Under Section 16 of the MSMED Act, delayed payment to supplier units, attracts compound interest with monthly interests at three times of the bank rate notified by the Reserve Bank. To further the objectives of MSMED Act, 2006 Ministry of MSME launched a portal ([http:// samadhaan.msme.gov.in/](http://samadhaan.msme.gov.in/)) on 30th October, 2017. The portal gives information about individual CPSEs/ Central Ministries, State Governments etc. and other buyers regarding the payments pending with them in respect of the MSEs. The Central Ministries/State Govts have been provided with user-ID and password to login and monitor the delayed payment cases in respect of organizations under their jurisdiction. The said portal also facilitates MSEs to file their delayed payments related complaints online. After 15 days of online filing of the case, it is automatically registered with the MSEFC concerned. From the date of launch of MSME SAMADHAAN portal, i.e. 30th October 2017, MSEs have filed 18509 applications related to delayed payments. These cases involve an amount of Rs. 4797.81 Crore. This portal has also helped in getting the delayed payments settled mutually between seller and buyer. 1407 cases of mutual settlements have been done amounting to Rs. 00.53 crore. Applications are getting converted to cases by MSE-Facilitation Councils in States/UTs. 4682 applications have been converted to cases by 11.6.2019. The Portal has empowered the MSEs to file their delayed payments cases directly. This is being monitored by respective Ministries/ CPSEs and State Governments.

MSME-SAMBANDH

The Ministry of Micro, Small and Medium Enterprises notified the Public Procurement Policy for Micro and Small Enterprises which mandates 20% of annual procurement from MSEs including 4% from enterprises owned by SC/ST entrepreneurs by the Central Ministries / Departments and Central Public Sector Enterprises (CPSEs)¹⁸. Amended policy mandates 25% annual procurement from MSEs by Central Ministries/Departments/Public Sector Enterprises (CPSEs) which include 4% from MSEs owned by SC/ST and 3% from MSEs owned by Women entrepreneurs.

For effective implementation and monitoring of the policy, the Ministry launched the Public Procurement Portal titled "MSME-SAMBANDH". The portal would help in monitoring the procurement by Central Government Ministries, Departments and Central Public Sector Enterprises (CPSEs) and would enable them to share the list of required products/services from MSEs. The portal features the following :

- Central Government Ministries, Departments and Central Public Sector Enterprises (CPSEs) have been provided authenticated access in the portal.
- Annual Targets for procurements of the CPSEs will be uploaded on the portal and will be available in public domain.
- Monthly Update of Procurement by CPSEs from MSEs
- Monthly Update of Procurement by CPSEs from MSEs owned by SC/ST
- Reports for monitoring by Heads of Ministries, Departments and CPSEs
- Items purchased by CPSEs - Hyperlinks to CPSEs web page from Sambandh Portal will be available in public domain.
- 161 CPSEs have uploaded their annual procurement target during 2018- 2019. These CPSEs have reported an annual procurement target of Rs. 152068.73 crore. The share of purchases from all MSMEs amounts to Rs. 40463.91 crore (1,26,553 MSEs benefited).

The amount of purchases from SC/ST owned MSEs amounts to Rs.822.75 crore (4,481 MSEs benefited).

The amount of purchases from Women owned MSEs amounts to Rs.231.19 crore (1,369 MSEs benefited).

Consultation and communication strategy would be an important aspect for any of the federal level scheme and it should be effective so that the scheme awareness can reach to all its target beneficiaries. Consultation and communication during project implementation is also required for compliance of the social development principles of inclusiveness, participation, accountability and transparency. A consultation and communication framework for the project has been developed and the following approach shall be adopted to implement it effectively:

- Consultation and communication with clear objective
- Identify stakeholders representing wide range of area (cluster) and diversity (sectors)
- Participatory approach by working closely with stakeholders and the beneficiaries
- Identify key stakeholders' interests and highlighting them
- Integrate verbal, electronic and written consultation mechanisms for effective outreach
- Ensure gender friendly approach

¹⁸The policy has been recently amended vide Gazette notification No. S.O.5670(E). dated 9th November, 2018.

