

**COMBINED PROJECT INFORMATION DOCUMENTS / INTEGRATED
SAFEGUARDS DATA SHEET (PID/ISDS)
ADDITIONAL FINANCING**

Report No.: PIDISDSA17513

Date Prepared/Updated: 07-Apr-2016

I. BASIC INFORMATION

A. Basic Project Data

Country:	India	Project ID:	P158033
		Parent Project ID (if any):	P100530
Project Name:	Additional Financing for Financing Energy Efficiency at MSMEs Project (P158033)		
Parent Project Name:	INDIA - Financing Energy Efficiency at SMEs (P100530)		
Region:	SOUTH ASIA		
Estimated Appraisal Date:	17-Mar-2016	Estimated Board Date:	12-Aug-2016
Practice Area (Lead):	Environment & Natural Resources	Lending Instrument:	Investment Project Financing
Borrower(s):	Small Industries Development Bank of India		
Implementing Agency:	Bureau of Energy Efficiency		
Financing (in USD Million)			
Financing Source			Amount
Borrower			0.20
Global Environment Facility (GEF)			5.19
Borrowing Country's Fin. Intermediary/ies			24.80
Total Project Cost			30.19
Environmental Category:	B - Partial Assessment		
Appraisal Review Decision (from Decision Note):	The review did authorize the team to appraise and negotiate		
Other Decision:			
Is this a Repeater project?	No		

B. Introduction and Context

Country Context

India has nearly three million Medium, Small and Medium Enterprises (MSMEs) which constitute more than 80 % of the total number of industrial enterprises in the country, contributing 45% to industrial production, 17% to GDP and representing 40% of India's exports. Per the Ministry of Small and Medium Enterprises, the SME sector is also the largest single employment sector after agriculture, constituting about 45% of industrial sector employment. The SME sector in India also plays a significant role in terms of balanced and sustainable growth, deployment of entrepreneurial skills, and represents the greatest potential to create new high wage employment opportunities.

The Indian MSME sector is facing high and rising energy costs, unlike certain other sectors of the economy such as agriculture that benefit from subsidized energy prices, whereas export-oriented Indian SMEs are facing increased global competition. Price and cost pressures are of high and increasing importance to enterprise owners. Many Indian SMEs are energy-intensive, employing inefficient and outmoded technologies and operational modalities that endanger their competitiveness and future growth. Investments in cost-effective EE measures would improve their productivity and bottom-line profits.

Sectoral and institutional Context

MSMEs, especially those for whom energy costs represent a large portion of total production costs, can reap especially high direct economic benefits from improving efficiency of energy conversion and reduction of energy losses. In the past, wide-ranging governmental programs of fiscal incentives and other interventions have been offered to SME units to address technology improvements and performance efficiency. Despite the financial attractiveness of these types of investments and several efforts to support the development of EE investment projects and Indian technical capacity to deliver EE solutions, only a small number of projects have actually been implemented and there has been limited adoption of efficient technologies and replication of best practices, due to the existence of numerous barriers and market failures.

These barriers include not just market barriers typically seen in energy efficiency projects globally, but additional India-specific constraints which include: (a) gap in understanding between energy auditors and EE practitioners who prepare technical proposals for SME clients and the local banks who evaluate loan proposals as opposed to technical studies; (b) EE Investments of MSME loans are often small, they also carry higher transaction costs as a percentage of investment when compared to large loans, making them less attractive to the banks as a specific lending product; (c) lack of information among banking sector stakeholders on the potential market for lending and the portfolio benefits in terms of improving asset quality which can be achieved by increasing their own lending for EE to existing clients; (d) imperfect information about EE among MSMEs persists, representing another barrier preventing increased adoption of efficient technologies; (e) SME units also remain generally unfamiliar with the performance of readily available efficient equipment in Indian conditions; and (f) top tier vendors of energy efficient equipment frequently give lower attention to individual SMEs due to their small size and the perceived difficulties in working with this customer class

C. Proposed Global Environmental Objective(s)

Original Project Development Objective(s) - Parent

To increase demand for energy efficiency investments in target micro, small and medium enterprise clusters and to build their capacity to access commercial finance. The Project Development Objective supports the global environmental agenda of stabilizing atmospheric concentrations of greenhouse gases (GHG) through an increase in Energy Efficiency investments and resulting energy savings.

