

IFC-EU ECO-CITIES PROJECT

MSME ENERGY EFFICIENCY FINANCING COMPONENT



12th April, 2017



Five Institutions, One Group

The World Bank Group has adopted two ambitious goals

End extreme poverty: the percentage of people living with less than \$1.25 a day to fall to no more than 3% globally by 2030

Promote shared prosperity: foster income growth of the bottom 40% of population in developing countries



International
Finance
Corporation

Provides loans, equity, and advisory services to private sector in developing countries

International Bank
for Reconstruction
and Development

Provides loans to middle-income and credit-worthy low-income country governments

International
Development
Association

Interest-free loans and grants to governments of poorest countries

Multilateral
Investment Guarantee
Agency

Guarantees of foreign direct investment's non-commercial risks

International Centre
for Settlement of
Investment Disputes

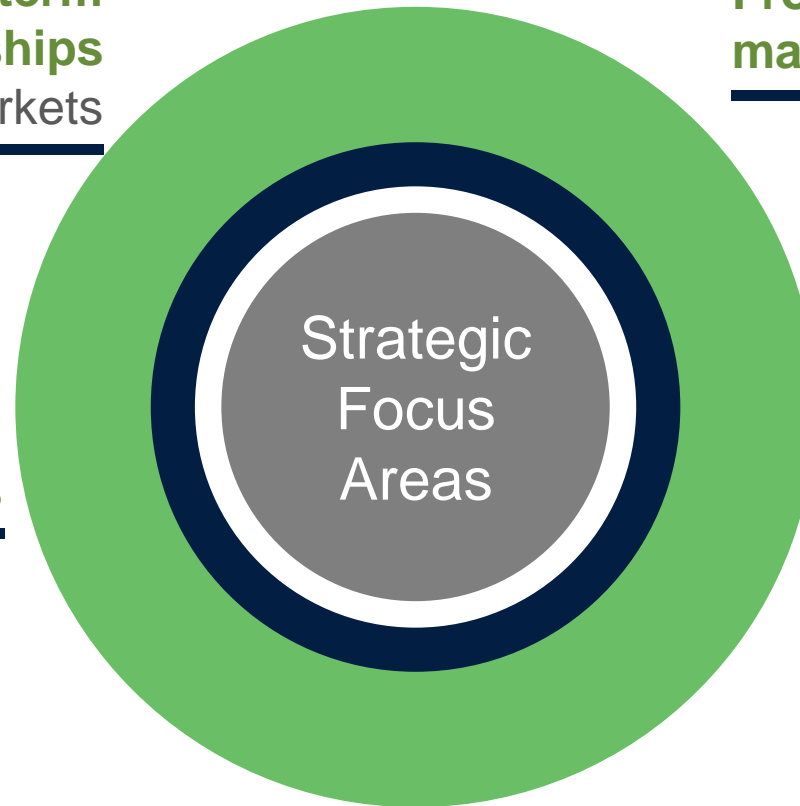
Conciliation and arbitration of investment disputes



Climate change is a strategic priority for IFC because it threatens development gains