- Maximize transparency

Most important element of the consultation and communication is identification of stakeholders. Hence, stakeholders should be identified at an early stage of the project implementation. Stakeholder identification and analysis shall continue throughout the project cycle and shall remain dynamic. The identification of stakeholders shall include the following:

- Entrepreneurs in the unorganized food processing sector
- Producer groups and other value chain participants
- People likely to be adversely affected directly or indirectly by the project intervention
- Poor, women and vulnerable groups of the society
- Groups of professionals/academicians and institutions and
- Community based organizations and community leaders

Proposed Consultation and Communication Strategy for RAMP

Activity	Responsibility	Method/Tools	Outcome
Preparatory Stage			
Disclosure of the ESSA	World Bank, MoMSME and state level Nodal Agencies	Uploading in World Bank, MoMSME and Nodal Agencies website Display of summary in vernacular language in public places	Community especially potential beneficiaries and stakeholders become aware about the ESSA recommendations
Preparation of Information, Education and Communication (IEC) materials for awareness campaign rolled-out through State Investment Plans, with a special focus on Schedule V areas and Aspirational Districts.	MoMSME and Nodal Agencies	By engaging an experienced and expert agency/person by MoMSME Nodal Agencies	IEC materials will be utilized in the initial awareness campaign about the scheme
Awareness campaign for entrepreneurs in unorganized sectors and value chain participants' level to disseminate information about RAMP and its coverage to benefits and proposed activities.	Nodal agencies department at district level & their field officials and DIC	Distribution/display/organization of handouts, posters, puppet shows, awareness camps Use of electronic media and social media through internet and television for awareness. Collaboration with NGOs and other institution working in the sector for communicating.	Awareness about the project initiative. Target groups are encouraged to participate.
Consultation with potential beneficiaries and other stakeholder on the provisions of the central schemes.	Nodal agencies departments at district level & their field officials and DIC	FGDs, Small Group Meetings, interactive workshops and public consultation meetings Use of social media/internet for effective planning for consultation meetings and workshops. Provision of women officials in the consultation team for ensuring women participation.	Increased awareness about the project initiative, Issues and suggestions obtained Target groups are encouraged to participate

Activity	Responsibility	Method/Tools	Outcome
Implementation and Operation Stage			
The State Investment Plans will focus on preparation of IEC materials on good business practices, benefit of utilization of storage facilities at warehouses, financial and credit literacy campaign, access to market and new technology, etc.	MoMSME and Nodal Agencies	By engaging an experienced and expert agency/person by MoMSME /Nodal Agencies	IEC materials will be utilized in the initial awareness campaign
Strengthening of feedback/Grievance Redressal Mechanism (GRM) at the state and district-level with a specific focus on Schedule V areas and aspirational districts.	MoMSME and Nodal Agencies	The SIPs will include interventions to localize the feedback mechanism at the state-level as well capacity measures to improve the functions of DICs.	Build effective information flows targeting first-generation entrepreneurs from SC/ST communities.
Disclosure of selected list of beneficiaries and stakeholders for various services/benefits of the project	MoMSME, Nodal Agencies & their district level department and DIC	Uploading of list in MoMSME, Nodal Agencies web portal Display of list of production and enterprise clusters in vernacular language GP, Block, Circle, Sub-Division and DC's offices.	Transparency ensured Opportunity given for any grievance on selection.
Consultation with selected beneficiaries and stakeholders for the Champions portal, Citizen Feedback System (CFS), Gender Action Plan (GAP), and Grievance Redressal Mechanism (GRM)	MoMSME Nodal Agencies & their district level department and DIC	FGDs, Small Group Meetings, interactive workshops and public consultation meetings	Selected beneficiaries and stakeholders become aware about the mechanism to ensure social development.
Community consultations for financial and credit literacy	MoMSME, Nodal Agencies & their district level departments and finical institutions	FGDs, Small Group Meetings, interactive workshops, film shows and public consultation meetings	Better financial decisions and management Access to credit facility
Disclosure of quarterly reports of social audit	Nodal Agencies and their social unit/cell	Uploading of list in MoMSME, Nodal Agencies web portal Display in office notice board of concerned institutions at district and divisional level for one month and available to public on demand at any time, if sought for	Transparency ensured Opportunity given for any suggestions/ grievance
Completion Stage			

