

Ex post evaluation – India

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Sector: 24030 – Formal sector financial intermediaries
Programme/Project: Small Industries Development Bank of India Environmental Credit Line (SIDBI III) – 1999 65 864* (Inv.) and 2001 70 019 (AM)
Implementing agency: Small Industries Development Bank of India (SIDBI)



Ex post evaluation report: 2015

		Project (Planned)	Project (Actual)	AM (Planned)	AM (Actual)
Investment costs (total)	EUR million	15.2	15.2	0.6	0.6
Counterpart contribution	EUR million	0.0	0.0	0	0
Funding	EUR million	15.2	15.2	0.6	0.6
of which BMZ budget funds	EUR million	15.2	15.2	0.6	0.6

*) Projects in the 2013 random sample

Summary: The programme was designed to fund process-integrated investments to lower harmful emissions of small and medium-sized industrial companies (SMEs) by providing long-term investment loans from the SIDBI, funded with the FC credit facility SIDBI III. The project was implemented in two tranches.

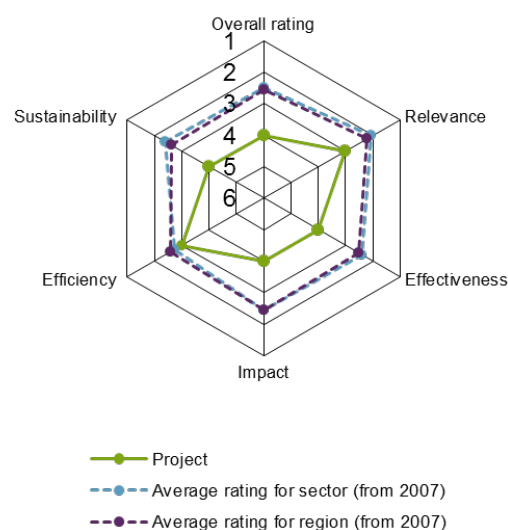
Objectives: The overall development goal was to contribute towards reducing the serious environmental impacts caused by industrial pollutants from SMEs and the associated risk to human health. At the same time, a new funding product (environmental credit line) was to be introduced for the programme participants, SMEs and the SIDBI, and improvements made to the profitability of the beneficiary companies. The programme's objective was to award investment loans on a needs basis at positive interest rates in real terms to finance environmentally friendly production processes and green technologies.

Target group: The target group was private SMEs and their employees in economically viable sectors.

Overall rating: 4

Rationale: The introduction of a new environmental credit line product was relevant at appraisal, and was implemented with an efficient and competent organisation, the SIDBI. However, a shift in priorities in favour of climate protection and energy efficiency as well as the comparatively low level of funds available resulted in the environmental credit funding product not being established on a sustainable basis. The SIDBI does not pursue any active marketing campaigns for the environmental funding product, nor is there any advice given to target customers with regard to improving their ecological footprint. The advisory services as part of the accompanying measure fell flat.

Highlights: This evaluated programme was one of the first programmes related to the climate and the environment that triggered substantial learning effects. In the meantime the SIDBI has grown into one of the leading institutions in India for climate and environmental matters. With more recent programmes the bank now applies innovative concepts ensuring that installations harmful to the environment – which need replaced and are to be financed – cannot be sold and kept in operation. Such measures, however, did not yet apply in the case of this programme.



Rating according to DAC criteria

Overall rating: 4

The introduction of an environmental credit line was intended to address an issue relevant to the SMI sector (serious environmental pollution caused by industrial pollutants). On the one hand, there was a shift in priorities within the Indian government and at SIDBI towards the issue of climate change and, on the other, the accompanying measure in tranche II was insufficient to generate anything more than a windfall effect (i.e. favourable financing conditions for the modernisation of companies). The effectiveness can be rated as insufficient, since the polluting production facilities which were actually to be replaced as part of the Financial Cooperation programme either continued to operate to meet increased demand from SMIs or were sold to other companies. The efficiency can be regarded as marginally satisfactory as the SIDBI works efficiently in principle, but there are limitations due to the lack of harmonisation of the various donor programmes and the lack of marketing for the environmental credit line product. The overall developmental impact was also very limited because of the relatively low volume of funds. The structural impacts on the Indian financial sector are restrained. However, it should be noted that this was a new programme approach. The materials developed as a result of the accompanying measure and the knowledge built up at the time are no longer available or are not used any more.

