

May 23, 2014

Approval by mail: CTF India: Partial Risk Sharing Facility for Energy Efficiency (PRSF)

Message sent on behalf of Germany, France and Canada

Dear Patricia, Pamela and IBRD India Team,

GER, CAN and France had the chance to review the project proposal and we can only reiterate that from a technical perspective the facility looks interesting and worthy of CTF support. This project seems to be relevant in terms of sector / actors perspective. Reducing energy consumption in this country is crucial in view of the pressure on both demand and supply, and constraints that generate difficulties to change the energy mix. Companies wishing to finance an EE project are struggling to find adequate funding and initiatives will therefore be encouraged by a model where the ESCO takes the technical risk or financial risk on these investments. However, ESCOs are new players in India and they have difficulties in accessing the finance they need, especially if they want to make the investments on their balance sheets instead of beneficiaries. Mechanism guarantees / risk sharing in this case is still very relevant, sustainable (financial institutions "get used" to these new customers at lower risk) and has a strong leverage for a minimum use of funds (guarantee up to 40-75 % of the loan amount). In addition, the technical assistance provided on GEF funds will be crucial to funding projects in this very nascent market.

There are a number of issues that we would like to discuss further with you, to help inform our positions.

We have noted that the project proposal is inconsistent with two aspects of the CTF guidelines as per the following document "Financing products, terms and review procedures for public sector operations, dated Nov 7, 2013". Specifically:

- The Pricing of 10 bps for the guarantee facility – According to article 3c) "Outgoing financing cannot be more concessional than incoming financing". Thus, if the project is to be funded from all CTF contributions, the absolute floor pricing for the full amount of the guarantee over the tenor of the guarantee is a minimum of 75 bps. In addition, this project carries private sector, not public sector risk, given the fact that the CTFs' ultimate credit risk might predominantly be industry and ESCOs. Given the above, we do not consider this pricing acceptable and would ask the IBRD revise the pricing, accordingly.
- Furthermore, we have noted that this project is a stand alone project without further blending from IBRD or any other MDBs. This is also inconsistent with the above-mentioned guidelines (articles 6 – 8). India's investment plan for the CTF indicates that IFC was originally intended to participate in the partial risk sharing facility (\$50M). We

would appreciate further information from the IBRD on the reason for the IFC's withdrawal from the facility.

In addition, we seek clarification on the following issues:

- The project document indicates that, in the event of a claim, the minimum amount for a CTF contingent financing payment will be US\$500,000, even if the cash shortfall in the participating financial institutions (PFIs) sub-account is less than that. We would request more information from the IBRD on the rationale for setting this minimum requirement, as it does not appear to be an efficient way to manage CTF resources, including by potentially committing unnecessary resources and creating a situation of moral hazard with the PFIs.
- The project document indicates that the likelihood of CTF capital being called is sensitive to the pricing of the partial risk sharing facility's sub-guarantee by SIDBI. We would appreciate receiving more information from the IBRD on the conditions for monitoring how SIDBI will price the CTF sub-guarantee.
- There appear to be unresolved legal restrictions related to SIDBI's ability to issue guarantees to participating financial institutions in support of loans to medium enterprises (see page 81). SIDBI's ability to issue loans to medium enterprises is a key risk affecting the financial sustainability of this project; accordingly, we request further information from the IBRD on the steps it will take to mitigate this risk.
- The intermediate indicators outlined on page 15 of the project appraisal document are based on financial metrics and not well aligned with the key outcome indicators, which report on environmental outcomes. We request that the IBRD review the results based management framework, accordingly.

At this fairly early stage, the nature of the technical assistance is not well defined and we would appreciate more information on:

- Financial institutions that may be involved in the project (including on operational procedures to implement the project); and,
- Benchmark of existing ESCOs on the market (sectoral, technological and geographical positioning, size, financial health...).

We look forward to receiving the IBRD's response.

Kind regards,
Michelle