Activity	Responsibility	Method/Tools	Outcome
Consultations with community especially project beneficiary and stakeholders on service	MoMSME, Nodal Agencies and their social unit/cell	FGDs, Small Group Meetings, interactive workshops and public consultation meetings	Satisfaction level
Disclosure of final internal and external Monitoring and evaluation reports	MoMSME, Nodal Agencies and their social unit/cell	Uploading of list in MoMSME, Nodal Agencies web portal	Transparency ensured

9 Conclusion and Recommendations

Since the proposed PforR is aimed to support the existing Government’s MSME program by introducing enhancements through soft studies on technical and institutional reform fronts, the direct impacts of the PforR are not significant from E&S perspective. And since the GoI already has a screening criteria (categorization table) and well established mechanism for managing the permits of the MSMEs an exclusion list has not been suggested.

The national and state governments have well-developed environmental legislation, although the implementation setup to address the environmental challenges of the Program needs to be strengthened. To address this, it is proposed to develop a strategy document - ‘*Strategy to Strengthen Environment and Social Management*’ which will seek to outline the communication, behavior change and capacity building plan around E&S aspects; and the risk screening and management mechanism associated with MSME operations at the federal and state levels. The draft strategy document will be ready before negotiations with the Department of Economic Affairs, GoI and will be finalized with stakeholder consultations during the first year of the project implementation

The document will also outline the activities, tasks, lead roles and responsibilities of the PIU with the support and guidance of MoMSME and the State nodal agencies and will help to strengthen the E&S screening and monitoring criteria by outlining the training curriculum for nodal E&S officers. This will assist the industry units understand the importance and benefits of E&S compliance and strive to achieve these, not only to minimize business risks but to also to enhance competitiveness. The proposed communication and capacity building plan will also enable the E&S nodal officers to adopt an alternative approach and serve as facilitators alongside their compliance enforcement roles. This is likely to have positive spillover impacts and improve compliance through collaboration and contribute to institutional strengthening. These training and capacity building initiatives will have defined milestones and timelines along with the necessary resource allocations. The strategy will also incentivize development of consolidated MIS systems disaggregated by gender and social groups across 2 of the 3 recipient states. In addition, the *Strategy to Strengthen Environment and Social Management*’ will have a specific focus on OHS aspects for the MSME sector. It’ll discuss incentive and disincentive mechanism for ensuring OHS legislation compliance and reporting requirements. The strategy will be prepared by the PIU and will be implemented throughout the program starting from the effectiveness date.

The recommendations outlined in the ESSA are not envisioned to be gap filling measures. The recommendations emerging from the ESSA and the Strategy document will be piloted in 5 RAMP states and expected that the strategy will be subsequently used in all MoMSME activities as well as the broader MSME program.

ANNEX 1: Minutes of ESSA disclosure and stakeholder consultation workshop

This section is to be populated after consultations.