Key Results

The key results include:

(a) Cumulative and estimated lifetime Carbon ERs: The ERs are estimated considering direct emission reductions through direct investments which emerge from expected implementation in 200 MSME units. The 200 units are proposed for implementation based on available resource of US\$2.1 million in RF. The potential energy savings in the proposed 5 SME sectors are assessed based on the information sourced from FEEMP implementation; technology studies conducted under BEE's SME programs; meetings, field level interaction with SME units, and industry associations. The assessments reflect that energy savings could vary from 12 to 22% respectively for low/medium and high EE investment options and also depend on type of SME sector. Considering the availability of Revolving Fund (RF) for implementation, the average energy savings have been targeted up to 20%. Assessment of ERs from the project intervention has been carried out using the usual GEF assumptions for estimating EE savings and CO2 benefits. The estimated ERs are classified under two major categories: (i) lifetime direct GHG emissions avoided due to direct interventions under the project; (ii) potential GHG emissions avoided due to post-project re-investment of revolving fund, as well as indirect ERs arising from replication potential. Annex 1 presents the detailed results including different % scenarios of project penetration in terms of actual implementation by the units.

(b) Direct Investments: The aggregate value of direct EE investments in the amended project for 200 MSME units is estimated at US\$ 9 million considering that the proposed RF of US\$ 2.1 million would leverage at least 3 times in EE investments through SIDBI's contribution in the form of loan extended to the implementing units. The estimated per unit direct investments are higher than the results committed under the FEEMP, where the estimated value of direct investment in 500 units is about US\$ 15 million. Further, considering the loan tenure of 5 years, the RF will be rolled out for a minimum of 2, and a maximum of 3 additional cycles of 5 years each, leading to replicable investments ranging from US\$ 18 to 25 million. These estimates are proportionate with the committed results under FEEMP where implementation in 500 units is expected to result in long term replicable investments of US\$ 38 million.

D. Project Description

The Additional Financing Project will contribute to bridge the current gap in understanding between energy professionals/technology suppliers, entrepreneurs, Banks and Financial Institutions. The project will focus on tapping EE benefits through a three pronged approach which includes i) awareness/capacity building; ii) direct interventions to increase EE investments; and iii) expanding the EE knowledge base, especially through establishing key performance indicators. The project will engage in focused efforts in energy-intensive SME sectors and/or clusters to increase the demand for EE products and services and mobilize several actionable initiatives, which would typically include: replication of proven technologies, demonstration of scaled down technologies which are proven in large scale units but not available for MSMEs,

unit-level specific technical assistance, financial instruments to facilitate EE technology demonstration, etc. Given the resources and the pool of MSMEs available, the actual measurable EE initiatives will be implemented in about 200 MSME units. The sub-sectors considered for implementation include, agro-based and food processing units, ceramic industries, pulp and paper units, pharma sector, and consumer electrical. These categories are broadly comparable to the size and types of processing systems under the parent project India: Financing Energy Efficiency at MSMEs Project (FEEMP) –i.e. mixed engineering, forging and foundry, chemical and pharmaceutical units. These sub-sectors in MSME consume about 25% of the energy share of MSMEs.

Component Name

Component 1: Build capacity, awareness, and EE market

Comments (optional)

Component 1 would facilitate business-to-business or B-2-B linkages for: (a) replication of successful technologies in MSMEs, focusing on homogenous clusters by establishing linkages for appropriate technology providers; (b) skill development for the Local Service Providers (LSPs); (c) establishing key performance indicators for a segment of MSMEs (e.g. consumer appliances, pumps, etc.); (d) enabling EE assessment mechanisms such as cluster level testing facilities, association of EE practitioners, etc.; and (e) media products for enhanced awareness and outreach. This component will be jointly implemented by BEE and SIDBI. While SIDBI will focus on awareness building for EE investment at its own branches as well as other FIs, BEE will ensure EE knowledge exchange, and experience sharing

Component Name

Component 2: Increase EE investments in MSMEs.

