
***Operations
Guidelines***

Partial Risk
Sharing Facility for
Energy Efficiency
(PRSF)

August 2015



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- A. Energy Savings Performance Contract (ESPC)
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1. Introduction to PRSF scheme

1.1. Energy Service Companies (ESCOs)

1.1.1. Introduction

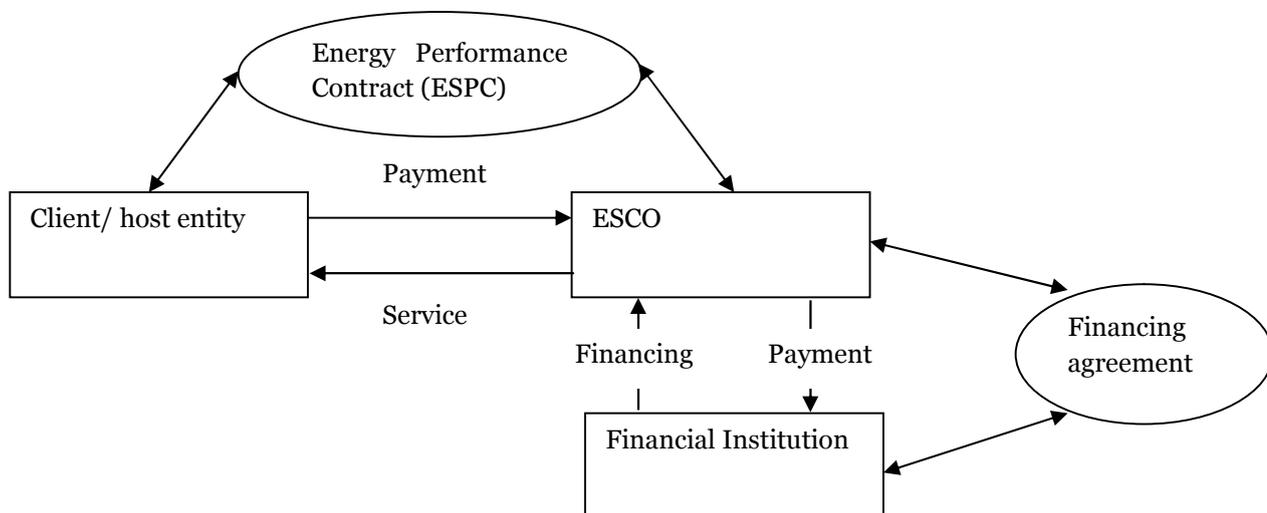
ESCOs, Energy Services Companies offer energy efficiency improvement services which may also include guarantee of the savings. The remuneration of ESCO is linked to the projects' performance which means that the ESCO's payment is directly linked to the amount of energy saved.

ESCOs are important vehicles to capture energy-efficiency potential and the business model they use, **energy performance contracting**, helps overcome a number of market barriers.

A typical ESCO project includes the following elements:

- Investment grade energy audit;
- Identification of possible energy saving and efficiency improving actions;
- Comprehensive engineering and project design and specifications;
- Guarantee of the results by proper contract clauses
- Code compliance verification and guarantee;
- Procurement and installation of equipment;
- Project management and commissioning;
- Facility and equipment operation & maintenance for the contract period;
- Measurement and verifications of the savings results; and
- Project financing

Financing for the investment can either be provided by the ESCO from its internal funds or by the customer, or by a third party funding (TPF), in which a financial institution allows a credit either to the ESCO or directly to Host entity where the energy savings project is being implemented; the loan may or may not be backed by a guarantee for the projected energy or cost savings given by the ESCO.



There are two main models for energy performance contracting: the “shared savings” model and the “guaranteed savings” model.

“Shared Savings” model:

Under a shared savings structure the ESCO finances the project, usually by borrowing money from one or more third parties. In the case of shared savings, the ESCO assumes not only the performance risk, but also the

financial risk (including the underlying customer credit risk). The customer assumes no financial obligation other than to pay a percentage of the actual savings to the ESCO over a specified period of time. This obligation is not considered debt and does not appear on the customer's balance sheet. The portion of savings paid to the ESCO is always higher for shared savings than the guaranteed savings projects, reflecting the ESCO's significantly greater risk and expense for borrowing money.

“Guaranteed Savings” model:

Under a guaranteed savings structure, the customer finances the project in return for a guarantee from the ESCO that the project's energy savings will cover the customer's debt service. Thus, the customer assumes the obligation to repay the debt to a third party financier, which is often a commercial bank or a leasing company. If the project savings fall short of the amount needed for debt service, the ESCO pays the difference. If the savings exceed the guarantee amount, the customer and the ESCO usually share the excess savings. The size of the share and the method of calculation vary widely, depending on the degree of risk assumed and the extent of services provided by the ESCO.

1.2. Key definitions

- **“Borrower”** is to whom the PFI has provided term loan for an eligible project.
- **“Day”** means a calendar day.
- **“Energy Savings Performance Contract (ESPC)”** means a contract substantially in the form of the template attached to this Operations Manual entered / agreed to be executed between the Host and the ESCO for implementation of the project, benefiting the Host through energy savings.
- **“ESCO”** means a firm / company engaged in providing technical consultancy & other support / solutions to the Host with the objective of achieving savings in energy through an underlying ESPC.
- **“Exchange Risk”** is the risk arising out of movement in the price of US dollars vis-à-vis Indian rupees.
- **“Guaranteed Amount”** is the amount guaranteed under PRSF out of the Guaranteed Loan.
- **“Guaranteed Loan”** is the loan sanctioned by the PFI for executing the project covered under PRSF.
- **“Guaranteed Savings”** is an arrangement wherein the Host is the Borrower and the ESCO promises minimum value or quantity of energy savings.
- **“Host”** is an entity where the energy savings project is being implemented.
- **“Loan Agreement”** is the agreement signed between the PFI and the Borrower in respect of the loan guaranteed under PRSF.
- **“Master Guarantee Agreement”** is the agreement signed between the PEA and the PFI in respect of PRSF guarantees issued.
- **“Micro, Small and Medium Enterprises (MSME)”** as defined under the provisions of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 and as amended from time to time.
- **“Measurement and Verification (M&V)”** means the processes agreed to be carried out post implementation of the energy saving projects for assessing the actual energy savings achieved. It may also be an exercise to verify the claims made by PFIs.
- **“Non-Performing Assets (NPA)”** means an asset in the books of the PFI required to be classified as non-performing based on the instructions and guidelines issued by the Reserve Bank of India from time to time.
- **“Participating Financial Institutions, PFI(s)”** means Scheduled Commercial Banks or Non Banking Financial Company (NBFCs) that have signed an agreement with PEA for participating under PRSF.

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- “**Project Execution Agency (PEA)**” is the agency, presently SIDBI, where the guarantee fund corpus is housed and which is managing the functioning of the PRSF scheme. This includes all its successors and assigns.
 - “**Shared Savings**” is an arrangement wherein the total energy savings, in monetary terms, so achieved under the ESPC, are shared in an agreed-upon ratio between the Host and the ESCO over a period defined in the contract. This shall include all its forms & variants including Annuity based model on demonstrated / deemed savings approach, lease financing model, etc.
 - “**SIDBI**” means, except as context otherwise requires, the lending window of SIDBI which is independent of SIDBI-PMU-PRSF.
 - “**Trust and Retention Account (TRA)**” is a pass-through account, created within a Trustee Bank by signing an agreement substantially in the form of the template attached to this Operations Manual between the PFI, the ESCO, the Host and the Trustee Bank, where all the monetized value of energy savings achieved as a result of implementation of project or such amounts as may be agreed, are periodically deposited by the Host.
 - “**Year**” means the financial year beginning on the 1st day of April and ending on the 31st day of following March.

2. Modalities of PRSF

2.1. Objectives

The project development objective is to assist India in achieving energy savings with mobilization of commercial finance and participation of ESCOs.

The above objective can be accomplished through

- (a) leveraging project funds to encourage private sector investment in energy efficiency projects, and
- (b) providing complementary technical assistance and capacity building to stakeholders in India's energy efficiency market

2.2. Project components

The PRSF project will consist of a risk sharing facility for energy efficiency, managed by SIDBI, of US\$37 million, funded from a GEF contribution of US\$12 million and backstopped by a CTF Guarantee, in the form of contingent finance, of US\$25 million, and a technical assistance component.

2.2.1. Risk Sharing Facility for Energy Efficiency (US\$37 million)

This component will be executed by SIDBI to establish a Risk Sharing Facility for Energy Efficiency. This facility would provide partial credit guarantees to cover a share of the default risk that participating financial institutions face in extending loans to eligible EE sub-projects.

The Partial Risk Sharing Facility will be available for supporting EE loans made by SIDBI and by participating financial institutions (PFIs) that will be empanelled and sign an Agreement with the PEA as part of this project. A guarantee fee, at a pre-determined rate, will be charged for each EE sub-project supported under PRSF. While the guarantee window for SIDBI loans, to be maintained as a sub-account, will have an initial corpus of US\$6 million of GEF grant for risk coverage, the window for guarantee calls from PFIs (excluding SIDBI), in the second sub-account, will also have an initial corpus of US\$6 million GEF grant for risk coverage and will in addition be backstopped by additional risk coverage through CTF guarantee of US\$25 million (contingent finance).

To be eligible for credit guarantees from PRSF, PFI loans will have to be for EE projects that are implemented by ESCOs. For projects to be eligible, the implementing ESCO will have to have an energy savings performance contract (ESPC) with the beneficiary host entity. Further, PFIs will submit the information in the standard templates as specified from time to time.

3. Eligibility

3.1. Participating Financial Institutions (PFIs)

PEA will empanel suitable financial institutions across the duration of the project. Any Scheduled Commercial Bank or Non-Banking Financial Company (NBFC) registered with Reserve Bank of India (RBI) would be eligible to express their interest for empanelment with PEA for the project. Only the empanelled financial institutions – called the PFIs, with whom PEA has entered into an Agreement – will be allowed to access the PRSF fund corpus in the PFI sub-account and lend to ESCOs or host entities implementing ESPC-based EE projects.