ANNEX 2: Environmental Due Diligence of Existing Facilities

ENVIRONMENTAL DUE DILIGENCE FORM FOR THE EXISTING FACILITIES					
(To be completed by Sub-borrower)					
Sub-borrower:					
Sub-project title:					
Location	Organized Industrial Zone <input type="checkbox"/>				
	Industrial Parcel <input type="checkbox"/>				
	Other (please explain): <input type="checkbox"/>				
What is the intended use of the loan?	Investment Loan <input type="checkbox"/>				
	Please explain briefly (changing of machinery, insultaion works, etc.):				
	Other (please explain):				
Will the loan support any new line of business or type of production (different from the ongoing activities)?	NO <input type="checkbox"/>	YES <input type="checkbox"/>	If YES, please give a brief explanation:		
Valid Environmental Licenses	EIA Positive or EIA Not Necessary	YES <input type="checkbox"/>	NO <input type="checkbox"/>	N.A. <input type="checkbox"/>	
	Emission Permit	YES <input type="checkbox"/>	NO <input type="checkbox"/>	N.A. <input type="checkbox"/>	EXPIRED <input type="checkbox"/>
	Wastewater Discharge	YES <input type="checkbox"/>	NO <input type="checkbox"/>	N.A. <input type="checkbox"/>	EXPIRED <input type="checkbox"/>
	Wastewater Connection	YES <input type="checkbox"/>	NO <input type="checkbox"/>	N.A. <input type="checkbox"/>	EXPIRED <input type="checkbox"/>
	Deep Sea Discharge	YES <input type="checkbox"/>	NO <input type="checkbox"/>	N.A. <input type="checkbox"/>	EXPIRED <input type="checkbox"/>
	Hazardous Waste Storage (temporary)	YES <input type="checkbox"/>	NO <input type="checkbox"/>	N.A. <input type="checkbox"/>	EXPIRED <input type="checkbox"/>
	Hazardous Waste Transportation	YES <input type="checkbox"/>	NO <input type="checkbox"/>	N.A. <input type="checkbox"/>	EXPIRED <input type="checkbox"/>
	Reclamation Plan for Mining Facilities	YES <input type="checkbox"/>	NO <input type="checkbox"/>	N.A. <input type="checkbox"/>	EXPIRED <input type="checkbox"/>
	Environmental e-Permit	YES <input type="checkbox"/>	NO <input type="checkbox"/>	N.A. <input type="checkbox"/>	APPLIED <input type="checkbox"/>
	Penalties/warnings from Ministry of Labor regarding working conditions	YES <input type="checkbox"/>	NO <input type="checkbox"/>		
	Other (please explain):				
Are there any pending environmental penalties or ongoing court cases/investigations?	YES <input type="checkbox"/>	NO <input type="checkbox"/>	If YES, please explain:		
DATE:					
SUB-BORROWER					
SIGNATURES:					

Sub-borrowers/sub-projects ineligible for financing under the Project:

1. Trade in wildlife and wildlife products prohibited under the CITES convention,
2. Release of genetically altered organisms into the natural environment,
3. Manufacturing, distribution and sale of banned pesticides and herbicides,
4. Drift seine netting in the marine environment,
5. Radioactive products,
6. Hazardous waste storage, treatment and disposal,
7. Manufacturing of equipment and appliances containing CFCs, halons and other substances regulated under the Montreal Protocol,
8. Manufacturing of electrical equipment containing polychlorinated biphenyls (PCBs) in excess of 0.005 percent by weight,
9. Manufacturing of asbestos containing products,
10. Nuclear reactors and parts thereof,
11. Tobacco, unmanufactured or manufactured; and
12. Tobacco processing machinery.

Annex3: Environmental, Health & Safety and Social legislations

National Environmental Legislations

Legislation	Extract	Relevance to MSME Sector	Responsible Department
National Environment Policy, 2006	Overall guidance on environment management.	Mentions poor sanitation creates environmental degradation and industry related pollution. Recommends set up of clusters for management infrastructure.	All responsible for activities that impact the environment.
The Environmental (Protection) Act, 1986	Overall protection of environment under which number of legislations enacted.	Mentions prevention of emission or discharge of environmental pollutants exceeding the standards.	Ministry of Environment, Forests and Climate Change (MoEFCC) and State govt. departments.
EIA Notification 2006	Lists projects and procedures for EIAs	EIA required for certain industry types.	MoEFCC and State govt. departments/authorities.
Water (Prevention and Control of Pollution) Act, 1974	Enforce water quality and effluent discharge standards.	Discharge of effluents and waste from systems and during construction/extension.	Central and State Pollution Control Boards (CPCB /SPCB)
Water Cess (Prevention and Control of Pollution) Act, 1977 (as amended in 1992)	Collection of a cess on water consumed by certain industries.	Mentions all industry operations that use water or discharge effluent.	Municipal Corporation/ council.
Air (Prevention and Control of Pollution) Act, 1981	Air quality standards, including Diesel Generators (DGs).	System management for emissions from processes, energy generation by DGs and construction.	CPCB/SPCB
Noise Pollution (Regulation and Control) (Amendment) Rules, 2000	The noise levels in any area/zone shall not exceed the ambient air quality standards in respect of noise as specified.	Mentions acceptable AAQ standards with respect noise levels in industrial areas.	CPCB/SPCB
Municipal Solid Wastes (Management & Handling) Rules, 2000	Municipal Authority responsible for collection, segregation, storage, transportation, processing and disposal of municipal solid wastes.	Bio-medical wastes and industrial wastes shall not be mixed with municipal solid wastes.	CPCB/SPCB, Municipal Corporation and other municipal bodies constituted under the relevant statutes.
The e-waste Management (Management & Handling) Rules 2011	Help the producers, consumer & bulk consumer, collection center, dismantler, recycler and regulatory agencies for effective compliance/ implementation of	Categories of industries involved in Electrical and Electronic Equipment manufacturing.	CPCB/SPCB, Municipal Authorities.

