

World Bank – GEF Project

Financing Energy Efficiency at MSMEs Project

1. Background

The objective of the India-MSME Energy Efficiency Project is to improve efficiency and reduce GHG emissions through commercial investments in energy efficiency goods and services in target Small and Medium Enterprise clusters.

Global Environment Facility (GEF) and the World Bank through SIDBI and BEE are implementing a new initiative on financing Energy Efficiency (EE) in MSME Clusters in India to improve EE and reduce Green House Gas (GHG) emissions from MSMEs utilizing increased commercial financing for EE. The Grant agreement was signed on September 13, 2010 and effectuation of this grant took place on October 28, 2010. Total GEF Funding under the project available to SIDBI is 9.05 Million USD to be utilized over a period of four years. In addition to the grant to SIDBI, GEF has also provided a grant of USD 2.25 Million to the Bureau of Energy Efficiency (BEE) for implementation of energy efficiency at MSMEs in India.. A Project Management Unit in SIDBI has been setup at New Delhi to channelize the grant to the targeted beneficiaries.

Under the project, SIDBI will focus largely on five energy intensive clusters viz. foundry cluster at Kolhapur, Forging at Pune, Limekilns at Tirunelveli, Chemical at Ankleshwar and mixed at Faridabad) in India through provision of assistance for completion of Energy Audits, preparation of DPRs and support in mobilization of financing from the Indian local banks to ensure that the identified EE measures are implemented. SIDBI will also provide broad support to BEE for energy efficiency implementation in additional 25 clusters where the initiatives are being undertaken by them.

The project will focus on four main activities viz. as 1) Activities to build capacity and awareness for EE in MSMEs, 2) Activities to increase investments in EE in MSMEs, 3) Programme knowledge management, and 4) Project management.

It is expected that the penetration rate for EE investment will increase to 40% in the five clusters supported directly by the project, as approximately 500 units are expected to make fresh investments as an outcome of the project initiatives. Due to the direct support provided, SMEs are expected to invest in more comprehensive, higher cost EE measures with average investments. In addition, the 25 clusters supported by BEE receiving the benefits of GEF project-related capacity building will access increased investment, with an expected increase in penetration rates from 15 to 25% on average. When including both direct and indirect impacts of the project, the incremental EE investment of approximately Rs. 275 crore catalyzed in the

project life and also results in reduction of CO2 emissions by 4.8 million tons over the lifetime of investments.

The project is being implemented by Small Industries Development Bank of India (SIDBI) and Bureau of Energy Efficiency (BEE).

2. The Implementing Entities

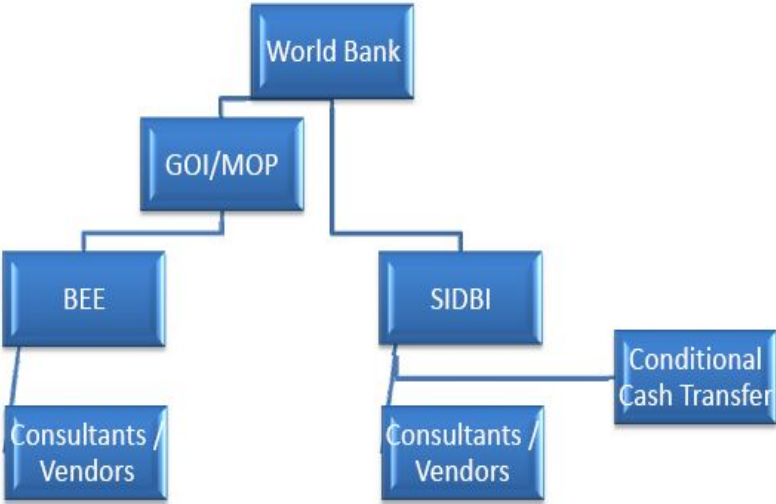
This project is being implemented by following two entities:

Small Industries Development Bank of India (SIDBI):

Established on April 2nd 1990, SIDBI is the Principal Development Financial Institution for promotion, financing and development of industries in the small scale sector who also coordinates the functions of other institutions engaged in similar activities. SIDBI is already involved in execution of Bank funded SME financing and development project and additional financing for this effort.

Bureau of Energy Efficiency (BEE):

BEE is a statutory body set up by Government of India on 1st March 2002 under the provisions of the Energy Conservation Act, 2001. The mission of the Bureau of Energy Efficiency is to assist in developing policies and strategies with a thrust on self-regulation and market principles, within the overall framework of the Energy Conservation Act, 2001 with the primary objective of reducing energy intensity of the Indian economy.



3. Project Components

The split of components across the two implementing agencies is provided below.

India: Financing Energy Efficiency at MSMEs Project

Project Components (GEF expenditure)		Expenditure category	No of consultancies	Total US\$	Implemented by	
					BEE US\$	SIDBI US\$
Component 1: Activities to Increase Awareness and Capacity						
1.1	Marketing and Outreach effort to clusters, capacity building at industry associations	Consultancy / Training	4	1,496,978	796,978	700,000
1.2	TA to energy auditors: training, BEE certification, enlistment	Consultancy / Training	3	350,000	350,000	
1.3	Support to FI Sector	Consultancy / Training	4	1,050,000		1,050,000
1.4	Support to MSMEs in accessing finance/Capacity building	Consultancy	6	572,432		572,432
1.5	Vendor outreach, enlistment and support	Consultancy	3	440,000		440,000
Sub-Total				\$3,909,410	1,146,978	2,762,432
Component 2: Activities to Increase Investment						
2.1	Project development support, including PAS, DPR	Consultancy	7	5,282,896		5,282,896
2.2	Performance linked grants	Consultancy & Grants	1	585,000		585,000
Sub-Total				\$5,867,896		5,867,896
Component 3: Knowledge Management		Consultancy				
Sub-Total			3	1,000,000	1,000,000	
Component 3: Project Management Units						
4.1	BEE PMU	Operating Cost	1	103,022	103,022	
4.2	SIDBI PMU	Operating Cost	1	419,672		419,672
Sub-Total				522,694	103,022	522,694
Total			33	11,300,000	2,250,000	9,050,000