3.1.1. Eligibility norms for empanelment of PFIs

The financial institutions interested for empanelment with SIDBI for the project should fulfill the following conditions:

- Should be a Scheduled Commercial Bank or Non-Banking Financial Company (NBFC) registered with the Reserve Bank of India (RBI).
- Should not have been declared ineligible to be awarded an IDA or IBRD financed contract in accordance with the World Bank Sanctions Procedures
- Should not have been debarred under any act of compliance with a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations
- Should have a minimum CRAR as prescribed by Reserve Bank of India.
- NBFC should have at least BBB credit rating from an agency recognized by Reserve Bank of India.
- Should have average net worth of INR 500 million or its equivalent in foreign currency over the last three (3) years.
- Should be active in lending business for a minimum period of 3 years and should have profitable track record for a minimum of last 2 years.
- Experience in financing of energy efficiency & renewable energy projects would be preferable.
- Satisfactory internal governance (including fit and management of board), as assessed by PEA
- Existence of adequate risk management systems, as assessed by PEA

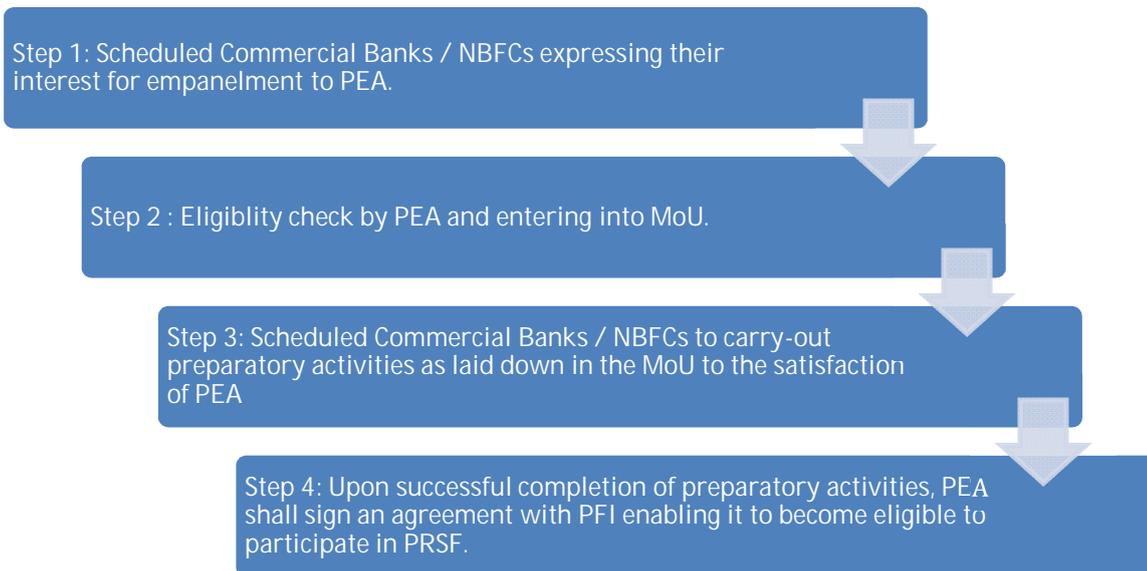
3.1.2. Procedure for PFIs to participate in PRSF

Desirous Scheduled Commercial Banks or NBFCs to first sign MoU with the PEA which shall lay-out certain preparatory activities that need to be completed before they can participate in PRSF. These preparatory activities may include:

- Capacity building of its staff on appraisal of energy efficiency financing
- Creation of Energy Efficiency Cell at Head Office
- Appointing a single point of contact for all PRSF related activities, etc.

After completion of preparatory activities to the satisfaction of SIDBI as PEA and fulfilling the norms as well as based on their commitments to cover significant number/amount of eligible projects, the PFIs shall sign an agreement with PEA for participating in PRSF.

The procedure for empanelment of PFI in PRSF is shown below:



3.2. ESCO

The eligible ESCO under the PRSF will be:

- (a) Any ESCO, BEE-empanelled, or
- (b) A JV of entities, formed under the laws of India, where BEE empanelled ESCOs hold at least 50% share in equity of the JV of entities, or
- (c) A consortium of entities executing an ESPC where BEE empanelled ESCOs hold at least 50% share in contract value.

3.2.1. Eligible Projects under PRSF

The eligible sectors / projects / Loans under PRSF are:

Sectors

- Eligible sectors: (a) Large industries (**excluding thermal power plants**), including those notified under the BEE's energy consumption norms and standards (i.e., through PAT), or (b) MSMEs, or (c) street lighting (municipalities), or (d) buildings

Projects

- Any project in which ESCO enters into ESPC with the Host, with the objective of bringing about demonstrable energy savings. In case of ESCO being a JV or consortium, the share in equity or contract value, as applicable, of ESCOs falling under MSME shall not be less than 51% for such JV or consortium to be treated as MSME.

Loans

- Under PRSF, the loans sanctioned by PFIs to either the ESCO or the Host entity, falling within the micro and small enterprises category of MSME Act shall only be covered.
- **Minimum 75% of the guaranteed loan should be towards the cost of the investments required for implementation of the EE project which shall include expenditure on**

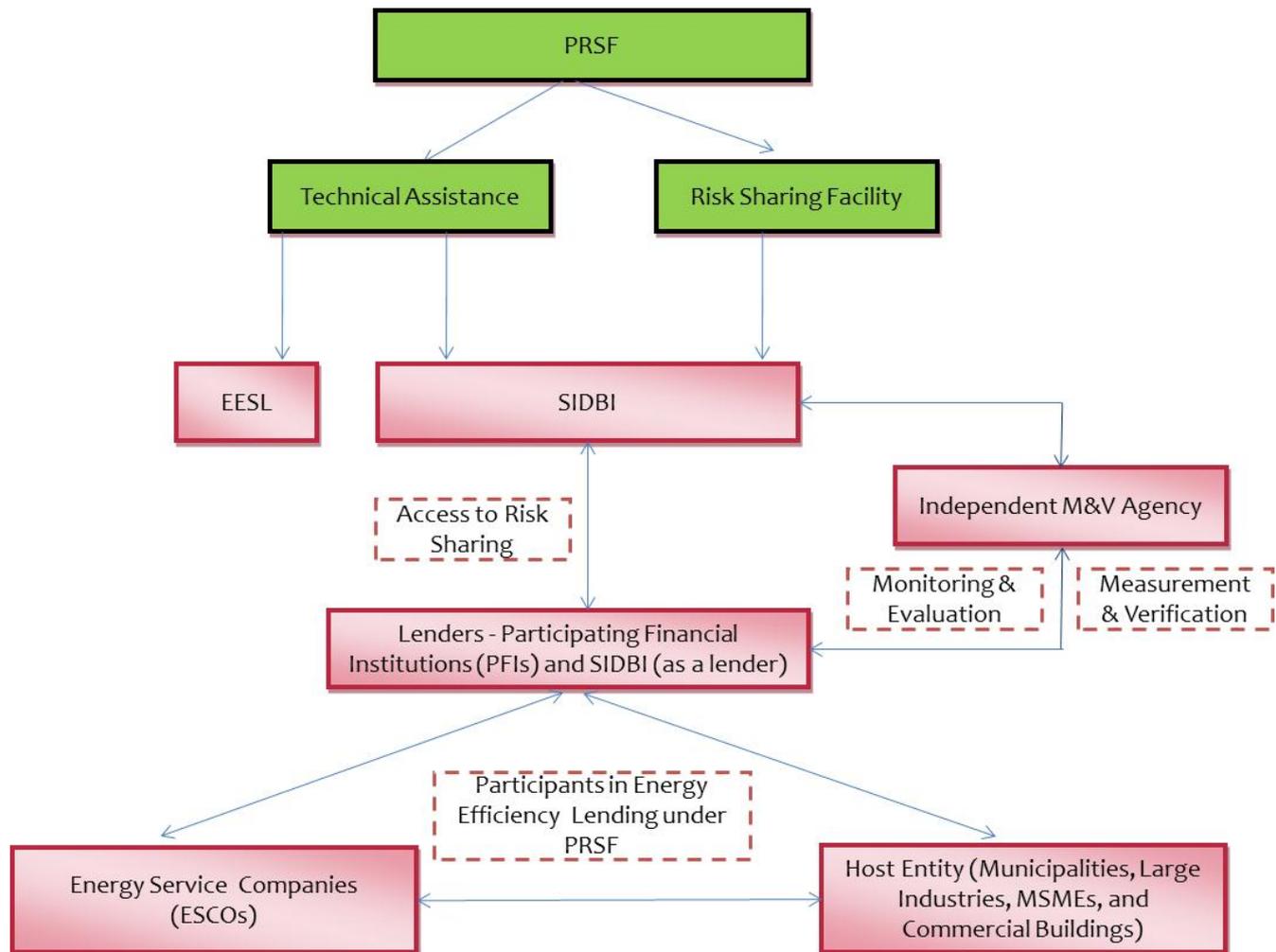
purchase, erection & commissioning, installation or retrofit / modification of the equipment, etc. contributing to energy savings.

- **Any project in respect of which the envisaged aggregate energy savings performance for the project is specifically guaranteed by any other Government scheme will not be covered.**
- **Projects involving only substitution of conventional energy with off-grid or captive renewable energy source, except those involving significant savings in energy consumed, shall not be covered.**

4. Institutional Structure

4.1. Institutional Structure

An institutional structure for execution of project components is shown below:



4.2. Stakeholders involved

Various stakeholders involved in PRSF scheme are Project Execution Agency (PEA), PFIs, ESCOs and the Host Facility.