Legislation	Extract	Relevance to MSME Sector	Responsible Department
	these rules.		
Bio-Medical Waste (Management and Handling) Rules 1998	Management of various types of waste.	For industry that generate, collect, receive, store, transport, treat, dispose, or handle bio-medical waste in any form.	MoEFCC and other relevant departments as designated by the States.
Hazardous Waste (Management, Handling and Transboundary Movement) Rules, 2008	Management and transportation of waste having any physical, chemical, reactive, toxic, flammable, explosive or corrosive characteristics that can cause danger to health or environment	Industries that handle hazardous wastes including transport of such wastes across international boundaries.	MoEFCC/CPCB/SPCB
Indian Forest Act 1927, and Forest Conservation Act, 1980	Activities that involve forest areas.	Compensatory afforestation, Environmental Clearance - Environmental (Protection) Act, 1986 (if applicable)	Forest Department/ MoEFCC
Wildlife (Protection) Act, 1972	Protection of wildlife from any activity.	Mentions evaluation of sustainable ecology and disallow any ecologically unsustainable land use.	Forest Department/MoEFCC
Coastal Regulatory Notification, 2011	Relevant for any activity in coastal zone	Industries in CRZs - activities to follow coastal plans and take clearance if EIA Notification 2006 not applicable.	MoEFCC and State govt. departments/authorities.

National Health & Safety Regulations

Legislation	Extract	Relevance to MSME Sector	Responsible Department
The National Environment Tribunal Act, 1995	Provides strict liability for damages arising out of any accident occurring while handling any hazardous substance	Industries that handle hazardous wastes including of hazardous wastes and compensation for damages to persons, property and the environment	Tribunal Member (Chairperson/Vice Chairperson), MoEFCC, Ministry of Law
The National Environment Appellate Authority Act, 1997	To hear appeals with respect to restriction of areas where industries, or class of industries operations or processes, shall not be carried out without certain safeguards.	Mentions that industries or industry associations need to address appeals by persons affected by environmental clearance	Chairperson and Vice Chairperson of the Authority, Central or State government granting clearance.
Factories Act, 1948	To ensure adequate safety measures and to promote the health and welfare of the workers employed in factories	Applicable to all factories using power and employing 10 or more workers, and if not using power, employing 20 or more workers on any day of the preceding 12 months.	DGFASLI, Ministry of Labour, regional Labour Institutes/ State governments.
Manufacture, Storage and Import of Hazardous Chemical (MSIHC) Rules, 1989 and subsequent amendments	Require the occupier to disclose the information to the local public that is likely to be affected by a major accident at the site.	Industries that manufacture, store, use of hazardous chemicals beyond specific quantities.	MoEFCC/ State emergency response authorities
Chemical Accident (Emergency Planning, Preparedness and Response) Rules, 1996	Provides guidance on emergency response planning at the industry.	Industries that are involved in on-site handling/storage/transport of one or more hazardous chemicals.	MoEFCC/ Central, State and District Crisis Groups.
Public Liability Insurance Act, 1991 amended in 1992 and public liability Insurance Rules 1991 amended in 1993	Insurance for providing immediate relief to persons affected by accident occurring while handling any hazardous substance.	Manufacture, store, use of hazardous chemicals and any incidents resulting for such substances.	Central Govt./ Insurance Regulatory and Development Authority (IRDA)
Biological Diversity Act, 2002	Conservation of biological diversity, sustainable use of its components and fair and equitable sharing of the benefits of biological resources.	End uses of biological resources for commercial utilization	National/State Biodiversity Authority Board, Forest Department.
The Insecticides Act, 1968 and the Insecticide Rules, 1971.	Regulate the import, manufacture, sale, transport,	Industries involved in import, manufacture, sale, transport and distribution of pesticides.	Ministry of Agriculture and Farmers Welfare, Directorate of Plant