Comments (optional)

The objective of this component is to support the EE opportunities highlighted above to facilitate higher level of EE investments for about five categories of MSMEs spread in different geographical clusters. This component will provide support to development of the pipeline that goes beyond the TA support of Component 1 by decreasing the risks associated with such investments. On the demand side, MSMEs are unable to prepare EE projects but are also reluctant to spend any money on the preparation of a bankable proposal by a third party, particularly if this is an unfamiliar activity in the industry. As part of this activity, the existing Revolving Fund of US\$ 3 million under the parent project will be topped up by about US\$ 2.1 million.

Component Name

Component 3: Knowledge Management

Comments (optional)

This component managed by BEE would facilitate consolidating the knowledge generated while implementing the IGDPs. BEE as part of technical advice to SIDBI, will identify advanced technologies and if necessary, customize and demonstrate such technologies for better penetration (including scaled down technologies which are proven in large scale units but not available for MSME scale of operations) . In addition, BEE will establish key EE performance indicators for at least one or two segments of MSME manufacturing (e.g. consumer appliances or pumps, etc.) which could bring about a long term transformative change in demand-side EE.

Component Name

Component 4: Project Management and Coordination

Comments (optional)

This component would provide resources for project management and coordination across the components and with the various MSMEs

E. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

F. Environmental and Social Safeguards Specialists

Sameer Akbar (GCCPT)

II. Implementation

Institutional and Implementation Arrangements

The additional finance project will be continued to be executed by SIDBI and BEE. Both these agencies have strong experience in the EE sector and have been implementing the parent project. It is proposed to replicate the same implementation arrangements for this project

BEE will retain overall implementation responsibility for the AF Project, and will directly implement activities such as project oversight, reporting and evaluation, implementation of certain national level outreach and capacity building activities, and cross cutting knowledge management activities. The BEE will also maintain implementation responsibility for certain targeted capacity building efforts such as programs designed to improve technical capacity/skill development, etc.

SIDBI will assume implementation responsibility mainly for the technical assistance to facilitate Energy Efficiency Initiatives, with extended support for EE awareness and EE Knowledge Management, with a focus on the cluster specific activities. SIDBI will provide reports on implementation progress to BEE, who is lead agency with overall responsibility for the GEF Programmatic Framework Project for Energy Efficiency.

III. Safeguard Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	The proposed project envisages to replicate the EE measures adopted in different MSME clusters to maximize on energy and environmental benefits. such benefits have already been demonstrated through the parent project. However, environmental concerns could possibly arise from negative baseline environmental management practices and consequent non-compliance with existing regulatory norms by participating MSME units. While the World Bank project will, by definition, support investments that will improve environmental conditions through improved efficiency, there could be potential safeguards issues. It is important to address such

		<p>issues as part of the project design to embedding the good safeguards practices. In order to facilitate such actions, OP 4.01 is triggered</p> <p>No specific, project-induced, social impacts have been identified with respect to involuntary resettlement (IR) and indigenous peoples (IPs). The project components are unlikely to cause any adverse social impacts. However, it would be important to ensure that the participating MSME units are in compliance with relevant national labor/factory laws as demonstrated by clearances and implementation of clearances obtained.</p>
Natural Habitats OP/BP 4.04	No	The proposed project activities will not affect any Natural Habitats and hence OP4.04 not triggered
Forests OP/BP 4.36	No	The proposed project activities will not affect any forest and/or forest resources. Hence OP 4.36 has not been triggered
Pest Management OP 4.09	No	Not applicable for the project activities and hence not triggered
Physical Cultural Resources OP/BP 4.11	No	The proposed MSME sites will be located in industrial estates and does not involve any sites of Physical and cultural importance. Given this, OP4.11 is not be applicable.
Indigenous Peoples OP/BP 4.10	No	Not applicable for the project
Involuntary Resettlement OP/ BP 4.12	No	The project does not lead to any Involuntary Resettlement and hence 4.12 is not triggered
Safety of Dams OP/BP 4.37	No	Not Applicable
Projects on International Waterways OP/BP 7.50	No	Not Applicable
Projects in Disputed Areas OP/ BP 7.60	No	Not Applicable

