

Capacity Building of Bankers- Presentation

SIDBI

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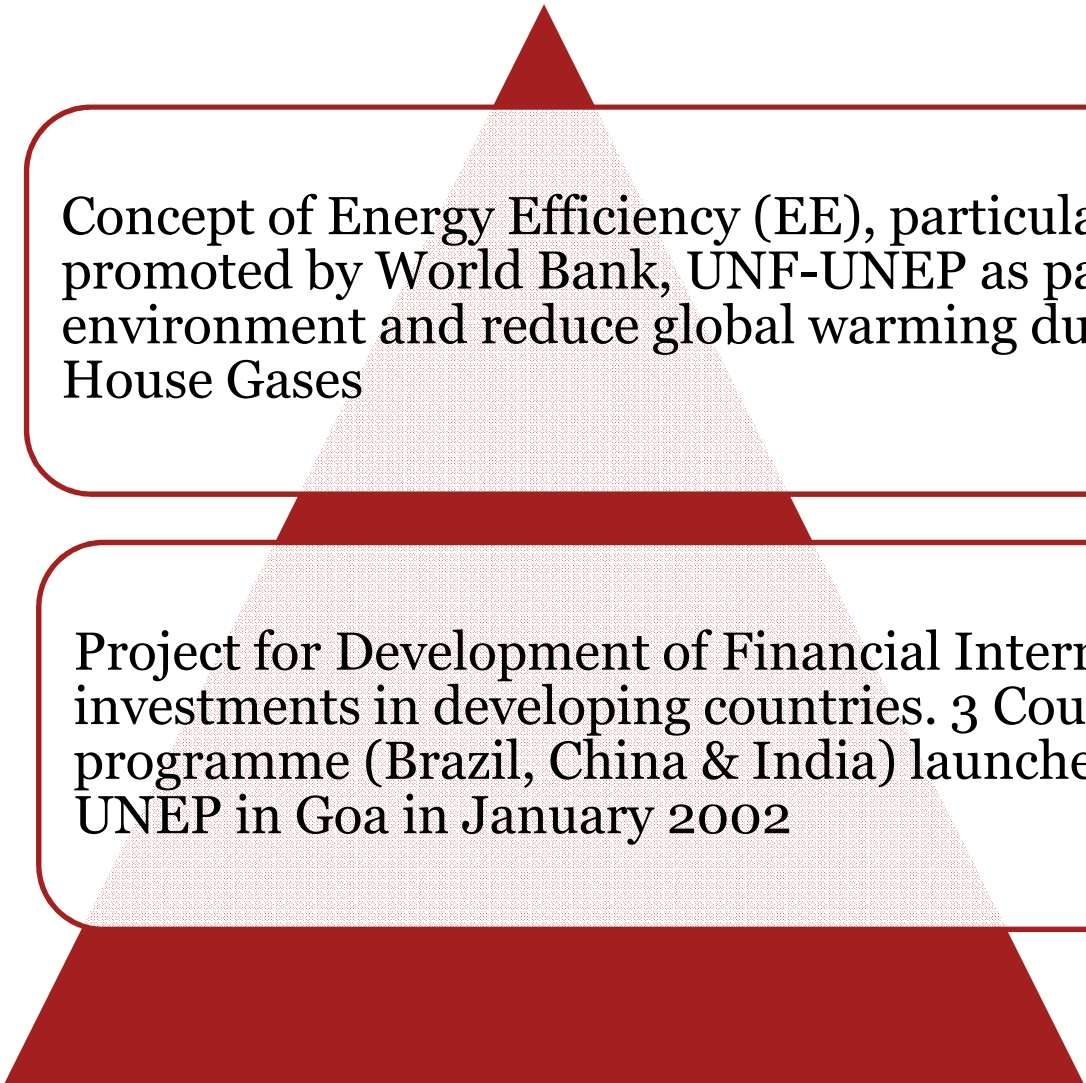
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Section 1

Energy Efficiency for SMEs

Energy Efficiency for SMEs



Concept of Energy Efficiency (EE), particularly for SMEs in India, was promoted by World Bank, UNF-UNEP as part of efforts to save environment and reduce global warming due to the effect of Green House Gases

