

Workshop on Partial Risk Guarantee Fund for Energy Efficiency (PRGFEE) for Financial Institutions

Event Proceedings

Event details:

Date: Wednesday, November 04, 2015

Time: 10:00 Hrs. to 14:00 Hrs.

Venue: Amaltas, India Habitat Centre, New Delhi

Attendees: Provided in Annexure – 1

Objective:

Bureau of Energy Efficiency (BEE) and the Consortium Partners REC, RECPDCL and EESL are in the process of finalising the Operations Manual for the Partial Risk Guarantee Fund for Energy Efficiency (PRGFEE) scheme. The objective of the workshop was to get inputs/ feedback from the Banks/ Financial institutions on the proposed structure of the fund, for a smooth and early roll out of PRGFEE Scheme.

Flow of event:

Welcome remarks:

Shri S.C. Garg, Additional CEO, REC Power Distribution Company Ltd. (RECPDCL) provided welcome remarks and gave an overview of the workshop. Shri Garg highlighted the achievements of BEE and the Consortium of REC, RECPDCL and EESL in working towards making the PRGFEE scheme a success by developing an Operations Manual. He welcome the Financial Institutions (FIs) and urged them to give their valuable feedback in formalising the Operations Manual and other procedures of the scheme.

Thematic address:

Shri A.K. Gupta, Director, Finance – Energy Efficiency Services Limited (EESL) provided the audience an overview of the potential of the energy efficiency market in India. He highlighted that it takes INR 6 crore to set-up one MW of energy and similar amount is required for transmission & distribution of the same. He impressed upon the need for energy efficiency along with the efforts towards creating energy from cleaner sources.

Shri Gupta set the tone of the event by impressing upon the need for schemes like the PRGFEE to give a boost to the Indian energy efficiency market.

Presentations:

Following the thematic address, Smt Vineeta Kanwal, Assistant Energy Economist, BEE gave a detailed presentation on the PRGFEE scheme and the empanelment process for the FIs.

After Ms. Vineeta Kanwal's presentation, Shri Mohit Khatri, Deputy General Manager, EESL gave a presentation on the potential of the Energy Efficiency market in India. The presentation gave an overview of the type of energy service contracts exist and business models that EESL follows.

Post Shri Khatri's presentation, Shri Somya Kant, CFO, REC-PDCL gave a presentation on the modalities of the PRGFEE scheme, the application and sanction process. He also gave illustrations on the 'First Loss' and procedures for claim.

BEE has already floated the EoI for empanelment of FIs on 30th October, 2015 and is available on BEE's website i.e. www.beeindia.gov.in.

Summary of conversation with stakeholders

Following the presentations, there was a session on the feedback from the FIs. During this session, there were some concerns and recommendations by the panellists and the FIs. The same have been enlisted below:

1. Technical assessment by IA prior to the financial assessment by FI

FIs indicated that if a technical evaluation is done by the IA prior to financial appraisal by the bank, it would give the banks more comfort in considering the application of the ESCO. The banks also pointed out that the IA was best placed to conduct technical feasibility given their knowledge on energy efficiency projects and upcoming technologies.

The panelists acknowledged the concern and mentioned that as the Financial Institution is sanctioning the loan and the PRGFEE is only meant to partially share the risk, it would be ideal if the initial scrutiny is conducted by the bank and capacity building to this extent is at the end of PFIs instead of fully relying on the appraisal of IA only. However, as a second check, the IA will conduct a thorough technical and financial analysis of the proposed project which will provide confidence to PFI.

However, in the initial phase, joint appraisal will be explored till the full fledged appraisal procedure are in place with PFIs. BEE confirmed that the template for submission of information by the FI to the IA are part of the Operations Manual. BEE further confirmed that the Operations Manual will be uploaded on BEE's and RECPDCL's website.

2. Upfront payment of application fee

The FIs indicated that there needs to be a technical evaluation prior to the financial analysis by the institution. For the same, Shri Dinesh Arora recommended upfront payment of an application fee of 0.25% of the guarantee applied to the IA by the FI. While this was agreeable, the FIs indicated that the application fee of 0.25% of the guarantee applied to the IA by the FI will be deterrent to ESCOs applying for the loan.

The panel agreed to take up this matter with the BEE's Supervisory Committee/Management committee for PRGFEE.

3. Uniform Guarantee Slab

FIs further raised a concern that the provision of different guarantee slabs in the current scheme leads to uncertainty about the evaluation and available security. The concern of the FIs was that if an application is approved by the FIs and then sent to the IA who evaluates the project for less than 50% risk guarantee under the scheme, then the comfort level of banks in evaluating the application and sanctioning a loan would be adversely impacted.

The panel highlighted that in the proposed evaluation process, a scoring process have been defined, and on the basis of the same, the exposure percentage will be currently evaluated.