Component 1: Activities to Build Capacity and Awareness

Sub-component 1.1: Marketing and Outreach effort to clusters and capacity building at industry associations (US\$ 1,496,978)

Consultancy / Training: Industry associations (IAs) of the five selected clusters will receive training that will enable them to carry out outreach activities in their respective clusters.

Consultancy: The project, through a consultancy contract will also support industry association capacity building in the 25 additional clusters included in the BEE SME effort tailored to maximize effectiveness of the BEE efforts. Consultants will hold workshops, engage in marketing and general outreach on EE schemes, maintain a central hotline to enable SMEs and other stakeholders to quickly and easily access web-based information about the project, experiences of completed EE projects in SME cluster units, referral to energy auditors, vendors, and similar information and engage in capacity building programs focused on improving capacity to manage environmental and social issues.

Sub-component 1.2: TA to energy auditors: training, BEE certification, enlistment (US\$350,000)

Consultancy to facilitate training and certification of energy auditors.

Sub-component 1.3: Specialized support to Financial Intermediaries (US\$1,050,000)

Consultancy: To increase the uptake of EE lending by banks through enhanced training and information to build internal comfort and capacity and to support revitalization of specialized EE lending schemes.

Consultancy / Training / Grant: Detailed training support through Indian Bank Training Institutes to increase capacity at local branch offices in identifying and appraising EE projects. Efforts will be made to formalize the participation of local banks in the project, either through their participation in the training programs, or project-executed consultancies supporting banks' own efforts in EE lending.

Sub-component 1.4: Unit-level support to SMEs in accessing finance (US\$572,432)

Consultancy / Training : Use of consultancy to train financial consultants/chartered accountants and sufficient number of them will be enlisted for use in the project. These services will be coordinated by senior level energy efficiency expert under the guidance of SIDBI PMU.

Sub-component 1.5: Vendor outreach, enlistment and support, REEC (US\$440,000)

Consultancy:

Consultancy to carry out an assessment of the relevant EE equipment manufacturers and vendors and support outreach activities and enlist them if appropriate. The project will also provide support in attracting vendors of EE equipment to participate actively in program efforts in the clusters. The project shall also provide support for a regional energy efficiency center of excellence for technical capacity building on improving efficiency in the cross cutting area of furnaces.

Component 2: Activities to Increase Investment in Energy Efficiency

Sub-component 2.1: Energy audits and DPRs for 500 cluster units (US\$5,282,896)

Consultancy : Using consultancies, support will be provided to SMEs to cover the ‘soft costs’ such as (a) Preparation of 500 investment grade detailed project reports (DPR) (b) Conducting pre-assessment studies (PAS) in 1000 units to assess the possibility of cost effective low/medium investment oriented projects.

Sub-component 2.2: Performance Linked Grant (US\$585,000)

Consultancy / Conditional Cash Transfer: This component includes conditional cash transfer mechanism for achievement of verified energy savings for a select number of early adopters. Conditions for performance-linked grant payment are defined in the SIDBI Project Operations Manual. A consultancy for verification of the savings achieved will be issued.

Private Sector Finance mobilized by SME units (US\$46 million): Investment by industry units for energy efficiency technologies by way of own funds or loan / debt raised from financial institutions.

Component 3: Program Knowledge Management and Sharing (US\$ 1,000,000)

Consultancy: Consultants will be used to support for broad programmatic EE knowledge management effort.

Component 4: Project Management Units (US\$ 522,694)

This component will provide support for the two PMUs that will jointly implement the project, within BEE and SIDBI. The project will finance incremental operating costs during the period of

project implementation, including hiring of consultants and other items as defined in the respective grant agreements.

4. Disbursement Arrangements

Disbursements would be made by IBRD on the basis of quarterly IUFs, which would forecast the expenditures for two quarters and report the actual for past quarter and cumulative till date. Supporting documentation of actual project expenditure including bills/invoices, acknowledgement/proof of payment, completion reports, certificates and other documentation will be retained by the entities and made available to the Bank during project supervision missions.

Category Schedule - SIDBI

Category No.	Category Description	Amount in US\$
1	Training and Services	8,130,328
2	Performance Linked Grant (*) / Sub-Grants for Sub-Projects	500,000
3	Incremental Operating Cost	419,672
	Total	9,050,000

(*) – Disbursement condition will be set up for this category as detailed in Operational Manual.

Retroactive Financing: SIDBI

For payments made prior to the date of Grant Agreement, except that withdrawals up to an aggregate amount not to exceed \$10,000 equivalent may be made for payments made prior to this date but on or after February 19, 2010., for Eligible Expenditures under Categories (1), (2) and (3); and

5. Procurement Arrangements

The Project envisages mostly the procurement of consultancy services though some small value non-consultancy services may also be procured, if required, during the implementation of the project. The Procurement Consultant in EEC shall be helping out in these procurements however decisions shall be made by internal committees.