Legislation	Extract	Relevance to MSME Sector	Responsible Department
	distribution and use of insecticides in order to prevent risks to human beings or animals.		Protection Quarantine & Storage
National Green Tribunal Act, 2010	To provide effective and expeditious disposal of cases arising from hazardous substances, vehicles or repeated exposure to injury or death and activities damage to environment.	Claims including cost of restoration on account of any harm to persons or damage to environment including pollution of soil, air, water, land and eco-systems and any activity regarding handling of hazardous substances.	Chairperson of the National Green Tribunal, Tribunal members, and judicial member, courts and all national authorities related relevant Acts related to environment.

National Social Legislations

Sr. No	Name of relevant Act/Policies/Rules	Extract	Relevance to the interventions proposed under RAMP
1	The Child Labor (Prohibition & Regulation) Act, 1986	This Act prohibits employment of child labor in hazardous activities. It also regulates the conditions of work of children in employments where they are not prohibited for working.	The operation may propose activities where child labor is either prohibited or shall be provided with working condition as per the provisions of the Act.
2	The Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act (RFCTLARR), 2013	<p>The Act minimizes displacement and to promote, as far as possible, non-displacing or least-displacing alternatives. It also ensures adequate rehabilitation package and expeditious implementation of the rehabilitation process with the active participation of the displaced families.</p> <p>It also ensures entitlement of compensation, R & R assistance and benefits for the displaced families due to land acquisition with special provisions for ST and SC communities</p>	The operation may lead to development of common facilities, infrastructure or other activities where land and property acquisition may be involved.
3	The Minimum Wages Act, 1948	The Act requires that all employer is supposed to pay not less than the Minimum Wages fixed by the Government as per provisions of the Act	This operation will propose development activities which will employ labor / worker and all provisions of this Act needs to be complied.
4	The Payment of Wages Act, 1936	The Act mandates the date by which the payment to the workers should be made and what deductions can be made from the wages of the workers	The operation will lead to development/strengthening of common facilities, infrastructure or other activities which will employ labour/ worker and all provisions of this Act needs to be complied.
5	The Maternity Benefit (amendment) Act, 2017	The Act protects the employment of women during the time of her maternity and entitles her the maternity benefit such as leaves, crèche etc.	The operation will lead to development/strengthening of common facilities, infrastructure or other activities which may employ women labor/ worker and all provisions of this Act needs to be complied.
6	The Payment of Gratuity Act, 1972	The Act mandates each employer to pay gratuity to its employee on satisfaction of certain conditions on separation if an employee has completed 5 years of employment	The operation will lead to development/strengthening of common facilities, infrastructure or other activities which will employ labor/ worker and all provisions of this Act needs to be complied.
7	The ESI (Employee state insurance) Act, 1948	The Act ensures that certain benefits to employees are provided in case of sickness, maternity and employment injury.	The operation will lead to development/strengthening of common facilities, infrastructure or other activities which will employ labor/ worker and needs to comply with the