4.3. Roles and responsibilities of stakeholders

The roles and responsibilities of all the stakeholders involved are mentioned below:

4.3.1. SIDBI (PEA)

1. Act as the nodal agency for the guarantee facility
2. To carry out TA related activities of their part
3. Sign MoU with the Scheduled Commercial Banks/NBFCs

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4. Sign a Master Guarantee Agreement with the Scheduled Commercial Banks/NBFCs to make them eligible to participate under PRSF as PFIs
 5. Define the maximum guarantee for individual PFI and revisit them periodically
 6. Developing a common platform in form of dedicated website for operation of PRSF enabling PFIs to enter information with regard to Guarantee, Quarterly Progress Report, Guarantee Claim, etc.
 7. Provide online guarantee approval for eligible EE projects to PFIs
 8. Revalidate the lapsed Guarantee in respect of cases where first disbursement is made after 18 months from the date of issue of Guarantee, upon receipt of fresh Guarantee Fee from the PFI
 9. Process the Guarantee Claim and release the eligible amount to PFIs in case of eligible guarantee claims
 10. To conduct due diligence of appraisal documents and to check the adherence/non-adherence to the guidelines of PRSF including compliance of ERMF guidelines, for the issued guarantees on sample basis
 11. To conduct M&V, through an independent hired / empanelled third party agency selected by an independent technical evaluation committee, on sample basis for projects where guarantees have been issued. However, M&V shall also be conducted in respect of all the cases where claims have been lodged.
 12. Review quarterly progress reports submitted by the PFIs / monitor progress and if necessary take suitable actions
 13. **Stop-loss and action plan:** Stop issuing guarantees and initiate suitable action / plan when the cumulative amount of losses under PRSF guarantees reaches (i) the equivalent of US\$7 million at any time during the first four years of the Project or (ii) after the first four years of the Project, 15% of the cumulative value of guarantees issued..

4.3.2. Participating Financial Institutions (PFIs)

1. Sign MoU with the PEA
2. Fulfill the preparatory requirements as laid down by the PEA and then sign Master Guarantee Agreement with PEA to participate under PRSF.
3. Provide forecast of possible lending to energy saving projects to PEA
4. Evaluate the energy savings loan applications by using prudent banking judgment and use their business discretion / due diligence in selecting commercially viable applications and conduct of the account(s) of the borrowers
5. Conduct technical and commercial appraisal of energy savings loan applications
6. Ensure compliance with the applicable Environment and Risk Management Framework (ERMF) guidelines
7. Sign the Loan Agreement with the Borrower
8. Sign the TRA along with the ESCO and the Host and the Trustee Bank and Monitor the TRA for every energy savings loan account
9. Enters the Guarantee Application details in PRSF website using proper link and user ID and password
10. Upon online approval of a Guarantee Application by the PEA, PFI shall be issued a Guarantee Letter, substantially in the form of the template attached hereto, containing the terms & conditions specific to

that individual Guarantee. Such Letter shall be read along with the Master Guarantee Agreement executed by that particular PFI

11. Submit the Guarantee Fee to PEA within 30 days, on pro-rata basis for the first year, upon receiving the online guarantee approval by PEA and thereafter on annual basis, at the beginning of each financial year in advance, by April 30th of every year.
12. Submit to PEA, for its records, the hard copy of the print-out of the guarantee application duly signed by the Authorised signatory along with the other supporting documents as may be specified by PEA (i.e. Copy of the DPR, copy of the Appraisal Note, Sanction letter, etc.).
13. Enter the information in the format in the PRSF website for each EE Loan and generate the quarterly progress report
14. To conduct M&V through a third party agency hired / empanelled by the PEA and selected by an independent technical evaluation committee, on a sample basis, for the projects where guarantees have been issued under PRSF. However, in the event of delays in the payments / defaults, the PFIs shall get the M&V conducted through a third party agency hired / empanelled by PEA and selected by such committee for all such cases.
15. Ensure that the Guarantee Claim is lodged with SIDBI in the form and in the manner and within such time as may be specified by PEA
16. PFI shall arrange to facilitate inspection / audit of its records, statement of accounts, and visit to the facility of the host entity where EE project has been implemented, M&V etc., as may be desired by PEA / World Bank through its officials / any third party agency.
17. The PFI shall, in respect of any guaranteed account, exercise the same diligence in recovering the dues, and safeguarding the interest of the PEA in all the ways open to it as it might have exercised in the normal course if no guarantee had been furnished by the PEA. The PFI shall, in particular, refrain from any act of omission or commission, either before or subsequent to invocation of guarantee, which may adversely affect the interest of the PEA as the guarantor. In particular, the PFI should intimate the PEA while entering into any compromise or arrangement, which may have effect of discharge or waiver of personal guarantee(s) or a part of whole of security.
18. The PFI shall also ensure either through a stipulation in an agreement with the Borrower or otherwise, that it shall not create any charge on the security held in the account covered by the guarantee for the benefit of any account not covered by the guarantee, with itself or in favour of any other creditor(s) without intimating the PEA.
19. The PFI shall secure for the PEA or its appointed agency, through a stipulation in an agreement with the Borrower or otherwise, the right to list the defaulted Borrowers' names and particulars on the Website of the PEA / CIBIL / other credit bureaus.
20. Submit annual statement of the loan account to PEA till the loan account is closed in full, even post-settlement of Claim by PEA
21. Comply with guidelines related to PRSF as may be issued by PEA, from time to time

4.3.3. ESCO

1. Conduct detailed energy audit in the Host facility for preparation of the Baseline, if deemed necessary
2. Conduct Environmental Safeguards due diligence as per ERMF guidelines.

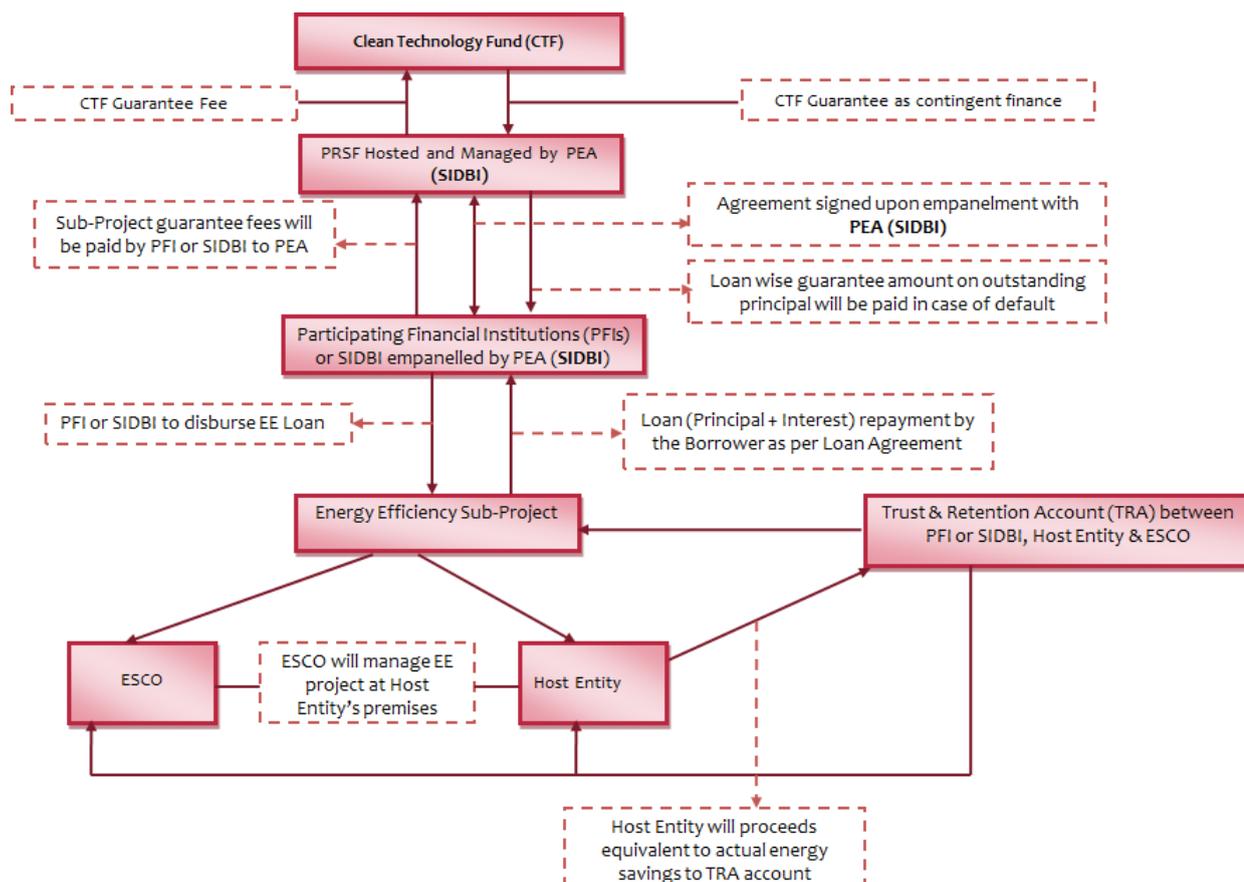
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3. Prepare the detailed ESPC in consultation with the Host
 4. Develop the M&V methodology and M&V plan for each energy savings project in consultation with the Host
 5. Prepare Investment-grade energy audit report in consultation with the Host
 6. In case of Shared Savings arrangement, carry out following activities:
 - a. Submit loan application to PFI with all requisite documents
 - b. Sign Loan Agreement with the PFI
 - c. Sign the TRA along with the PFI, the Host and the Trustee Bank
 - d. Ensure that the procurement under the energy savings Loans covered under the PRSF meet the considerations of economy and efficiency, that is, the procured items are of satisfactory quality and are compatible with the balance of the project, delivered or completed in timely fashion, and are priced so as not to affect adversely the economic and financial viability of the project
 - e. Define the asset ownership during and after energy savings loan repayment in the ESPC
 7. Undertake installation, commissioning, operation, maintenance of energy savings projects
 8. Undertake training of Host personnel, as necessary, for the successful operation of the implemented energy savings project
 9. Measure and verify energy savings using the M&V plan and submit the M&V report to the PFIs.
 10. Resolve the technical underperformance of the implemented energy savings project, if required, in consultation with the Host

4.3.4. Host

1. Ensure that the assets being created under the energy savings project, including receivables under it, covered by the guaranteed loan shall be charged to the PFI, where applicable.
2. To Comply with appropriate environmental, health, and safety standards as per the ERMF guidelines.
3. Support ESCO for preparation of the Investment-grade energy audit report, ESPC and M&V plan
4. In case of Shared Savings arrangement, carry out following activities:
 - a. Sign the TRA along with the PFI, the ESCO and the Trustee Bank
 - b. Deposit monetized value of energy savings achieved as a result of implementation of energy savings project to the TRA as per contracted schedule
5. In case of Guaranteed Savings arrangement, carry out following activities:
 - a. Submit loan application to PFI with all requisite documents
 - b. Sign Loan Agreement with the PFI
 - c. Ensure that the procurement under the energy savings Loans covered under the PRSF meet the considerations of economy and efficiency, that is, the procured items are of satisfactory quality and are compatible with the balance of the project, delivered or completed in timely fashion, and are priced so as not to affect adversely the economic and financial viability of the project
 - d. Ensure interest and principal repayment as per terms and conditions of the Loan Agreement
6. Support ESCO in resolving the technical underperformance of the implemented energy savings project, if required
7. Support the ESCO / M&V Consultant / any third party agency as appointed by PEA to assess the actual energy savings of the implemented energy savings project.

