FINANCING ENERGY EFFICIENCY PROJECTS

ASIA ESCO CONFERENCE, NEW DELHI

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3 Country Energy Efficiency Project

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

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Energy Efficiency

“Energy Efficiency” means use of less energy for achieving the same or better output.

Making homes, offices, industries vehicles, and businesses more energy efficient is seen as a largely untapped solution to addressing global warming, energy securiy and fossil fuel depletion.

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EE Financing Schemes

- **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 upto Rs 50,000 and concessional (sub-PLR) finance for EE Term loans.**

- **4 other large commercial Banks viz. Canara Bank, Bank of Baroda, Bank of India and Union Bank of India also formulated their own schemes for EE lending.**

INDUSTRY

ENERGY EFFICIENCY PROJECT

BUILDING

EXISTING ESTABLISHMENTS

Energy inefficient areas are to be identified and techno-economic feasibility of improving EE of each of such areas to be examined.

NEW PROJECTS

Dovetail EE concepts / technologies at the design stage itself.

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Components of a Financing Model

- DPR is the basic marketing document for the borrower for availing a loan. Borrower has to apply for the loan.
- Only projects, found techno-economically viable, as appraised by the lenders, are financed.
- Borrower signs security documents and is also responsible for repayment of the loan.
- Assets created, if any, out of the loan is known as “Primary Security” and has to be charged to the Bank.
- “Collateral Security” is any other security offered for giving additional comfort to the lender. Collateral Security includes Personal Guarantees and extension of charge on other assets already charged to the lender.
- In case of default, borrower is responsible for repaying the loan availed (with extension to primary & collateral securities)

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Financing EE in New Projects

- From lenders' viewpoint, there is no issue at all as long as the EE project is viable and forms an integral part of the project report submitted.
- Bankers fully appreciate that the cost of the project would be marginally higher (on account of incremental investment in EE equipments / measures) but there would be adequate reduction in the energy cost resulting in increase in profitability and repayment capability.
- As long as the increase in repayment capability is improved despite higher debt burden, no major problem is foreseen in getting the project financed.

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However….

- If the unit expects to enjoy accelerated depreciation benefit, the project report may have to segregate EE investment (or the incremental cost for adopting EE measures?), with full details of energy savings as compared to the conventional investment.

- However, expert opinion may be sought as to the admissibility of such higher depreciation claim under the Income Tax Act.

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Financing EE in Existing Projects

- EE Projects
  - Energy Audit followed by implementation by Beneficiary
  - ESCo Projects
    - Guaranteed savings model
    - Shared Savings model

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Financing Non-ESCo Projects

- Bankable DPR for EE project is the starting point. Investment in project assets to be made by the unit
- Unit, the ultimate beneficiary, should be convinced and motivated to implement the EE project.
- Unit may approach a lender (preferably its existing lender) of its choice.
- Project appraised and the unit is financed on its merits including it's track record and repayment capacity of EE Term loan from savings out of the EE project.

Financing ESCo Projects – Guaranteed Savings model

- DPR for EE project is the starting point. Investment in project assets to be made by the unit.
- Unit, the ultimate beneficiary, should be convinced and motivated to implement the EE project.
- Unit may approach a lender (preferably its existing lender) of its choice.
- Project appraised and the unit is financed on its merits including it's track record and repayment capacity of EE Term loan from savings out of the EE project.
- Credibility and Track record of the ESCo is very important.

Financing ESCo Projects – Shared savings Model

- No standard financing model exists mainly on account of
  - Finance to be extended to ESCo for procurement of EE assets, which can not be charged as primary security.
  - EE assets would be installed at the premises of ultimate beneficiary.
  - High risk perception as virtually no recourse in case of non-achievement of expected savings or non-performance of beneficiary unit for any reason whatsoever.

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DPR Contents of EE Projects

- Total energy consumption (as at present)
- 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
- Selected Sub-projects which are prima-facie "Investment Grade"
- Monitoring and Verification Protocol for the sub-projects
- Capital cost estimates including soft costs
- Pay back period calculation for the Energy Efficiency project.

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But then a few questions ….

- **Are the promised savings attractive and realistic enough to attract investment?**
- **Is credibility of ESCO/Energy Experts enough to generate confidence?**
- **Whether time frame of promised savings is attractive enough to commit scarce resources from other business goals?**
- **Is the techno-economic viability established? Is the Repayment period (for investment in EE project) is acceptable within the overall ambit of the Loan Policy of the lender?**

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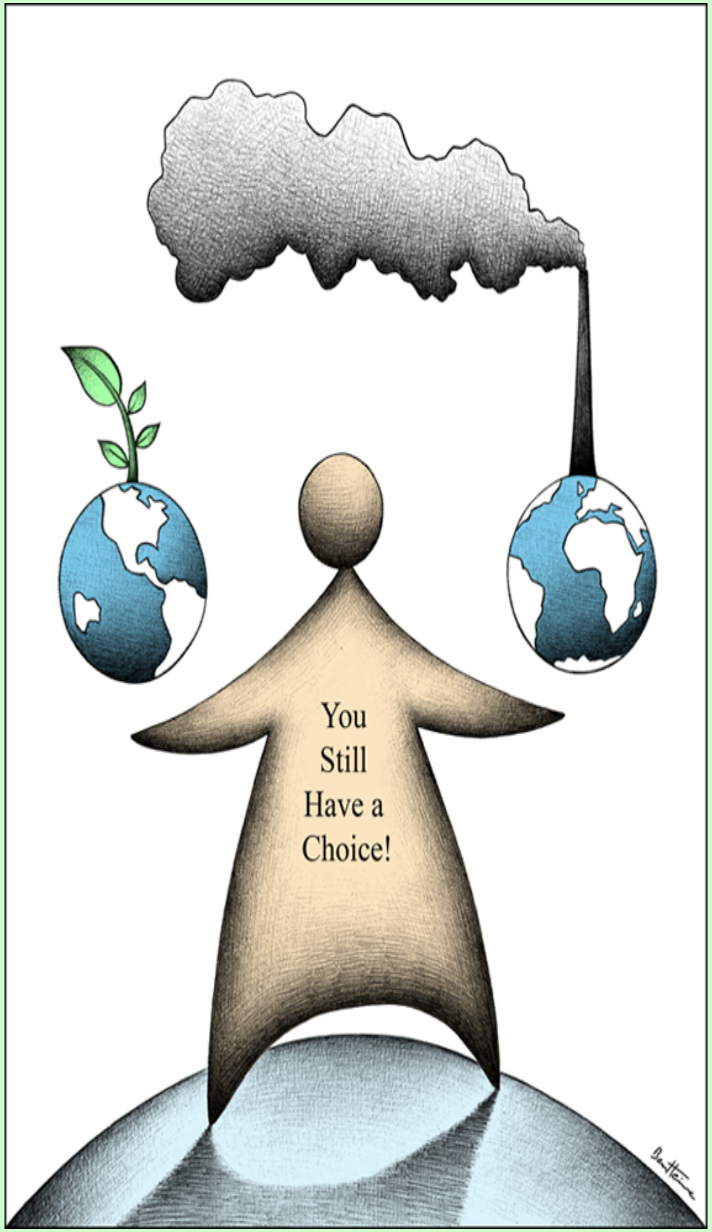

Thank You

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