4. Balance settlement in case of defaults

It was discussed that as per the present Rules, post the Guarantee Claim is determined to be genuine, IA shall communicate its acceptance thereof and approve the release of up to the maximum extent of 75% of the Claim Amount in accordance with the terms of the Operation Manual by issuing a letter to the PFI and the Issuing Bank (“Guarantee Claim Approval Letter”), while the balance 25% payment for the claim will be made only after the recovery process is concluded by PFI.

The FIs indicated there is precedence to expediting such payment based on other milestones in the legal process of recovery in other government guarantee schemes.

Shri Dinesh Arora, CEO, REC-PDCL requested the FIs to share the details of these schemes with the IA and the same would be evaluated.

5. Requirement for signing of MoU

Various Banks including Public Sector Banks highlighted if a complete waiver could be given from signing MoUs. BEE confirmed that the same is NOT POSSIBLE as in other Govt. schemes like CGTSME the lending institution has to enter into an agreement with the trust for becoming member lending institution under the scheme.

6. Coverage for ESCOs as well as Facility Owners/Hosts/Individual Borrowers

The FIs raised the possibility that several industry players seek loans for energy efficiency projects may not be an ESCO and hence that the PRGFEE scheme may be made more inclusive. FIs also sought clarity on why the PRGFEE scheme is solely for ESCOs, and will it not share risk for loans provided to the facility owners without the involvement of an ESCO as equity partner and loan seekers.

In response to this, the panel confirmed that the EE project could either be led by an ESCO or it could be a joint venture between the ESCO and the Facility Owner with a minimum of 50% stake held by the ESCO. The panel mentioned that the motive of the PRGFEE is limited to supporting ESCOs which are facing major hurdle in getting finance support otherwise inspite of being a major driver for EE projects. However, any proposal of enlarging the scope to include more players will be taken up with the management. Hence, it is reiterated that presently any loan proposal by the beneficiary without ESCO being an equity partner will not be eligible for PRGFEE. However, PFI may take such proposal at their own.

PFI suggested for giving loans to deemed ESCOs. Shri Dinesh Arora further recommended that if a borrower (non-ESCO) comes to the bank seeking a loan for an energy efficiency project, then FI can request to BEE, to empanel the borrower as an ESCO and accordingly projects can be given to them on the status of a deemed ESCO. It was requested by FIs if the empanelment process for ESCOs could be open round the year and ESCOs coming to banks for EE loans could be empanelled at any time during the year.

7. Issues with appraisal of ESCOs and Projects

FIs raised the point that declaring only one project of the ESCOs as NPA may be not be sufficient as ESCOs may have more than one loan from different financial institutions for multiple projects which may be good, whereas the project guaranteed by PRGFEE may have defaulted due to external reasons e.g mere support of the host or business cycles of that industry, whereas proceeding recovery process against defaulting on one project by an ESCO may result in all other projects also being declared NPA, which may not be fair to an ESCO. Therefore banks should have the liberty to finance ESCOs based on their overall financial capability rather than individually assessing each project.

The panel acknowledged that ESCOs under the current scheme have an incentive to abide by the rules and ensure that they do not default. The panel also reaffirmed that since the financial contract is between the FIs and the ESCOs, the FIs would hold ESCOs responsible for timely repayment even if there are issues on the part of the beneficiary. The same has also been mentioned in the Operations Manual

8. Time limit of loans

FIs raised the point that currently the PRGFEE scheme allows guarantee only for a maximum tenure of 5 years, while some projects or loan term may be of a longer time frame.

The panel agreed to consider a proposal that after an initial term of 5 years, and on a case to case basis, the guarantee term may be renewed.

Solutions/recommendations proposed by PFIs:

1. An evaluation of projects be conducted by the IA prior to assessment by the FI. For this, upfront application fee of 0.25% of the guarantee applied for can be given by the FI to the IA for conducting the said evaluation. However, this fees should not be charged by the IA upfront in the overall interests of the scheme.
2. A checklist can be created to evaluate the eligibility of a host/facility owner for the PRGFEE scheme for being empanelled as an ESCO. An alternate process of providing a host who approaches an FI with a list of ESCOs, allowing the host to choose and engage an ESCO of choice, in order to avail of the PRGFEE scheme is also proposed.
3. A flat 50% guarantee on loans under the scheme, or determination of the percentage of guarantee prior to in-principle approval of loan by the FI

4. A standardized format for information that a FI will provide to the IA. This is so that time spent in collating the required information is reduced.
5. Determination and articulation of the timelines for the appraisal by the IA
6. Clarity on the settlement process for second release of claim of 25% in case of first loss in line with other existing schemes
7. Clarity on the determining when a project/ESCO is declared NPA, as well as its impact on other projects of the ESCO.

Photographs from the Workshop