Project for Development of Financial Intermediation for EE investments in developing countries. 3 Country Energy Efficiency programme (Brazil, China & India) launched by World Bank, UNF-UNEP in Goa in January 2002

Section 2

Initiatives of banks to promote Energy Efficiency in SMEs

Initiative of State Bank of India

- SBI launched “Project Uptech – Energy Efficiency” (PUEE) in January 2003 – the first Bank to promote EE among their SME clients through a specially designed scheme offering grants and concessional finance for EE Term loans to its existing SMEs.
- In first 3 years or so, under PU-EE, SBI assisted 66 SME units with investment of Rs 12 Crores having an energy savings potential Rs 12.4 Crs per annum.
- In addition, as a matter of policy, SBI develop the concept of promoting the concept of promoting adoption of Energy Efficiency measures to all new enterprises and those looking for expansions / diversifications.

The Journey started.....

- ❖ 3 Country Energy Efficiency programme (Brazil, China & India) launched by World Bank, UNF-UNEP got momentum and soon 4 other Banks launched their Energy Efficiency Schemes. The banks are:
 1. Canara Bank
 2. Bank of Baroda
 3. Union Bank of India
 4. Bank of India.

- ❖ IREDA (India Renewable Energy Development Authority) also pitched in by announcing subsidy / grants to the Banks financing EE Projects.

Section 3

Progress of EE Investment

EE Investment Progress

To the best of our knowledge, all the schemes announced by the Banks are still operating but the off-take under the schemes have not been significant as stand alone EE projects become scarce primarily for 2/3 reasons as under:

1. The investment in stand-alone EE schemes was very low as compared to total investment in SME
2. The low cost investments in EE schemes were met by the Enterprise
3. Most of the EE initiatives were merged with other requirements of investments in Capital assets and were financed under normal schemes
4. Most of the Medium / High Cost investments were not proposed / financed by Banks in absence of “Investment Grade Detailed Project Reports (IGDPR)”

SIDBI came late but sustained

- ❖ In the meantime, SIDBI, which was also an active participant in 3 CEE programme, developed a few schemes which were different from project financing approach under various Lines of Credits:
 1. JICA-SIDBI MSME Financing Scheme
 2. KfW-SIDBI Energy Efficiency Financing Scheme
 3. KfW-SIDBI Cleaner Production Financing Scheme
- ❖ Most of these schemes are quite popular and have been / would be discussed separately.
- ❖ This only shows that lenders have a very positive approach towards financing EE projects but either the Banks are finding it difficult to finance the Medium-High cost projects in absence of acceptable IGDPs .

Section 4

Financing perspective of Energy Efficiency measures

Energy Efficiency – Financing perspective

- Energy Efficiency projects would involve measures leading to savings of energy for performing same or better output, ensuring that the expected financial benefits (i.e. energy savings, expressed in monetary terms) over a reasonable period would be adequate to justify investment
- For meeting the need of funds for long term investments, Lenders are expected to play a major role by way of extending financial support
- Lenders would however support only such projects which are Technically Viable and Economically Feasible. Lenders must be reasonably ensured that the loans would be repaid on time

Benefits of EE Projects

- ❖ Benefits for the Organisation:
 1. Bottom-line of the beneficiary enterprise improve without any increase in top-line by the amount of Monetary Value of Energy Savings.
 2. Competitiveness, Productivity and profitability improves on a sustainable basis leading to improved quality of Lender's assets.
 3. Benefits are often far more than what was envisaged, particularly when the operating level increases.

- ❖ Savings for the Nation – 1 unit less consumed is equal to about 1.3 units less generated.

- ❖ Benefits for the Lenders – Improved bottom-line of the financed enterprise improves the quality of the Lenders assets.

Financing EE Projects

- ❑ Financing an EE project is similar to financing any other project.

- ❑ From lender's point of view, financing a well documented EE project should be easier than financing new projects where techno-managerial uncertainties are more and project viability is based upon assumptions, with nothing other than the project itself to fall back upon.