IV. Key Safeguard Policy Issues and Their Management

A. Summary of Key Safeguard Issues

<p>1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:</p> <p>The proposed project will facilitate energy efficiency improvement through capacity building in SME clusters and provision of grant support for preparing investment grade proposals for EE improvements. In addition to reductions in direct energy consumption, the parent project has demonstrated several additional positive environmental impacts from reduced combustion of fossil fuels and improvement of occupational health and safety of workers. However, environmental</p>
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<p>concerns could possibly arise from negative baseline environmental management practices and consequent non-compliance with existing regulatory norms by participating MSME units. In the clusters covered under this project, potential environmental issues could occur in the following areas: water and air pollution; noise levels; and handling and disposal of solid and hazardous wastes. While the World Bank project will, by definition, support investments that will improve environmental conditions through improved efficiency, there are potential safeguard concerns associated with the provision of Bank technical assistance to units whose facility may not be in compliance with GoI norms. If necessary remedial measures are not built in, there could be reputational risks.</p> <p>No specific, project-induced, social impacts have been identified with respect to involuntary resettlement (IR) and indigenous peoples (IPs). The project components are unlikely to cause any adverse social impacts. However, it would be important to ensure that the participating MSME units are in compliance with relevant national labor/factory laws as demonstrated by clearances and implementation of clearances obtained.</p>
<p>2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:</p>
<p>The proposed project interventions would not lead to any potential indirect and/or long term negative impacts. The project is expected to provide benefits to the participating SME units who will realize the financial returns from cost effective EE improvements. EE service providers and vendors of EE equipment will benefit from the increased demand for their services, and the reduction in the use of and demand for energy will produce additional global and local environmental and other indirect benefits.</p>
<p>3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.</p>
<p>Not Applicable as the project alternatives relate to cluster level activities in SME units. Such analysis would be carried out as part of the unit level EE audits.</p>
<p>4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.</p>
<p>Though initially there were institutional capacity challenges, the borrowers, under the parent project have taken up extensive measures to address safeguards related issues and there have been very encouraging results with relevant demonstrable case studies which reflect the effective integration and EE and Environmental Improvement synergies. Currently the safeguards ratings for the parent project are satisfactory. The key lessons learnt from the parent project include: (a) the environmental risk management approach adopted is practical and implementable; (b) if effectively utilized, the energy efficiency improvement can be leveraged to drive the environmental safeguards agenda in a practical manner; (c) MSME efforts are always focused on improving the profit margins and if the environmental compliance is related to financing bottom line, there is better change of compliance with environmental regulations.</p> <p>Interventions to address potential environmental issues in the project will be continued to be undertaken by the borrowers. The details include: At the first level, all EE walkthrough audits supported under the project focuses on confirming the current environmental regulatory compliance by the candidate MSME unit as a critical eligibility criteria to be examined. This essential criteria will be required for selection of MSMEs for receipt of unit level detailed EE audit, preparation of DPR and handholding for the investment proposals. At the second level, the EE audits itself will also include: (a) review the level of regulatory compliance with reference to conditions of #Consent to Operate# issued by Pollution Control Boards; (b) identification of</p>

environmental measures, including Environmental Health and Safety (EHS) aspects that are complimentary to EE improvements # essential measures could form part of EE improvement proposals; and (c) documentation of environmental benefits of Energy Efficiency options with relevant quantified data wherever feasible. The above referred scope will be included in preliminary and detailed EE audits ToRs.