Long-term client relationships
in emerging markets

Frontier markets

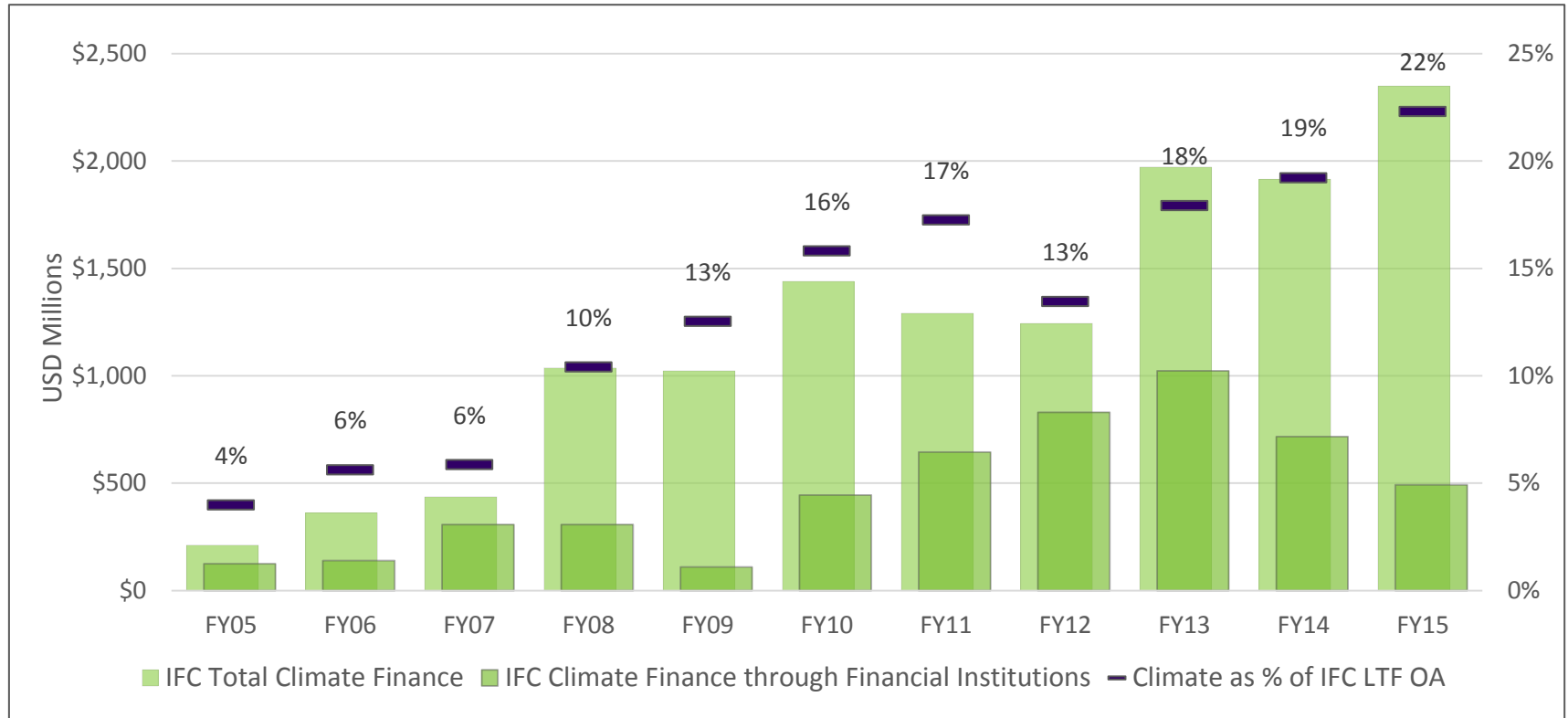


Local **financial markets**

Climate change
and environmental
& social sustainability

Constraints to private sector growth in **infrastructure, health, education, and the food supply chain**

IFCs Climate Business registered steady growth through financial institutions, IFC has committed over US\$4 billion till date



In FY15, IFC surpassed its publicly stated climate business target of 20% penetration by reaching 22% of total volumes

For FY20, the World Bank Group as a whole has committed to reaching 28% of climate penetration into total investment volumes

IFC-EU ECO-CITIES Project - OVERVIEW

EcoCities Project: Components of the Program

The 'IFC-EU Partnership for Eco Cities in India' program, has an aim of contributing to India's sustainable and inclusive development objectives. The specific objective of the Program is - 'Improved regulation and use of clean technologies and energy efficiencies in municipal services, the building market and manufacturing production by SMEs'; for selected 4-5 cities under this Program.

Component 1: Enable climate-smart municipal services

- Promote energy and water efficiency, renewable energy and clean technology projects in the delivery of municipal services by involving the private sector through PPPs and other funding mechanisms

Component 2: Catalyze green buildings market

- Address the untapped mass market for voluntary green building certification by addressing energy, water, and material inefficiencies in new building design through developers, financial institutions, and government stakeholders

Component 3: Promote competitive SMEs

- Help SMEs in targeted industrial clusters/sectors and manufacturing supply chains address energy/resource inefficiencies and reduce operating costs by facilitating SME financing for selected projects

EcoCities Component 3 – Objectives & Activities

Objective: Promote competitive SMEs. Facilitate financing for SMEs by working through financial institutions and help factories implement projects that address manufacturing and supply chain inefficiencies, reduce operating costs, and improve competitiveness and productivity.