5. Operational Mechanism – Risk Sharing Facility

The operational mechanism including various transactions involved under the Risk Sharing Facility is shown at the figure below:



The Scheduled Commercial Banks / NBFCs shall sign an MoU with PEA, complete preparatory activities, fulfill the laid down norms and subsequently sign a Master Guarantee Agreement with PEA to participate under PRSF as PFIs. ..

After sanction of loan by the PFIs to eligible ESCO or Host for implementation of eligible EE Projects, the PFI will enter the PRSF Application details in the PRSF website using the User id & Password provided to it by PEA. PEA may call for additional details and documents where considered necessary. Upon approval of a Guarantee Application by the PEA, (i) PFI shall be issued a Guarantee Letter containing the terms & conditions specific to that individual Guarantee. This Letter shall be read alongwith the Master Guarantee Agreement executed by that particular PFI; and.. The guarantee shall come into force from the date of first disbursement or the date of payment of first installment of guarantee fee to PEA, whichever is later. Further, PFI shall also submit to PEA, for its records, the hard copy of the print-out of the guarantee application duly signed by the Authorised signatory along with the other supporting documents as may be specified by PEA (i.e. Copy of the DPR, copy of the Appraisal Note, Sanction letter, etc.).

Based on the energy savings performance contract (ESPC) entered between ESCO and Host, the Host entity shall deposit the proceeds equivalent to actual energy savings to the TRA account. The modus operandi of TRA is explained at [section 6](#). The repayment of loan (principal and interest) to the PFI will be done through the designated priorities of the TRA.

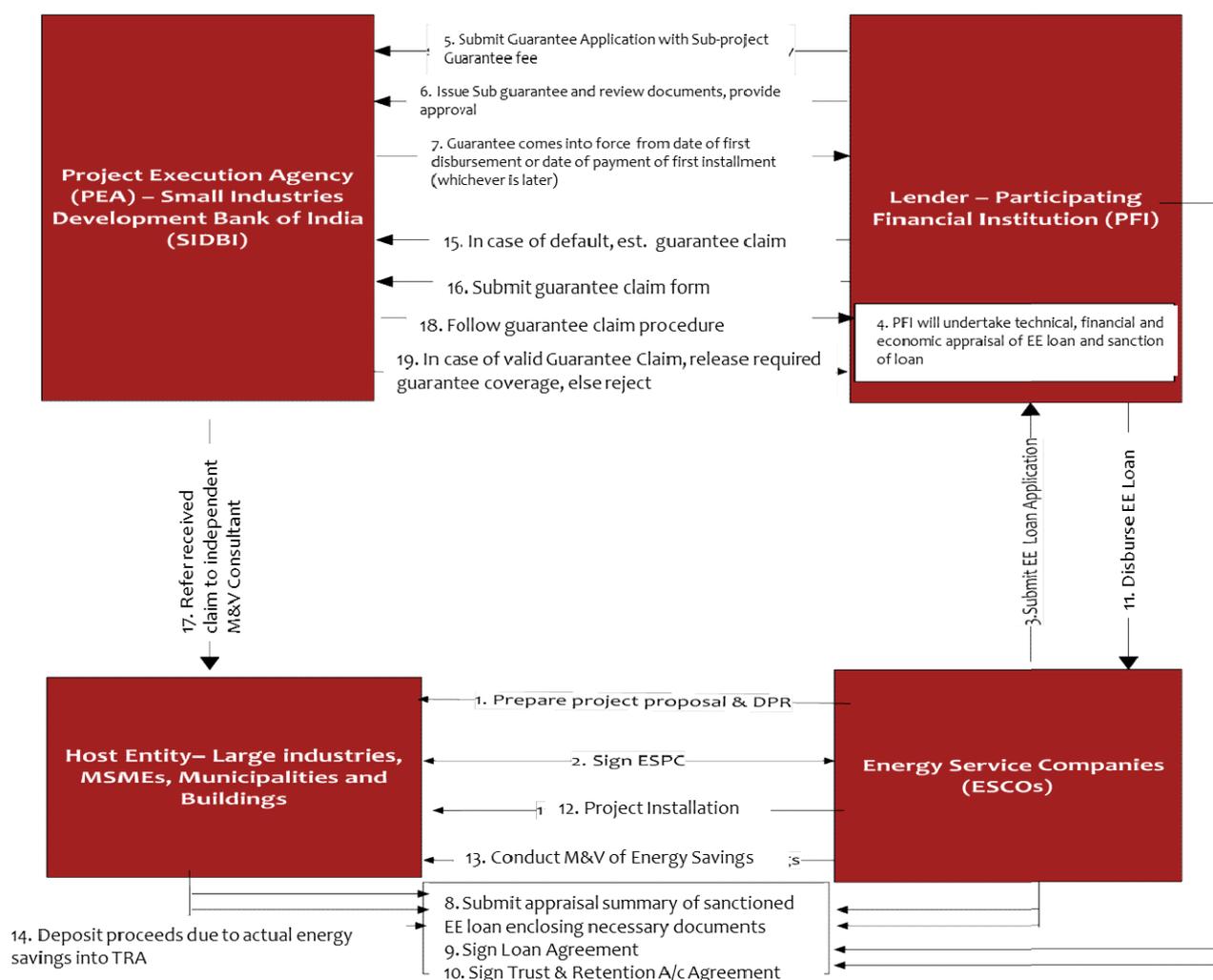
PRSF Guarantee claims originate from underperformance of the underlying energy efficiency investments and the resulting cash shortfall for debt service (principal and interest). The required cash buffer in the TRA will carry the borrower over temporary liquidity problems but cannot make up for extended, chronic cash shortfalls.

In the latter case, insufficient cash to service the debt will lead to a default, which allows the PFI to make a guarantee claim to PRSF, up to the amount of debt covered and provided that the M&V Agency has verified the eligibility of the claim.

Detailed transaction diagrams in case of shared savings and guaranteed savings models are discussed next.

5.1. Transaction diagram for shared-savings model

The transactions for shared savings model are summarized in the following figure.



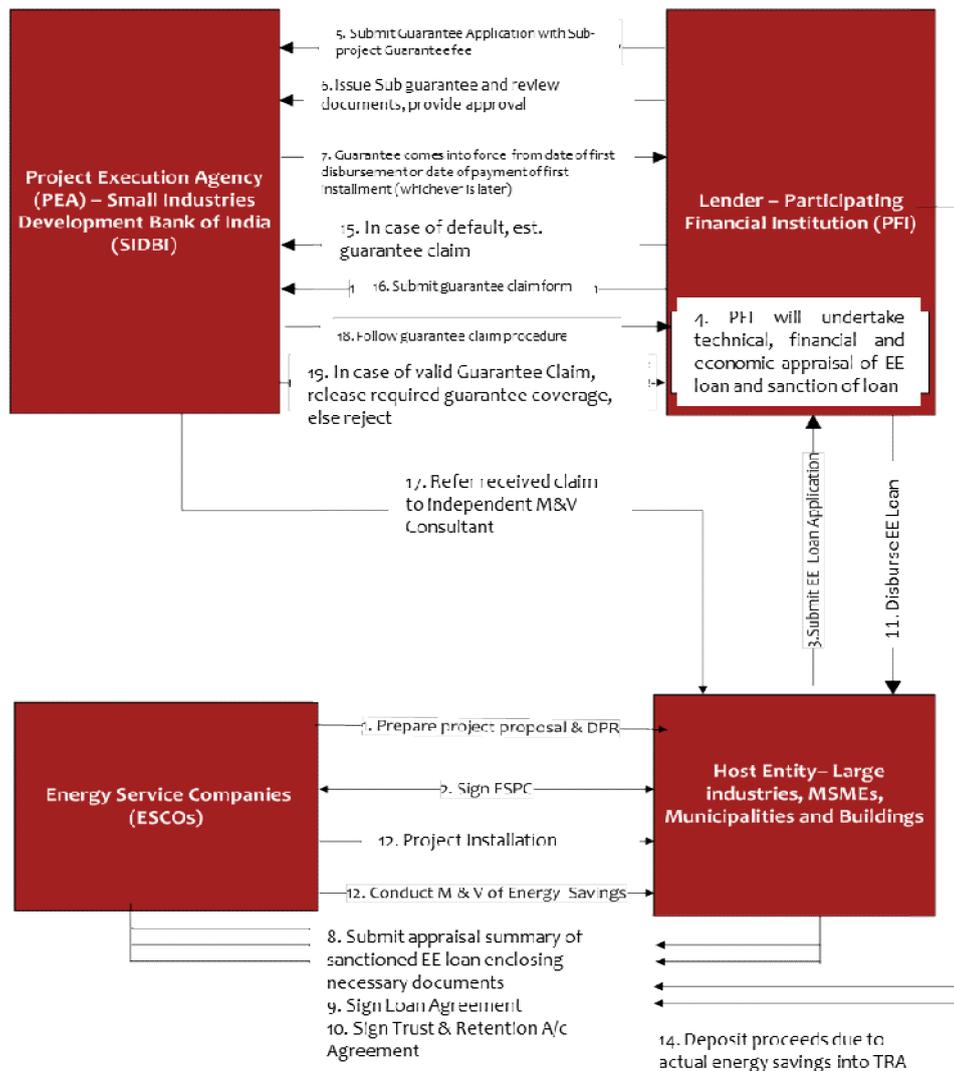
These steps are mentioned below for ease of understanding:

- Step 1: The ESCO prepares the Detailed Project Report (DPR)
- Step 2: The ESCO prepares the ESPC in mutual consultation with the Host and both parties sign the same.
- Step 3: The ESCO submits an EE Loan application along with requisite documents to the PFI

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- Step 4: The PFI undertakes the technical, financial, economic, and safeguards appraisal of EE loan application and sanction the EE Loan
 - Step 5: The PFI enters the Guarantee Application details in PRSF website using proper link and user ID and password and submits Sub-project Guarantee fee
 - Step 6: PEA reviews documents and provides online approval of guarantee coverage, and issues Guarantee
 - Step 7: Guarantee shall come into force from the date of first disbursement or the date of payment of first installment of guarantee fee to PEA, whichever is later
 - Step 8: The PFI submits appraisal summary sheet of sanctioned EE loan enclosing necessary documents. PFI submits to PEA, for its records, the hard copy of the print-out of the guarantee application duly signed by the Authorised signatory along with other supporting documents. SIDBI submits the same hard copy to the M&V Agent.
 - Step 9: The PFI signs the EE Loan Agreement with ESCO
 - Step 10: The PFI, ESCO and Host Entity signs the TRA agreement to establish the Trust and Retention Account
 - Step 11: The PFI disburses EE loan
 - Step 12: ESCO installs the EE Project in the Host premises
 - Step 13: ESCO with support from the Host Entity conducts M&V of energy savings
 - Step 14: The Host Entity deposits proceeds due to actual energy savings in the TRA
 - Step 15: PEA conducts random due diligence of the submitted documents and if found non-adhering, would cancel the Guarantee for that particular EE Loan
 - Step 16: The PFI submits quarterly reports to PEA
 - Step 17: In case of default, PFI firstly estimates the Guarantee Claim and then submits the Guarantee Claim form to PEA
 - Steps 18: PEA follows Guarantee Claim procedure in case of receipt of Guarantee Claim Form from PFI which also involves appointment of independent M&V consultant for verification of Guarantee Claim.
 - Step 19: PEA releases the required Guarantee in case of genuine Guarantee Claim else reject the Guarantee Claim in case of submission of fraudulent claim / information.

5.2. Transaction diagram for guaranteed-savings model

Though the steps to be followed in case of guaranteed savings model are same except that Host is the Borrower in this case and the repayment of EE Loan will be done by the Host directly, without the provision of TRA. The following figure shows the transaction diagram for guaranteed savings model with above mentioned differences.



These steps are mentioned below for ease of understanding:

- Step 1: The ESCO prepares the project proposal and DPR
- Step 2: The ESCO prepares the ESPC in mutual consultation with the Host and both parties sign the same.
- Step 3: The Host submits EE Loan application along with requisite documents to the PFI
- Step 4: The PFI undertakes the technical, financial, economic, and safeguards appraisal of EE loan application and sanction the EE Loan

- Step 5: The PFI enters the Guarantee Application details in PRSF website using proper link and user ID and password with Sub-project Guarantee fee
- Step 6: PEA reviews documents and provides online approval of guarantee coverage, and issues Guarantee
- Step 7: Guarantee shall come into force from the date of first disbursement or the date of payment of first installment of guarantee fee to PEA, whichever is later
- Step 8: The PFI submits appraisal summary sheet of sanctioned EE loan enclosing necessary documents. PFI submits to PEA, for its records, the hard copy of the print-out of the guarantee application duly signed by the Authorised signatory along with other supporting documents. SIDBI submits the same hard copy to the M&V Agent.
- Step 9: The PFI signs the EE Loan Agreement with the Host
- Step 10: The PFI, Host Entity and ESCO signs the TRA agreement to establish the Trust and Retention Account
- Step 11: The ESCO installs the EE Project in the Host premises
- Step 12: The ESCO with support from the Host conducts M&V of energy savings
- Step 13: The Host deposits proceeds due to actual energy savings into the TRA account
- Step 14: The Host makes payment to the ESCO as per the terms of the signed ESPC
- Step 15: PEA conducts random due diligence of the submitted documents and if found non-adhering, would cancel the Guarantee for that particular EE Loan
- Step 16: The PFI submits quarterly reports to PEA
- Step 17: The PFI submits the Guarantee Claim form to PEA in case of default.
- Step 18: PEA follows the Guarantee Claim procedure in case of receipt of Guarantee Claim Form from the PFI which involves appointment of M&V Consultant for verification of Guarantee Claim at the premises of Host Entity
- Step 19: PEA releases the required risk coverage in case of genuine Risk Claim else reject the Risk Claim in case of submission of fraudulent claim / information. The details of these steps are mentioned next.

Preparation of Detailed Project Report (DPR)

The ESCO will conduct Detailed Energy Audit in the Host premises to identify potential EE projects. Thereafter, the ESCO is required to prepare a one consolidated DPR for one premises of the Host which shall comprise of technical and financial feasibility of all the identified EE projects. A format for the DPR is provided at the Annexure. The information for each EE project shall at least include the following information:

- Brief description of the project
- Estimated energy savings and costs including M&V costs, installation cost, O&M cost in addition to equipment cost, warranty on equipment, payment terms, etc.;
- Project implementation schedule;
- Financial analysis which shall include payback period, IRR, profit and loss account and a cash flow statement for each project.
- Environmental safeguards due diligence report as per the template provided in ERMF guidelines.

The ESCO shall also prepare a summary sheet of the DPR as per the format provided at Annexure.

Preparation of Energy Savings Performance Contract (ESPC)

It has been observed that due to lack of standardized legal documents governing the performance contracting market, there have been many instances of frauds. So, in order to overcome this issue, a standardized template of ESPC for shared-savings model is provided at Annexure and for guaranteed savings model at Annexure which need to be filled-in by the ESCO in consultation with the Host for the EE projects identified under the DPR. This ESPC should then be signed by both the ESCO and the Host.

Submission of EE Loan Application

After preparation of DPR and signing of the ESPC, the ESCO or Host, as the case may be, will submit the EE Loan application to any PFI which have agreed to participate under this scheme. The EE Loan Application may include the following enclosures:

- Copy of signed ESPC
- Copy of DPR and the summary sheet
- Copy of Audited Financial Statements of last three years
- Annual reports for last three financial years
- Current order book of the ESCO or Host
- Income Tax return of the ESCO or Host for last three financial years
- Service tax return of the ESCO or Host for last three financial years
- Proof of net worth of the ESCO or Host for last three financial years
- Copy of certificate of registration/incorporation of the ESCO or Host
- In case of partnership companies, submit copy of Memorandum & Articles of Association/Partnership Deed/ Trust Deed
- ERMF compliance templates

Appraisal of EE Loan Application

The PFI should appraise the EE Loan Application using prudent banking judgment and use their business discretion / due diligence in selecting commercially viable applications and conduct of the account(s) of the ESCO or Host.

Guarantee Approval Process

After sanction of loan by the PFIs to eligible ESCO or Host for implementation of EE Projects, the PFI will enter the Guarantee Application details in the PRSF website using the user id & password provided to it by PEA.

PEA shall provide online approval of the guarantee coverage. The guarantee shall come into force from the date of first disbursement or the date of payment of first installment of guarantee fee to PEA, whichever is later.

Further, PFI shall also submit to PEA, for its records, the hard copy of the print-out of the guarantee application duly signed by the Authorised signatory along with the other supporting documents as may be specified by PEA (i.e. Copy of the DPR, copy of the Appraisal Note, Sanction letter, ERMF compliance certificate, etc.).

This Guarantee shall apply only to loan amounts disbursed by PFI within a period of 18 months from the date on which the guarantee has been approved. Guarantee for the remaining loan may be revalidated by PEA, at its discretion, [subject to the account classified as Standard Assets in the books of PFIs] upon receipt of fresh Guarantee Fee for the same from the PFI.

Signing of EE Loan Agreement

After the sanction of the EE Loan to ESCO/Host for eligible projects, PFI will sign the EE Loan Agreement with the ESCO or Host.

Signing of TRA Agreement

It has been observed from previous failures of project implemented under performance contracting mode that the Host purposely does not pay the ESCO. So, in order to safeguard against this issue and ensure that timely payment is made by the Host, a TRA Agreement is proposed to be signed between the PFI, the ESCO, the Host and/or the Trust Bank in the format attached at **Error! Reference source not found.**

The TRA will bind the Host to make timely payments and legal action can be taken in case the Host does not pay the required amount into the TRA.

Installation of EE Project

After disbursement of EE Loan, the ESCO shall procure the equipment such that the procured items are of satisfactory quality and are compatible with the balance of the project, delivered or completed in timely fashion, and are priced so as not to affect adversely the economic and financial viability of the project.

After procurement of items, the ESCO shall install the same with support from the Host within the timelines specified in the project implementation plan under the DPR/ESPC. The ESCO, after satisfactory testing and commissioning of the EE Project, shall submit a completion certificate mutually signed by ESCO and Host Entity, in a prescribed format, to the PFI clearly mentioning the Commercial Operation Date (COD) of the Energy Efficiency Project.

Measurement & Verification (M&V) of energy savings

The M&V of energy savings is extremely important activity of this scheme. In line with the terms of the ESPC, the ESCO with assistance from the Host will periodically conduct M&V of the energy savings to assess the proceeds accrued due to implementation of EE Project in the Host facility. An M&V report will be signed by both, the ESCO and the Host, after every such periodic assessment of the energy savings and submitted to the PFI for records purposes.

Further, the PFI shall also get the M&V conducted on a sample basis through the third party agency empanelled by PEA for the purpose.

EE Loan repayment

In both the cases shared-savings model as well as guaranteed savings model, the repayment of EE Loan (principal and interest) shall be done in lines with the terms and conditions of the EE Loan Agreement routed through the TRA wherein the proceeds due to actual energy savings shall be deposited by the Host Entity.

Random due diligence of submitted documents

PEA shall conduct random due diligence based on the documents submitted to it by the PFI on a sample of EE loans disbursed by PFI. In case it is found that the information furnished in the web-based portal for guarantee approval does not match with the information contained in the hard copy of the documents submitted by the PFIs as also in case it is found that the proposal do not meet any of the eligibility criterion, PEA will cancel the Guarantee for that particular EE Loan.