Financing EE Projects- Lenders approach

- Background and past financials of the borrower
- Who are the present lenders / bankers to the borrower?
- What Securities are held by existing lenders / bankers?
- Is the borrower approaching new lenders? Why?
- Security to be offered to the lender for the EE project?
- Risk perception, evaluation and mitigation. Sensitivity to various variable factors
- Credibility / track record of the EE Consultant

Section 5

Need of Detailed Project Reports (DPR) for EE Projects

DPR to be exhaustive

- ❑ Therefore what a lender looks for is:
 - a credit-worthy borrower
 - a well documented project
 - the project is techno-economically viable

- ❑ Detailed Project Report (DPR) is required for
 - Investment decision
 - Financing decision

- ❑ DPR should be comprehensive to establish viability / bankability

DPR Contents of EE Projects

- ❖ Line of activity – Energy intensiveness of the establishment
- ❖ Total energy consumption
- ❖ Activity-wise breakup of different forms of energy consumption
- ❖ Energy Audit report – Sub-project wise – with scope / potential for savings of energy
- ❖ Detailed “Technical Proposals” for improvement of “Energy Efficiency” – Sub-project wise
- ❖ “Simple pay back” period of each of the Sub-projects

DPR Contents of EE Projects.... continued

- ❖ In addition to the capital costs, all soft costs should be included. Soft costs to include cost of installation, Consultancy fees, Interest on borrowing etc.
- ❖ Selected Sub-projects which are prima-facie “Investment Grade”
- ❖ Monitoring and Verification Protocol for the sub-projects
- ❖ Capital cost estimates including soft costs
- ❖ Revenue expenditures like interest cost and other incremental costs to be considered
- ❖ Projections for next few years to be drawn up, and basic project finance ratios worked out

Section 6

Investment Grade Detailed Project Reports (IGDPR)

Investment Grade Detailed Project Report (IGDPR)

- An Investment Grade DPR is one where the project promoter would be enthused to make fresh investment in the hope of earning surplus out of savings from cost of energy.
- Investment decisions in an enterprise have to be made by the promoters based on his / their own conviction and confidence on the success of the projects, particularly in terms of expected financial benefits over a reasonable period in future.

Support required in IGDPRs

- So, It is simple!
 - Say, The Energy Auditor calculate annual average overall savings of 30% and Simple Pay Back Period is 18 months.

- Not really!
 - This is not so simple most of the time!

- So . What we need!

- Support from an Energy Expert
An Investment Grade Detailed Project Report (IGDPR) detailing technical and also financial implications including examination of Techno Economic Viability as per lenders norms i.e. Repayment obligation, DSCR etc.

Essentials of an IGDPR

- ✓ DPR should be investment grade, complete with technical & financial calculations.
- ✓ Complete techno-economic feasibility (TEF) of the EE project should be examined.
- ✓ The promoter(s) of the beneficiary Enterprise must have ownership of the project although the loan may be sought by either the enterprise or the ESCO.
- ✓ DPR incorporates examination of TEF of the EE project.

Bankable Projects

- Simple pay back period is only indicative and is considered as tool for examination of TEF of a EE sub-project.
- Investment grade / Bankable project (basically combination of a few selected sub-projects) is judged on the basis of TEF as outlined in IGDPR and not on Simple pay back period.

But then a few questions

- ❖ Are the promised savings attractive and realistic enough to attract interest of promoters and lenders?
- ❖ Is credibility of ESCO/Energy Experts enough to generate confidence of promoters/lenders?
- ❖ Whether time frame of promised savings is attractive enough to commit scarce resources from other business goals ?
- ❖ Should there be subsidy/ interest concession from the lenders?
- ❖ Lenders do finance projects based on viability. Lack of more EE proposals, is due to ‘viability’ perception or other ‘barriers’?

Entrepreneur Motivation is key....

- To the best of our knowledge, State Bank of India, so far, has not refused lending to any viable EE project.
- We believe, no other lender would do so.
- Then where is the BARRIER?
- Entrepreneur is because he acts... if he is convinced and you have got the bankers.
- Let us together work towards convincing the Entrepreneurs and 'barriers' would disappear.

Thank You....

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