In addition to preparation of investment grade proposals for EE improvements, Component 2 of the project supports energy efficiency investments (which involves physical implementation) on a pilot scale, as well as demonstration of technology. All such cases will follow the above referred approach to ensure all the environmental risks during implementation will be addressed fully. All such cases will be subjected to 100% third party audit which also include review of compliance with the safeguard risk management measures as well as regulatory compliances.

The above process will be followed by SIDBI using the ESMF which is based on Risk Management approach, currently used by the parent project (FEEMP). The screening as part of EMF will also ensure that the participating MSMEs will be compliant with the labour laws of the land. The ESMF used for the original project is process specific with clearly laid out principles and procedures for ensuring safeguards risks are mitigated and/or minimized. In terms of nature and sector of MSME units, ESMF covers assessment of 30 categories of industries including their processes, potential for environmental risks, and possible interventions to minimize risks including description of cleaner production options. The 30 categories covers the sectors addressed in Parent project (i.e. Forging, Foundry, Mixed Engineering, Dye-stuffs and Chemical, and lime kilns) as well as proposed energy intensive sectors under Additional Finance Project (i.e. Ceramics, Pharmaceuticals, Pulp & Paper, Agro-based units, and Consumer Electricals). Given this, the ESMF disclosed under the parent project, and its provisions are fully applicable for the Additional Finance Project.

The institutional capacity for safeguards management is assessed at two levels: (i) provision of TA for implementing agencies # BEE and SIDBI; and (ii) provision of TA to MSMEs and their associations. As part of the project implementation, BEE and SIDBI has established Project Management Units with necessary staff resources with domain expertise on energy and environment. In case of SIDBI, institutional mechanisms are well established under the parent project. Minimal safeguard inputs will be required for the capacity building activities to be implemented by the BEE. In case of MSME associations and the MSME units, the institutional capacity would be limited to focus on regulatory compliance. The proposed capacity building sub-components of the project will facilitate enhancing the implementation capability of all stakeholders on safeguard issues

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

The key stakeholders of the project include: (i) SME Industry units and associations, (ii) Banks and FIs, (iii) Energy Auditors, and (iv) Equipment vendors for EE improvements. Apart from consultations and EE awareness workshops/campaigns, the project activities include specific cluster based workshops prior to walk-through audits and preparation of EE audits/DPRs. Such workshops also include consultations on safeguard policies as well as disclosure of environmental regulatory compliances, environmental benefits of the proposed EE measures as well as proposed environmental management measures if any. Such disclosures will be hosted by local industry associations.

B. Disclosure Requirements

Environmental Assessment/Audit/Management Plan/Other	
Date of receipt by the Bank	04-Jan-2010
Date of submission to InfoShop	06-Jan-2010
For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors	
"In country" Disclosure	
<i>Comments:</i>	
If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP.	
If in-country disclosure of any of the above documents is not expected, please explain why:	

C. Compliance Monitoring Indicators at the Corporate Level

OP/BP/GP 4.01 - Environment Assessment	
Does the project require a stand-alone EA (including EMP) report?	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>] NA [<input type="checkbox"/>]
The World Bank Policy on Disclosure of Information	
Have relevant safeguard policies documents been sent to the World Bank's InfoShop?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
All Safeguard Policies	
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
Have costs related to safeguard policy measures been included in the project cost?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]

V. Contact point

World Bank

Contact: Sita Ramakrishna Addepalli

Title: Senior Environmental Specialis

Borrower/Client/Recipient

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Implementing Agencies

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VII. Approval

Task Team Leader(s):	Name: Sita Ramakrishna Addepalli	
<i>Approved By</i>		
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Practice Manager/ Manager:	Name: Kseniya Lvovsky (PMGR)	Date: 08-Apr-2016
Country Director:	Name: Onno Ruhl (CD)	Date: 11-Apr-2016