Submission of quarterly progress reports

The PFI, on quarterly basis, shall enter the information in the format in the PRSF website for each EE Loan and generate the quarterly progress report..

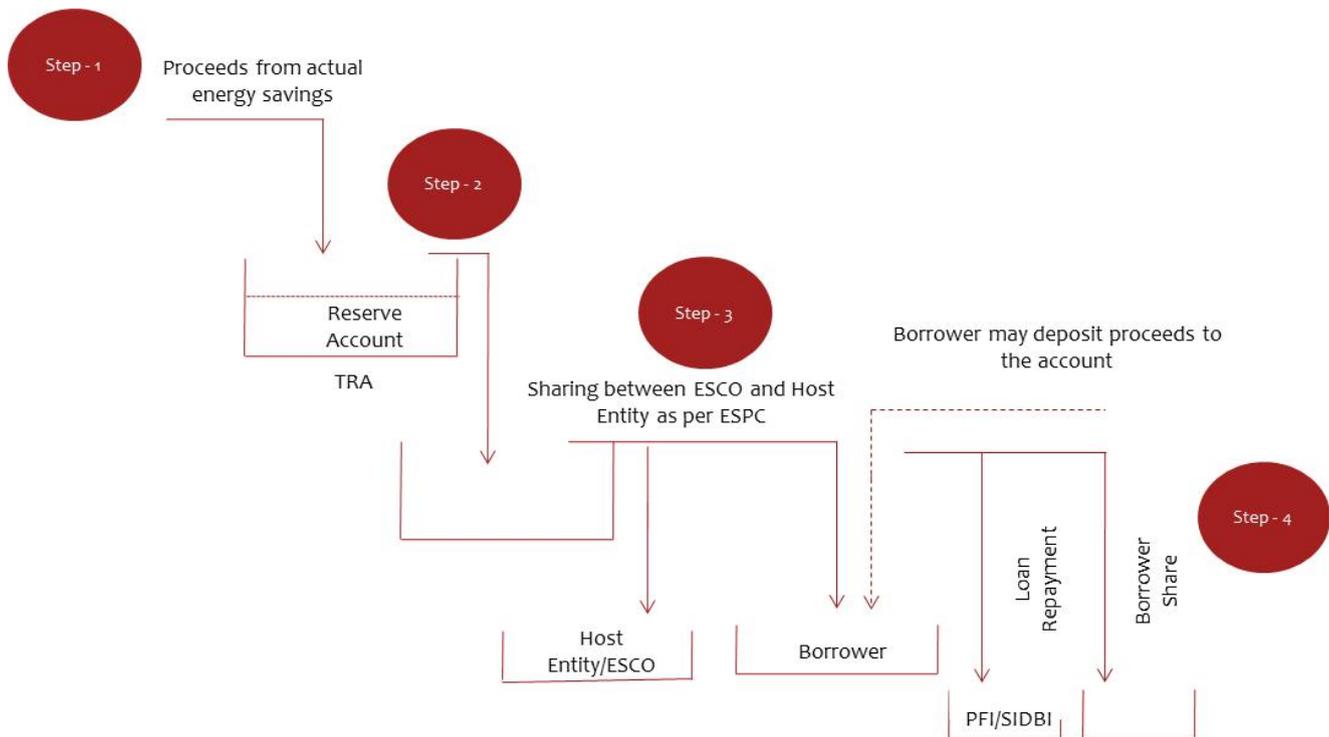
Guarantee Claim

In case of default, the PFI shall submit the Guarantee Claim, through PRSF website. PEA shall then follow the Guarantee Claim procedure as outlined in the **Section 7** to check the eligibility of the claim.

6. Loan Repayment through TRA

6.1. Operation of TRA mechanism

The working of a typical TRA, amongst its parties, is diagrammatically explained below.



Step 1: The Beneficiary will deposit the Proceeds from the actual energy savings every month due to the implemented EE project into the TRA.

Step 2: Within the TRA, the proceeds for the duration between the start of operation of the EE Project to the end of moratorium period will be deposited in the Reserve account. When the proceeds in any month exceed that envisaged in the ESPC, then the proceeds above the ESPC level will be deposited in the Reserve Account, or when the proceeds are below than that envisaged in ESPC, and then the deficit will be replenished from the Reserve Account.

Step 3: The Proceeds, exceeding the level of Reserve Account, will be shared between the ESCO and the host entity as per the signed ESPC.

Step 4: The Borrower from its share will repay the EE Loan first and then get its remaining share. However, there is a provision that the Borrower may deposit proceeds for repayment of the EE Loan to avoid the possibility of the account becoming NPA.

7. Guarantee Coverage Details

7.1. Guarantee Details

7.1.1. Extent of guarantee

The extent of guarantee cover as a proportion to the guaranteed loan expected to be 40%-75% (the full range initially will be 20% to 75%). The guarantee cover would be calculated on the lowest of the following:

- 1) Principal outstanding as on date of account turned into NPA
- 2) Principal plus interest as on date of claim has been lodged with PEA, and
- 3) Sanctioned Loan amount guaranteed.

Further, other charges such as penal interest, commitment charge, service charge or any other levies / expenses shall not qualify for the guarantee cover.

The minimum amount of single guaranteed loan shall be INR 1 million (Rupees One Million). The largest amount of single guaranteed loan shall not exceed INR 150 million and amount of aggregate guarantees outstanding at any time in respect of projects involving a single Host or a single ESCO or a single group of companies shall not exceed INR 400 million.

7.1.2. Guarantee Tenure

The maximum tenure of the guarantee will be 5 years (or such other period as may be decided by PEA) from the date of first disbursement of the guaranteed loan or till the last date of the operational period of PRSF, whichever is earlier. However, the guarantee tenure shall not exceed the loan tenure.

In the event, during the tenure of the guarantee, if there is a change in the management of the borrower, the guarantee will remain in force provided: the new promoters / management meets / satisfy the norms of the eligible borrower as per the operations manual and continues to perform the existing activities of borrower or undertakes the new activities which otherwise are eligible under the Scheme for guarantee then the PFI can continue such borrower with existing liabilities under the PRSF. However, if the new promoter / management do not satisfy any of the norms of the PRSF as indicated in the operations manual, the guarantee in respect of that loan covered shall be deemed to be terminated from the date of said transfer or assignment.

7.1.3. Guarantee Fee

PFI shall pay to PEA for each energy savings loan, eligible under PRSF, a non-refundable, annual Guarantee Fee at the rate prescribed by PEA from time to time. The Guarantee Fee for the first year shall become payable by the PFI to PEA within 30 days of the approval of Guarantee by PEA and thereafter on annual basis, at the beginning of each financial year in advance, by April 30th of every year.

7.1.4. Guarantee Approval Process

After sanction of loan by the PFIs to eligible ESCO or Host for implementation of EE Projects, the PFI will enter the Guarantee Application details in the PRSF website using the user id & password provided to it by PEA.

PEA shall provide online approval of the guarantee coverage. The guarantee shall come into force from the date of payment of first installment of guarantee fee to PEA.

Further, PFI shall also submit to PEA, for its records, the hard copy of the print-out of the guarantee application duly signed by the Authorised signatory along with the other supporting documents as may be specified by PEA (i.e. Copy of the DPR, copy of the Appraisal Note, Sanction letter, ERMF Compliance certificate, etc.).

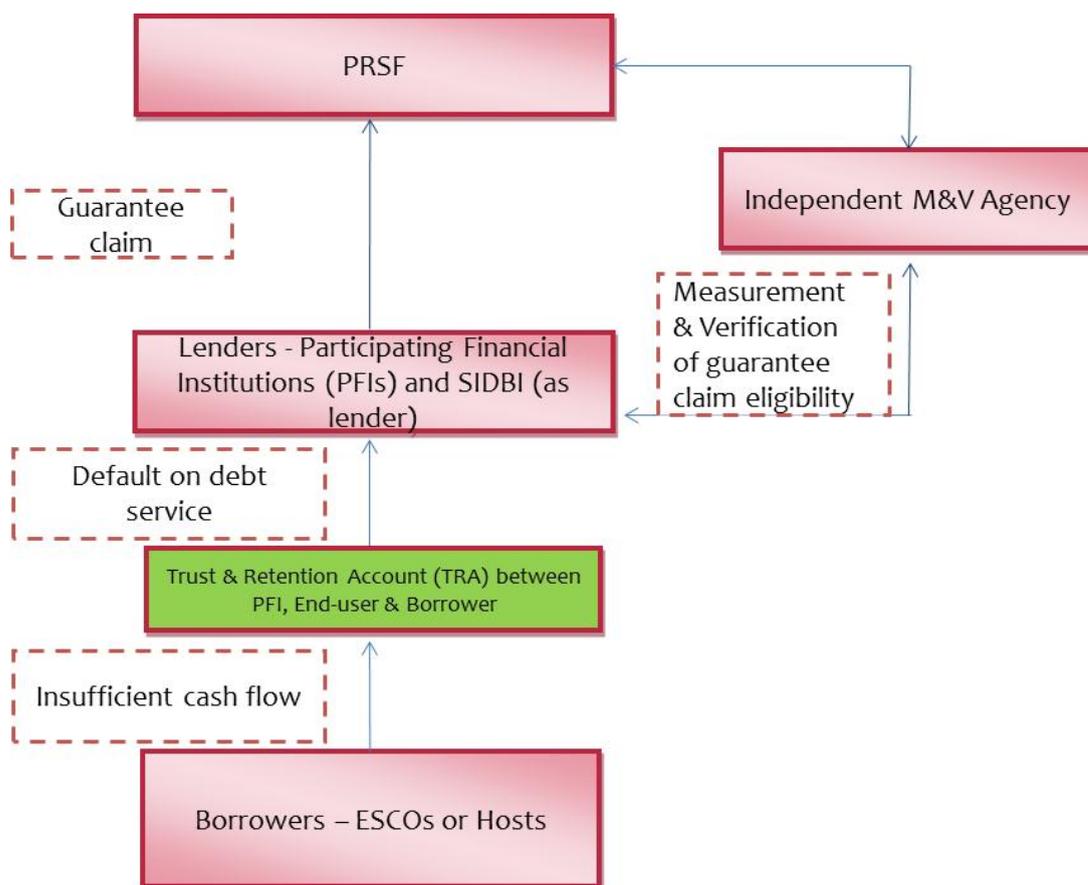
Guarantee shall apply only to loan amounts disbursed by PFI within a period of 18 months from the date on which the guarantee has been approved. Guarantee for the remaining loan may be revalidated by PEA, at its discretion, upon receipt of fresh Guarantee Fee for the same from the PFI.

