INDIA – Partial Risk Sharing Facility for Energy Efficiency Project
World Bank Response to Comments by CTF TFC
May 16, 2014

#	Comment	Team Response
	GERMANY COMMENTS	
1	We are not sure, if EESL is best suited to be the sole TA-provider. From our experience, Indian ESCOs have not been that successful in the past, among other things, because they have not been that creative in developing creative or alternative business models. We would therefore strongly suggest to consider dedicating at least part of the TA component to international consultants, who could bring international best practice to India in order to make the offers especially of the ESCOS more attractive to their clients.	EESL and SIDBI are the two TA implementing agencies in PRSF, with TA fully funded by GEF (not CTF). They are not TA providers. EESL TA component is for $2 million and SIDBI TA component is for $4 million. TA and stakeholder capacity building will be provided through experts and consultants from India and abroad, if necessary, to be hired by SIDBI and EESL on a competitive basis using IBRD procurement rules (under which procurement notices are published on UNDB online). The team agrees that best practices and global lessons learned will be used to develop India-focused ESCO /ESPC transaction tools and templates that can be used by the EE market stakeholders in India.
2	M+V activities at SIDBI. Since KfW is working with SIDBI in the context of a number of energy efficiency projects, we are well aware that SIDBI is currently revising its guidelines for monitoring, evaluation and verification of such projects. From our point of view, it would be important to ensure that especially M+V activities are coordinated with other projects currently implemented to ensure that the same standards are applied for all projects in that area.	Thank you for the comment. Under the TA component, the M&V templates and protocols for EE projects, which can be practically applied in the Indian EE market , will be developed. The TA program will coordinate with the M&V work being done under the KfW program at SIDBI , and review other best practice M&V templates such as the IPMVP, the China M&V protocols, M&V used in carbon markets, etc to develop standardized M&V protocol and templates for EE projects in various end use sectors in India.

3	We would have furthermore liked to see in the proposal a bit of an analyses on SIDBIs financial situation and SIDBIs previous experience in the field of energy efficiency.	The team will expand information about SIDBI in the PAD. SIDBI is a financial institution set by Government of India in 1990 under an Act of Indian Parliament, as the principal financial institution for the promotion, financing and development of the micro, small and medium enterprise (MSME) sector. SIDBI is considered among top 30 development banks in the world. It comes under the purview of Ministry of Finance- Department of Financial Services and Ministry of MSMEs of Government of India. SIDBI's 2012-2013 financial results show that it is profitable and well-capitalized and that its risk management is adequate. Its net profit ratio in 2012-2013 was 18.4%, which is line with its solid profitability in recent years. Its capital to risk asset ratio (CRAR) was 28.1%, which was considerably above the average CRAR of 13.9% among all commercial banks in India. Finally, its non-performing asset ratio was 0.53%, which was much better than the average of 1.68% in the commercial banking sector. The key to success in EE project is on choosing the right implementing agency. SIDBI has been in the guarantees business, knows other FIs/PFIs, and has previous experience in EE having worked with development partners like the World Bank (Financing EE in MSMEs Project funded by GEF of US$11.3 million), JICA (Yen 30 billion in 2008-2010 and additional 30 billion Yen in 2011 Phase 2) and KfW (Euros 53 million). World Bank has the above mentioned ongoing GEF-funded EE financing project for SMEs plus a guarantee project with SIDBI. SIDBI has a dedicated energy efficiency group. As SIDBI has been an important counterpart for IBRD in multiple projects, they have been appraised by the World Bank many times.
4	Can you also pls provide more information on the participating financial institutions and their level of expertise and involvement in the field of EE.	The PFIs will be selected from a broad set of large, well known commercial banks and NBFCs in India, using an eligibility criteria which will include factors like past experience in EE and renewable energy lending, capacity, number of EE projects successfully implemented, etc and will be included in the Operations Manual. The PFI eligibility criteria will ensure that factors generally considered in detailed due diligence of FIs are also incorporated.

5	Last but not least, we were very surprised to see that IBRD is proposing a guarantee fee of 10 bps for a guarantee of up to 20 years! This is in our understanding not in line with the CTF pricing grid, which stipulates an annual fee of 75 bps for guarantees. This is even more of a concern given our current discussion on risk and income issues related to CTF as well as the fact that there is no government guarantee in place and the project is to a significant extent exposed to private sector risk.	The CTF Guarantee charge is based on CTF's Financing Product Terms for Public Sector Operations (as revised Nov 7, 2013, see Box 2, "CTF Guarantee Terms," p.10), which specifies a guarantee charge to CTF of 10 bps on the committed and undisbursed balance of the CTF contingent finance The underlying risks in the facility stem from performance of the underlying energy efficiency technologies, performance of ESCOs and host companies, as well as execution of the relevant performance contracting arrangements. Robust mechanisms are being incorporated into PRSF to manage each of these risks. First, guarantees would be provided only for the benefit of technically and financially viable projects using proven energy efficiency technologies. Second, energy saving cash flows cash would be ring-fenced on a project finance basis to keep them at arms-length from Host or ESCO balance sheets. All cash flows would be channeled through a Trust and Retention Account mechanism agreed between the lender, ESCO and the Host, whereby the underlying loan would be repaid as a priority. To manage risks associated with performance contracting, the project would support the development of standardized contracts and appraisal documents. The TA component would additionally support capacity building and awareness-raising on all transaction-related aspects to ensure that all projects benefiting from PRSF guarantees meet the same professional standards. Aside from risk management, PRSF includes strong safeguards to limit possible losses. Each guarantee claim made to PRSF will undergo independent monitoring and verification to validate that the underlying energy savings did not materialize as expected. Ineligible claims will not be honored. As a condition for payment on eligible claims, PFIs are required to have started legal proceedings or loan restructuring to seek recoveries and minimize defaults on the entire loan amount. All eventual losses will be shared with the PFIs through partial guarantee coverage. The first losses for the Partial Risk Sharing Facility would be absorbed by the GEF funds which would be held with SIDBI. Any surplus income from interest and guarantee fee earnings could be used as an additional cash buffer. The CTF Guarantee would function strictly as a second-loss cash reserve to be called if guarantee payouts exceed 15% of the amount of all guarantees issued, which is a conservative

		assumption and was introduced due to the pilot nature of the program. In the World Bank's global experience, actual loss payouts on similar, adequately managed risk-sharing facilities have been considerably lower. However, if the amount of guarantee payouts from the PRSF exceeds the equivalent of US$7 million, i.e. actual losses approach the 15% level, the stop-loss provisions in the legal agreements between IBRD/CTF and SIDBI would require SIDBI to halt issuance of further guarantees. In the base case analysis, no amount of CTF Guarantee is expected to be called during the life of the program. Using the CTF Guarantee as a second-loss reserve to backstop GEF funds is similar to the innovative capitalization structure proposed as part of the Philippines Electric Cooperative Partial Credit Guarantee Program (EC-PCG), which was approved by CTF in 2013 (the project is currently pending final approval from the Government of Philippines).