



Mechanisms for Financing Energy Efficiency

Two Examples from India

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Starting Point from Project Findings: Face Commercial terms

- ◆ Commercial returns provide the key foundation for market sustainability
 - Key driver for end users is the underlying cost-effectiveness of the EE investment
 - Subsidies (either grants or concessional interest rates) can provide good demonstration, but ultimately can distort market, allowing only limited participation
 - further limited by amount of available subsidy resources—the target ee market is often too large





Mechanism 1

Non-Banking Financial Institution

- ◆ Publicly owned (IREDA) has support through World Bank Renewable Resources II Project
 - IBRD/IDA Financing for EE projects, primarily large (cogen, waste heat recovery, etc)
 - \$49 million total loans (\$35 m disbursed), representing over \$74m in total investment
- ◆ Advantages of this Option
 - Concentration/specialization on energy efficiency lending
 - One-stop shop for technical/financial
 - May be only option in sectors where financial sector is not-optimal (ie mid-structural shift, partial reforms,) -but must be flexible to adapt to changing market conditions
 - Dilemma once products become commercially accepted-high initial risks but DFI may not be able to compete with local banks (and gain from low risk and transaction costs if lending is scaled up) once initial experience is gained





Incentives to Local Banks: Why Participate in EE Market?

◆ Bank interest in EE Programs

- Narrow market, or....
- Tool to fit into broader strategic objectives
 - Enter/strengthen position in specific market or business line
 - SMEs, targeted industry sector, housing sector, equipment financing, etc
 - New product for existing customers--Strengthen existing relationships and improve asset quality
 - Gain experience with new product offerings
 - Corporate social responsibility/good citizen
- Outside donor/govt. programs can offer additional support to local bank institutions
 - TA to develop mechanisms, partial guarantee to reduce risks, performance incentives, capacity building





Small and Medium Enterprises in India

- ◆ 3 million units contribute 60 percent of the country's GDP
 - Large potential for EE savings
- ◆ Investment size is small and transaction costs are an issue
 - Avg EE project size ~\$100,000
- ◆ In India, many SMEs of certain types are grouped in "clusters," presenting an opportunity to reduce transaction costs and encourage replication





Mechanism 2

Indian Local Bank Schemes

◆ Five Lending Schemes for EE Launched

- State Bank, Canara Bank, Bank of Baroda, Union Bank, Bank of India
- Several launched cluster-focused marketing efforts
 - Small support from WB in marketing schemes
- Primarily aimed at existing clients
 - Easier to appraise, improve existing asset quality
- Outsourced technical appraisal through empaneled auditors

◆ Next Step-Proposed GEF Initiative

- Clean Energy Development: Financing Energy Efficiency at SMEs: to be considered Summer 2008
 - Will look to drastically expand cluster mobilization efforts to generate large numbers of identified investments, improve capacity at EAs, improve loan appraisal methods and bank capability for EE lending, deploy risk mitigation methods if required

