

## Ex-ante Evaluation

### 1. Name of the Project

Country: India

Project title: Micro, Small and Medium Enterprises Energy Saving Project

Loan Agreement: November 21, 2008

Loan Amount: 30,000 million Yen

Borrower: Small Industries Development Bank of India (SIDBI)

### 2. Background and Necessity of the Project

In line with the rapid economic growth in India, energy consumption has continued to rise, and for the continued stable supply of energy and environment preservation, India is facing a pressing need to improve the efficiency of its energy use through energy saving. It has been pointed out that on the whole micro, small and medium enterprises (MSME) have older equipment, etc. and have poorer energy efficiency than large companies, and accordingly afford more opportunity to improve their energy efficiency.

With regard to this problem, the Indian government has taken action, promoting the efficient use of energy by enacting the Energy Conservation Act and the Integrated Energy Policy as well as facilitating preferential financing for micro, small, and medium companies through the enactment of the Micro, Small and Medium Enterprises Development Act. Among MSME however, not only is the ability to procure capital for energy-saving equipment limited, so are the technology and expertise for doing so, and general awareness of the importance of energy saving is not generally high, and accordingly, efforts to implement energy-saving measures remain inadequate.

In the "Japan's Country Assistance Program for India" prepared by the Japanese Government, "poverty reduction and environment improvement" has been set down as a major goal. Further, JICA has set down "support for environment / climate change measures" as a major aid area, and has set down a policy of provide aid for the introduction of energy saving technologies in industrial fields. This project complies with these goals.

Under this situation, there is a high level of necessity and relevance for JICA to support this project that will provide mid-/long-term funding for MSME, raise awareness towards energy saving of MSME and support and promote energy saving activities by MSME through strengthening financial institutions ability to evaluate loans to MSME.

### **3. Project Description**

#### (1) Project Objectives

The purpose of this project is to promote energy-savings measures among MSME by providing them with the mid-/long-term financing necessary for energy-saving measures as well as supporting Small Industries Development Bank of India (SIDBI) and other intermediary financial institutions in India – the executing agency – by strengthening their capabilities to finance loans. It will raise awareness of energy saving in MSME, and promote efficient energy use, and contribute to improving the environment, sustainable economic development and climate change measures by promoting an improvement in energy efficiency in India.

#### (2) Project Site / Target Area

India (All)

#### (3) Project Outline

This project will provide the end user MSMEs with necessary capital via two-step sub-loans from the SIDBI or via three-step sub-loans through further intermediary financial institutions. Additionally it will implement awareness raising activities aimed at promoting capital expenditure, etc. on energy saving and provide support to SIDBI and other intermediate financial institutions based on experiences in Japan to strengthen their capability to evaluate loans to MSME for energy saving related items.

1) Provision of necessary funds for subproject implementation (Japanese ODA loan)

a) Sub-loan financing period: 3 ~ 10 years

b) Sub-loan interest rate: Set by SIDBI or intermediary financial institution (However, expected to be set at a lower rate than the preferential interest rate for general financing)

c) Target industries: Focused on industries that consume a lot of power (Excluding illegal industries such as arms and narcotics.)

2) Technical support (strengthen financial institution's capability to appraise loans for energy saving related items, raise energy saving awareness. Not part of ODA loans)

#### (4) Total Project Cost/Loan Amount

31,593 million Yen (Including 30,000 million Yen in Japanese ODA loan)

#### (5) Project Implementation Schedule

Planned for October 2008 ~ September 2011 (Total 36 months). Project will complete when the entire amount has been financed. (Note: technical support is as a rule planned to be performed during the project implementation (loan implementation) period, but for project effect calculation it is expected to extend 6 months past project completion.)

#### (6) Project Implementation Structure

- 1) Borrower: Small Industries Development Bank of India (SIDBI)
- 2) Guarantor: The President of India
- 3) Executing Agency: As per 1)
- 4) Operation / management: As per 1)
- (7) Environmental/social awareness / poverty reduction / social development
  - 1) Environmental/social awareness
    - a) Category: FI
    - b) Reasons for categorization: This project provides funds to financial intermediaries. As sub-projects cannot be specified prior to JICA's approval of the funding, the project is classified under the category of FI based on the "JBIC Guidelines for Confirmation of Environmental and Social Considerations" (enforced in April 2002).
    - c) Other / monitoring: This project mainly focuses on capital investment targeting energy saving, and taking into account the scale and expected content of subprojects, a large-scale environmental impact by subprojects cannot be foreseen. SIDBI will follow its own environmental monitoring guidelines and when selecting subprojects confirm that subprojects are performing appropriate environmental consideration, and where required receive support from a consultant for technical support and perform monitoring.
  - 2) Promotion of Poverty Reduction: None
  - 3) Promotion of Social Development (e.g. Gender Perspective, Measures to Prevent Infectious Diseases Including AIDS, Participatory Development, Consideration for Handicapped, etc.): None
- (8) Cooperation with Other Donors.
 

None
- (9) Other Important Issues
 

As a part of technical support, planning to support a process to group together emission credits from multiple subprojects and perform CDM applications.

#### 4. Outcome Targets

- (1) Evaluation Indicators(Operation and Effect Indicator)

| Indicator   | Target<br>(At 2011 [project completion])                                |
|---|---|
| Energy consumption reduction<br>(Oil equivalent tons/year,<br>power consumption/year) | To be calculated by technical support<br>consultant when project starts |
| Number of energy saving awareness<br>activities performed                             | To be set down by technical support<br>consultant when project starts   |

- (2) Internal Rate of Return
 

Not calculated.

## **5. External Factors / Risk Control**

Changes in financial climate as a result of the global credit shrinkage.

## **6. Lessons Learned from Findings of Similar Projects Undertaken in the Past**

Based on ex-post assessments of past similar projects, the lesson learnt is that for development finance loans, when interposing multiple executing agencies (financial institutions) in parallel, project scale and sub-loan conditions should not be set uniformly for each, but instead that it is more effective to set them flexibly based on the capital demand and scale of the end users that each of the financial institutions target. Accordingly, a level of flexibility has been retained in the loan conditions and loan decision standards for each of the intermediary financial institutions that will participate in this project.

## **7. Future Evaluation Plan**

- (1) Indices to be Used in Future Evaluations
  - 1) Energy consumption reduction
  - 2) Number of energy saving awareness activities performed
- (2) Timing of Future Evaluations
  - After project completion

End