Sr. No	Name of relevant Act/Policies/Rules	Extract	Relevance to the interventions proposed under RAMP
			provisions of this Act.
8	Equal Remuneration Act, 1979	The Act provides payment of equal wages for work of equal nature to male and female workers and not for making discrimination against Female employees	The operation will lead to development/strengthening of common facilities, infrastructure or other activities which will employ labor including women and needs to comply with the provisions of this Act.
9	The Workmen's Compensation Act, 1923	The Act provides financial protection to workmen and their dependents in case of injury by accident arising out of and during the course of employment	The project will lead to development/strengthening of common facilities, infrastructure or other activities which will employ labor/ worker and all provisions of this Act needs to be complied.
10	The contract Labor (Regulation and abolition Act, 1970)	The Act regulates the employment of contract labor and prevent exploitation of contract workers by contractors. The Contract Workmen are hired, supervised and remunerated by the Contractor, who in turn, is remunerated by the Establishment hiring the services of the Contractor.	The project will lead to development/strengthening of common facilities, infrastructure or other activities which may employ contractors and contract labor and all provisions of this Act needs to be complied.
11	The Payment of Bonus Act, 1965	The Act provides for the payment of bonus to persons employed in establishments meeting the defined criteria. The payments of annual bonus is subject to a minimum of 8.33% of wages and maximum of 20% of wages of an employee	The operation will lead to development of common facilities, infrastructure or other activities which will employ labor / worker and all provisions of this Act needs to be complied.
12	The Bonded Labour System (Abolition) Act 1976	The Act provides for the abolition of bonded labour system to prevent the economic and physical exploitation of the weaker sections of the people	The operation will lead to development of common facilities, infrastructure or other activities which will employ labor/ worker and all provisions of this Act needs to be complied.
13	The Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013	The Act provides protection to women against sexual harassment at workplace, be it in public or private. It also provides means for the prevention and redress of complaints of sexual harassment against any women employee.	The operation will lead to development of common facilities, infrastructure or other activities which may employ women labor and all provisions of this Act needs to be complied.
14	Building & Other Construction workers (Regulation of Employment & Condition of Service) Act, 1996	Under the preview of this Act, all the establishments who carry on any building or other construction work and employs 10 or more workers are covered under this Act; the employer of the establishment is required to provide safety measures at the construction work and other welfare measures, such as canteens, first-aid facilities, ambulance, housing	The operation will lead to development of common facilities, infrastructure or other activities which will employ labor/ worker and hence all provisions of this Act needs to be complied.

Sr. No	Name of relevant Act/Policies/Rules	Extract	Relevance to the interventions proposed under RAMP
		accommodation for Workers near the workplace, etc.);	
15	The Panchayats (Extension to the Scheduled Area) Act, 1996	The Act provide specifying special provisions for Panchayats in Schedule V areas. The Fifth Schedule of the Constitution deals with the administration and control of Scheduled Areas as well as of Scheduled Tribes residing in any State other than the States of Assam, Meghalaya, Tripura and Mizoram.	This operation may propose activities in schedule areas. Hence, the planned interventions and their implementation in the scheduled areas needs to comply with the provisions of this Act.
16	The Scheduled Tribes and other Traditional Forest Dwellers (Recognition of Forest Rights) Act, 2006	This Act grants legal recognition to the rights of traditional forest dwelling communities, partially correcting the injustice caused by the forest laws. Makes a beginning towards giving communities and the public a voice in forest and wildlife conservation	The project development activities may lead to diversion of forest land on which the Scheduled Tribes and other Traditional Forest Dwellers are dependent.
17	Ancient Monuments and Archaeological Sites and Remains Act, 1958,	As per the act, every area beginning at the limit of the declared ancient site or the ancient monument, as the case may be, and extending to a distance of one hundred meters in all directions shall be the prohibited area in respect of such protected area or protected monument No permission including carrying out any public work or project essential to the public or other constructions, shall be granted in any prohibited area	The operation interventions with respect to development of common infrastructure and facilities like sorting, grading, packaging, testing and storing may or may not come in defined prohibited area as per the act.
18	The Right to Information Act, 2005	This Act empowers to set a system of right to information to citizens to access information under control of public authorities and to promote transparency and accountability in working of every public authority. It requires public authorities to disclose of the particulars, relating to the functions, powers and duties of its officials/ employees, norms, rules, regulations, instructions, records etc. It also requires public disclosures of all relevant information and appointment of designated officer in each public authority.	The operation will lead to the formulation of National Project Management Unit (NPMU), State PIUs and other project implementing agencies for its successful implementation and it is mandatory to implement the provision of this Act.