7.2. Guarantee Claim

Under PRSF, in case of a default occurring on an energy efficiency loan, the PFI can submit a Guarantee Claim, in the specified format, to PEA for the loan amount covered and outstanding. PRSF Guarantee claims originate from underperformance of the underlying energy efficiency investments and the resulting cash shortfall for debt service (principal and interest). The required cash buffer in the TRA will carry the borrower over temporary liquidity problems but cannot make up for extended, chronic cash shortfalls.

In the latter case, insufficient cash to service the debt will lead to a default, which allows the PFI to make a guarantee claim to PRSF, up to 75% of the amount of debt covered and provided that the M&V Agency has verified the eligibility of the claim.

The Guarantee Claim procedure is shown in the following figure.



7.2.1. Guarantee Claim Options

7.2.1.1. Guarantee claim in the event of PFI proceeding for legal action for recovery

PFI can lodge a claim with PEA in the specified format along-with and other supporting documents, in the event of the account turning into an NPA and the PFI proceeding for legal action for recovery of any of the guaranteed loans, subject to a period of 18 months having lapsed from the date of last disbursement or date of completion of energy savings project, whichever is later.

The eligible maximum amount of Guarantee Claim under this option shall be in accordance with **clause 7.1.1**.

Upon satisfying itself with regard to the admissibility of the claim and upon confirmation from the independent M&V Agent, PEA shall release to PFI 75% of the claim amount within 30 days of receipt of the complete information and completion of M&V exercise through an Independent third party agency and after receipt of monies by PEA from World Bank, if required, with regard to a Guarantee Claim.

The remaining 25% of the claim amount shall be paid to PFI within 30 days of being notified of the account being closed and documents as specified in this regard being received by PEA and after receipt of monies by PEA from World Bank, if required, with regard to a Guarantee Claim.

The PFI shall provide an annual declaration of any amount it has recovered from the Borrower subsequent to lodgement of the Guarantee Claim. In case of no recovery, the PFI shall also declare this on an annual basis until the end of 10 years of PRSF.

7.2.1.2. Guarantee Claim in the event of restructuring of loans under Shared Savings

In the event of actual energy savings achieved are lower than the anticipated energy savings in case of a Shared Savings EE Project and the PFI is of the opinion that by restructuring the loan, the loan repayment may become regular & timely, PFI, after restructuring the loan, would be entitled to lodge a Guarantee Claim to the extent of unsustainable portion of the loan under this Option without initiating any legal proceedings for recovery.

In case of restructuring, the PFI has option of lodging claim against such unsustainable portion of the loan, with or without writing-off of a part of the loan. In such case, guarantee will be closed and **the claim shall be paid at a rate of 75% within the overall guarantee amount**. However, the payment of claim in such event, shall be pursuant to PEA satisfying itself through a separate due diligence, by an external independent agency, of the books of account of PFI and also M&V of the energy saving project through an entity appointed by PEA. The decision of PEA with regard to admissibility of such a claim shall be final, subject to confirmation from the M&V Agent. Therefore, it will be recommended that the PFI obtains such approval with regard to admissibility before giving effect to the restructuring.

Once the PFI makes the Guarantee Claim, as mentioned above, the particular energy savings project will no longer be eligible under the provisions of the PRSF for any further claims.

In case the future performance of the energy savings project under the restructured guaranteed loan is better, that is, it generates higher energy savings than that anticipated and agreed-upon in the Guarantee Claim form,

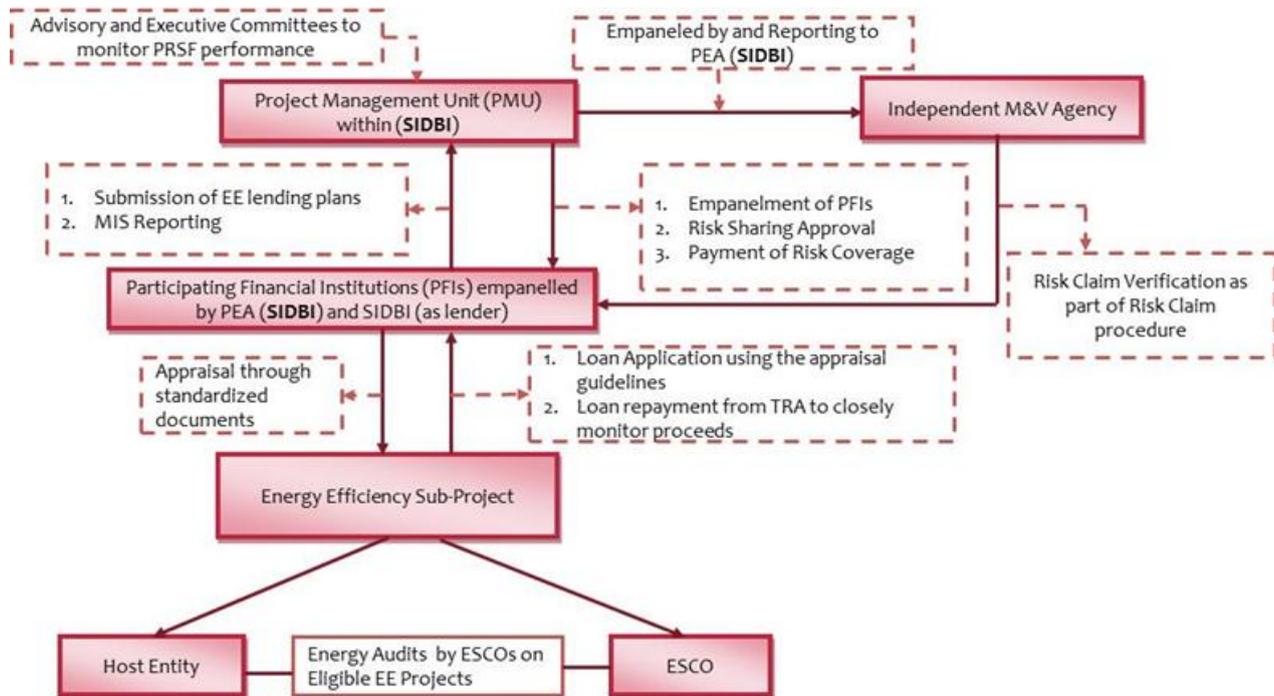
- The PFI will be obliged to recompense the PEA even post settlement of the Guarantee Claim by the PEA, and;
- The amount of recompense shall be the amount paid against the Guarantee Claim and the same shall be documented under the “Right to Recompense” Clause of the Guarantee Claim form.

The PFI shall provide an annual declaration of any amount it has recovered from the Borrower subsequent to lodgement of the Guarantee Claim. In case of no recovery, the PFI shall also declare this on an annual basis until the end of 10 years of PRSF.

7.2.2. Guarantee Claim verification

PEA will hire an Independent Measurement and Verification Agency (MVA) to carry out due diligence exercise of the cases where guarantee claims have been received by the PFIs.

MVA will conduct assessment of the Guarantee Claim by conducting detailed audit of the Host premises. As a result of this audit, MVA shall prepare a report and submit the same to PEA for making decision of the admissibility of the Guarantee Claim. The arrangements for M&V are depicted in the following figure.



Depending on the report of the MVA and if found appropriate; PEA will release the eligible claim payment to the PFI. In case of any dispute, appropriate dispute resolution procedures will be followed.

7.2.3. Guarantee Claim payment

PRSF will pay the claim upon determining its eligibility and after determining that the PFI has undertaken appropriate recovery measures.

7.2.4. Treatment of recoveries

In case of any recoveries under the guaranteed loan account subsequent to lodgement of claim with PEA, the PFI shall deposit the same to the PEA, after adjusting towards the legal cost incurred by it for recovery of the amount, before it claims the remaining 25% of the guaranteed amount. Any amount recovered by PFI in respect of the guaranteed loan subsequent to the lodgement of claim with PEA shall be credited to the respective ledger account from which claim has been settled / to be settled. Further, PFI shall have to deposit the amount recovered from borrower with PEA within 30 days of such recovery else it will attract a penal interest of 4% above the then prevailing Repo Rate of Reserve Bank of India. PEA shall appropriate the same first towards the penal interest, if applicable, and other charges due to the PEA, if any, in respect of the guaranteed loan towards which the amount has been recovered by the PFI, and the balance, if any, shall be appropriated in such a manner so that losses on account of deficit in recovery of the guaranteed loan between PEA and the PFI are in the proportion of the extent of guarantee..

7.2.5. Treatment of serious lapses, irregularities, frauds, etc.

In case, the guaranteed loan where fraud or serious irregularities are detected including serious lapses in procedure or information or mis-information or suppression of vital information by PFI or any of its staff, the guarantee shall become invalid and the PFI shall pay forthwith any claim proceeds received by it from PEA together with penal interest at the rate of 4% above the then prevailing Repo Rate of Reserve Bank of India. The PFI shall pay forthwith such penal interest, when demanded by the PEA, from the date of the initial release of the claim to the date of the refund of the claim. SIDBI will deposit penal interest proceeds in the relevant ledger account (SIDBI account for loans originated by SIDBI, PFI account for loans originated by PFIs). Also, the Guarantee Fee collected shall not be adjusted or refunded in such an event.

7.3. Dispute Resolution

PEA and the PFI shall make efforts to amicably resolve, by direct informal negotiation, any disagreements or dispute relating to the Claim or any other aspect of the PRSF.

8. Approval Mechanism

For successful execution PRSF, an approval mechanism has been developed which shall ascertain the approving authority for different aspects of fund modalities as well as guarantee rules.