Component 3: SME A2F Deliverables/Activities

Sector Level Work:

- Organize thematic workshops to explore different aspects of EE finance
- Regular publications and outreach activities to promote EE financing products/mechanisms
- Development of templates and tools for EE financing that could be used by all FIs
- Training programs/workshops with BEE and SIDBI to promote sector wide uptake of EE financing

Capacity Building for FIs:

- Design and develop tailored financial products and associated marketing plans
- Help streamline credit process building in the nuances of EE financing
- Develop skills in FI front line lending staff to understand EE audit reports and the ESCO model.
- Support with pipeline development by reviewing FI portfolio and mapping opportunities in pilot cities

Challenges faced by FIs in dealing with EE loans

- Low demand for energy efficiency loans
- Small ticket-size of EE projects
- Concept of EE confusing to the FIs. Banks sometimes require technical assistance in evaluation of loan proposals and post-implementation documentation
- Economic viability of the project is just one criteria for sanction of the loans
- Non-compliance of documentation by MSMEs lead to delays/rejections
- Lack of credible credit history of MSMEs
- Some banks not financing greenfield projects, as vetting of greenfield loans is difficult
- Financing ESCOs is risky
- Technical risk (risk of poor performance of the new technology)
- Financial risk (disputes in quantification of the actual energy savings achieved)

SME EE Finance Component – Current Status

(I) Feasibility Study:

- A Feasibility Study to identify the top sectors/industry clusters with the highest potential for resource saving in the five cities and to get a better understanding of the key financial institutions doing Energy Efficiency (EE) Financing has been completed. **TERI was the consultant partner on this Study.**
- Scope of work included:
 - Mapping of MSME Clusters – viability for EE Finance (for 5 cities)
 - Portfolio assessments of financial institutions

(II) Awareness Raising and Training Programs on EE Finance for PFIs:

- Discussions with the Bureau of Energy Efficiency (BEE) on Training of Commercial Banks on Energy Efficiency
- 20-25 trainings proposed to be carried out for commercial banks/ NBFCs and ESCOs on EE Finance, in the coming 1.5 years.

(III) Working with key partners:

- The Component team has been in discussions with SIDBI, ISTSL, BEE and GiZ, among others, on the work program for this component; and is trying to formalize some of these partnerships for the different project activities.



Feasibility Study and Stakeholder Feedback

Scope of Work:

- City-wise findings of EE sectors/clusters
- Cluster Prioritisation Framework – 5 parameters
- Discussion and inputs from FIs
- Review of EE financing schemes & best practices in India and abroad
- Key recommendations

A stakeholder consultation workshop on “Financing of Energy Efficiency Projects in Indian SMEs (under the IFC-EU Eco-cities Program)” was held on the 30th of November 2016 in the IFC Mumbai Office.

Key points discussed/ raised in the Workshop:

- Conduct a large number (60-70) investment grade energy audits studies in each of the four shortlisted clusters/sectors in partnership with a local FI.
- Prepare energy efficient technologies/equipment list and case-studies for the shortlisted clusters for FIs.
- Develop a diagnostic tool-kit (focused on specific clusters) for FIs replication of effort.
- Build capacities of bankers (on EE financing) and SMEs (on bank products and energy audits).

Key Recommendations for the EE Program:

- Training and capacity building of stakeholders (SMEs, local service providers and bankers)
- Investment grade energy audits and technical assistance for implementation
- Pilots to promote EE technological solutions using ESCO model
- Credit lines for energy efficiency
- Proper technical evaluation of each loan application



Study Findings: Five top clusters/sectors across cities

Rank	City	Cluster/sector	Overall Points
1	Mumbai	Biwandi Textile (Power loom)	3.40
2 to 4	Mumbai	Rabale Chemicals & drugs	3.35
	Jamshedpur	Castings & forging	3.35
	Chennai	Forging	3.35
5	Chennai	Die-casting	3.15

Next steps / Planned Activities

EcoCities EE Program - Broad Work-Plan / Activity chart	FY		
	FY2017	FY2018	FY2019
<u>A. Finalization of Clusters / Working with partners:</u>			
Based on the TERI Report the 3-4 MSME clusters finalized, and to be discussed with SIDBI and other FI partners.			
<u>B. Design & Launch of specific FI-linked work</u>			
(1) Creation of a MSME Cluster Diagnostic Tool-kit (for FI Credit staff) for 3 clusters. In-depth audits (45-60) to be carried out in 3 clusters.			
(2) Explore how to create a EE equipment-based list & case-study booklet meant for FIs			
(3) Working along with internal IFC/WBG teams -- capacity building of FI partners (atleast 2); and working with SIDBI/ISTSL on capacity building/outreach			
<u>C. Awareness Raising of FIs on EE Finance - Working with the BEE</u>			
1) Tie-ups with Banking Training colleges/partners & Associations to be done			
2) EE Finance trainings to be carried for Banks/ESCOs – 20/25 trainings			
3) Material (booklets, e-modules etc) to be designed on the EE material, specific for FIs			