9. *Environmental and Social Safeguards*

The proposed PRSF will be executed by SIDBI acting as the PEA. The loans to ESCOs and host entity beneficiaries from PFIs will be supported by the PRSF Fund, through partial credit guarantees. The ESCOs participating under the project will be the ones that are empanelled by BEE. The project will aim at achieving efficiency through technology upgradation / retrofits in target sectors – mid-tier large industries, MSMEs, street lighting and buildings. Thus, the project will support brown field beneficiaries leading to EE benefits, as well environmental co-benefits.

However, from the environmental safeguards perspective, the current status of target sectors vis-à-vis environmental performance would be of importance from the regulatory and reputational risks point of view. In addition, the environmental impacts of proposed technology upgradation in target sectors also cannot be ruled out, though the proposed EE interventions are relatively small investments and do not lead to any significant environmental impacts. Thus, SIDBI as the PEA, as well as the PFIs whose loans to EE projects will be supported by partial credit guarantees issued by the PEA needs to integrate safeguards mechanism as part of appraisal of PRSF transactions. Considering the target sectors under the project and the type of investments, the environmental issues/risks could vary from low to moderate intensity. These are not amenable for upfront identification for designing a particular or set of environmental mitigation/management measures. Also, there could be practical limitations (in some sectors) in retrofitting the environmental performance complying with the EHS guidelines of the World Bank Group, especially in case of industrial sector investments as:

- the project facility supports marginal investments, in the context of overall size and turnover of industrial units and hence limited leverage
- the industrial units expected to be covered under the project are brown-field in nature and any environmental retrofits, in case if required, could be time consuming and need not necessarily be part of the expected EE measures.

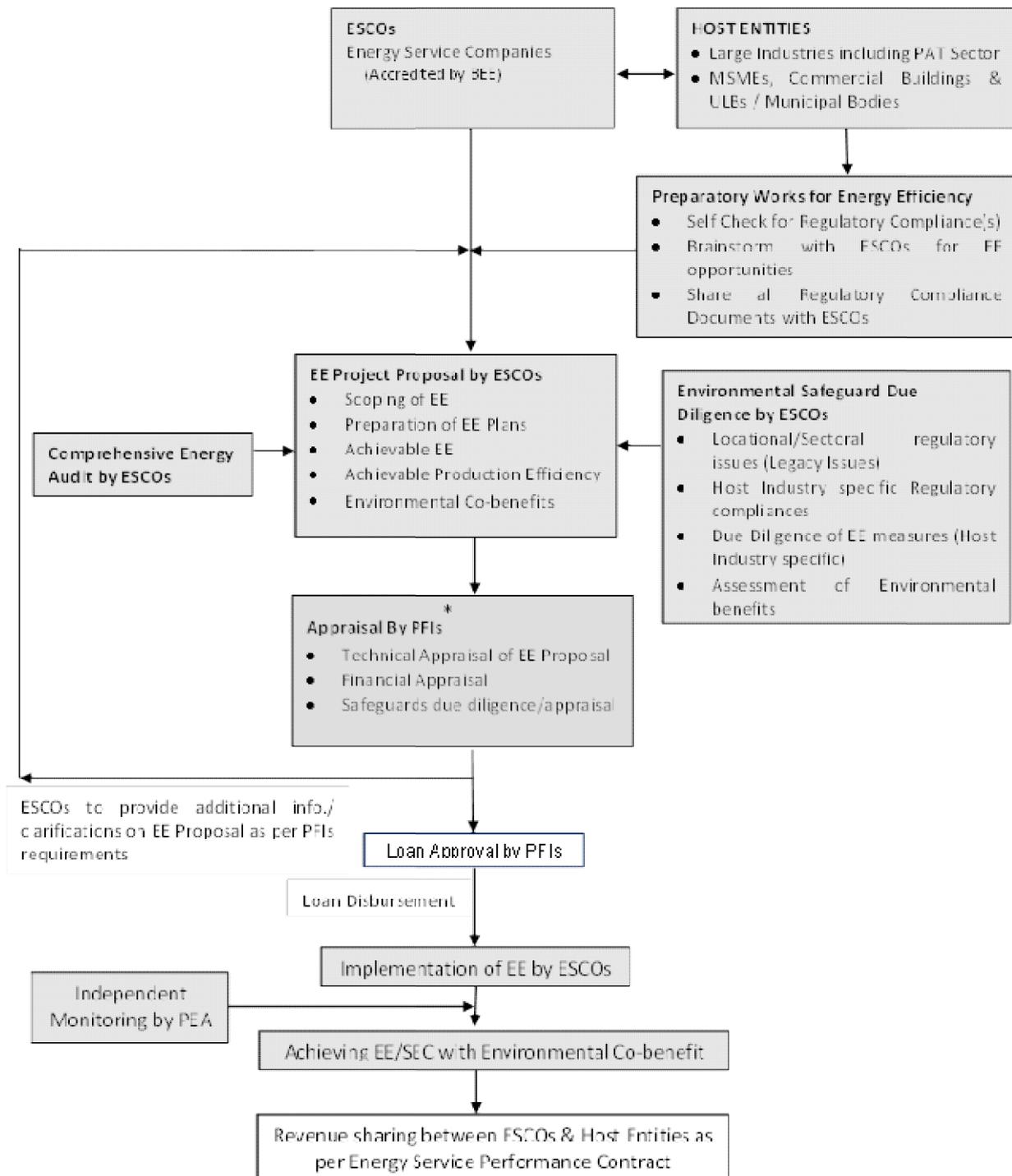
Given the foregoing, the prudent means to address the environmental safeguard issues would be to use a risk based environmental approach, considering the country environmental standards and formulation of an environmental management framework, which includes:

- Establishing effective institutional management mechanisms which may include, integration of basic environmental management protocols for ESCOs and PFIs, and ensuring mandatory site-specific environmental due diligence as part of proposals for energy efficiency improvement (the Detailed Project Reports), integration of environmental considerations in PFIs credit and risk appraisals, etc.
- Focused Monitoring and Evaluation mechanism which will ensure compliance with environmental safeguards

These requirements are addressed through an Environmental Risk Management Framework (ERMF) which essentially defines the roles and responsibilities of all stakeholders under PRSF to address issues such as current environmental performance relating to regulatory compliance, or environmental legacy issues, or negative environmental impacts resulting from technology upgrades due to EE measures, if any. Energy Savings Performance Contracts and other relevant agreements will include environmental and social safeguards covenants based on such site-specific due diligence and appraisal.

The ERMF also defines the environmental safeguard requirements to be followed while preparing the EE projects, to enable due diligence during appraisal process and identify environmental risk profile of each transaction to ensure safeguard risk are mitigated as part of disbursement mechanisms. Third party checks on appraisal procedures to ensure the fiduciary and environmental safeguard management framework are also

included under ERMF. The summary of role and requirements to be followed by all the stakeholders under PRSF comprising host entities, ESCOs, PFIs and PEA include the following, which is also depicted below.



A final version of the ERMF document can be accessed from <http://sidbi.in/?q=world-bank-gef-project-financing-energy-efficiency-msmes>.

10. Business and Implementation Plan

Under the PRSF project, limited risk funding is available and PFIs can submit their advance business & implementation plan for covering the proposal under PRSF.

11. Miscellaneous

Termination of PRSF Liability

If a project becomes ineligible for being granted any guarantee under the Scheme, by any reason, the liability of the PRSF in respect of guarantee granted to PFI for the respective project under the Scheme shall lapse.

If a Borrower becomes ineligible for being granted any energy savings loan under the scheme, by reason of cessation of his activity or his activity or his undertaking ceasing to come within the definition of a MSME unit, the liability of the PEA in respect of any energy savings loan granted to him by a PFI under the Scheme shall be limited to the liability of the Borrower to the PFI as on the date on which the Borrower becomes so ineligible, subject, however, to the limits on the liability of the PEA fixed under this scheme. However, notwithstanding the death or retirement of a partner where the Borrower is a partnership firm or the death of one of the joint borrowers, if the PFI is entitled to continue the energy savings loan to the surviving partner or partners or the surviving borrower or borrowers, as the case may be and if the energy savings loan have not already become non performing asset, the guarantee in respect of such credit facilities shall not to be deemed to be terminated as provided in this paragraph.

RBI Guidelines

The PFIs to follow the latest instructions and guidelines issued from time to time by Reserve Bank of India as may be applicable, if any.

Revision of Rules of Risk Sharing Mechanism

The rules may be amended / modified by the by PEA from time to time as and when required.

Returns and Inspection

The PFI shall also furnish to the PEA all such documents, receipts, certificates and other writings as the latter may require and shall be deemed to have affirmed that the contents of such documents, receipt, certificate and other writings are true, provided that no claim shall be rejected and no liability shall attach to the PFI or any officer thereof for anything done in good faith.

The PEA shall, insofar as it may be necessary for the purposes of the scheme, have the right to inspect or call for copies of the books of account and other records (including any book of instructions or manual or circulars covering general instructions regarding conduct of advances) of the PFI, and of any Borrower from the PFI. Such inspection may be carried out either by PEA or any other person appointed by the PEA for the purpose of inspection. Every officer or other employee of the PFI or the Borrower, who is in a position to do so, shall make available to PEA or the person appointed for the inspection as the case may be, the books of account and other records and information which are in his possession.

Conditions Imposed under PRSF be binding on the PFI

Any guarantee given under PRSF shall be governed by the provisions of the Scheme as if the same had been written in the documents evidencing such guarantee.

The PFI shall as far as possible ensure that the conditions of any contract relating to an account covered under the Scheme are not in conflict with the provisions of the Scheme but notwithstanding any provision in any other documents or contract, the PFI shall in relation to the PRSF be bound by the conditions imposed under the Scheme.

Interpretation

If any question arises in regard to the interpretation of any of the provisions of the Scheme or of any directions or instructions or clarifications given in connection therewith, the decision of PEA shall be final and binding. However, before finalizing the decision, tPEA, in its own discretion, may give an opportunity to the PFI to represent its case and PEA may take its final decision after considering the views of the PFI in the matter.

Supplementary and General Provisions

In respect of any matter not specifically provided for in this Scheme, the PEA may make such supplementary or additional or issues such instructions or clarifications as may be necessary for the purpose of the scheme. Any such decision to modify or issue fresh instructions taken would have to be communicated to all the PFIs well in time before being effective.