Relevance

The introduction of a funding product for process-integrated environmental protection measures was well planned, as the banking sector had not previously offered this product. The institutional approach of developing this product at the SIDBI and expecting commercial banks to offer something similar is also understandable; given the fact that SMIs then, as now, were among the largest polluters in the industry, this approach is in principle very relevant. However, since the programme appraisal, there has been a significant shift in political priorities at both the international and Indian level away from environmental protection and towards the fight against climate change. Environmental protection as a stand-alone issue thus only plays a very minor role. This shift led to prioritising the use of Indian and international - especially donor - resources towards climate protection, in particular energy efficiency. Accordingly, lower political and business policy relevance was assigned to the evaluated programme, which is also reflected in the fact that organisational responsibility lies with the SIDBI's energy efficiency division: one of five priority areas.

The original programme approach was reasonable in principle from an environmental perspective, but there should have been a scrapping premium in order to achieve the intended environmental impact. In addition, the accompanying measure wasn't well designed: in tranche II there was no longer a consultant involved in selecting the SMIs and developing the measures, and as a result the companies currently no longer receive advice on improving environmental performance. Furthermore, the development of an analytical tool for the evaluation of credit applications proved to be too complicated and is no longer used today for obvious reasons.

We assess the overall relevance as marginally satisfactory.

Relevance rating: 3

Effectiveness

The programme's objective defined during the appraisal was the needs-based granting of investment loans at positive interest rates (in real terms) for the financing of environmentally friendly production processes and green technologies. The following indicators were used to measure whether the programme's objective had been achieved:

Indicator	Status PA	Ex post evaluation
(1) 75 % of tranches I and II is disbursed as direct loans.	0 %	100 % (Met)

(2) 75 % of funded companies achieve sustainable financial viability, i.e. demonstrate sufficient cash flow and at least one return on equity amounting to the medium-term capital interest rate.	0 %	62.5 % (Not met)
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The outflow of funds from tranche I was very slow. Following the conclusion of the loan agreement in February 2003, it took over two years until the SIDBI disbursed the first programme funds to borrowers. The first of a total of seven draw-downs took place in January 2006. The disbursement under tranche I accelerated in 2006 and was completed in 2007. The loan agreement for tranche II was concluded in September 2008 for almost the same amount. This tranche was fully disbursed in just two draw-downs in January and February 2009. The underlying agreements between the SIDBI and the SMIs dated from 2008 and 2009. This allowed for the full disbursement of both tranches as direct loans (100 %) to a total of 34 SMIs and thus for the programme objective indicator to be achieved.

The indicator is, however, subject to certain limitations. The disbursement of funds, together with the definition of the contractually agreed purpose (environmentally friendly production processes), is intended ensure the reduction of SMIs' environmental impacts. Little can be said of this reduction, however, as the consultant – owing to a lack of cooperation – received no data for the five SMIs evaluated, and a before/after comparison is therefore not possible.

SMIs are generally motivated to implement process-integrated environmental protection measures for one or a combination of the following reasons:

- Compliance with state or federal law,
- Improved productivity and profitability through resource efficiency (environmental measure as a “positive side effect”) and
- Fulfilment of the demands of markets with high environmental protection standards (USA, Europe, Japan and South Korea).

Of the eight SMIs that were visited, two had financial troubles. These troubles can be attributed, at least in the case of one company, to the court ordered closure of all dye works in Tirupur. One company was no longer in operation at the time of the evaluation report and was in default of its loan. It was not possible to obtain detailed figures for all the SMIs in the sample during and after the evaluation mission. Therefore, the analysis was limited to a comparison of the return on equity with the amount of medium-term capital interest. Of the eight SMIs in the sample, three consistently had returns on equity that were higher than the medium-term capital interest rate; in the case of four of the SMIs, the return on equity was higher than the medium-term capital interest rate in some years and lower in others (these were assessed as 50 % met); in the case of one SMI, the return on equity was consistently lower. This therefore equates to 62.5 %, meaning that the indicator was not met.

As mentioned above, the old, environmentally harmful installations largely continue to operate or have been sold. Eight of the 41 companies which received funding were visited: six existing operations and two newly founded ones. All six existing companies have confirmed this. This aspect leads to a significant devaluation of the effectiveness.

The interest rates to be paid by the SMIs under the programme were negative in real terms in a number of cases. The reason for this were funding programmes by the Indian government for the purchase of new modern and environmentally friendly machines, which were also processed by the SIDBI and which were granted in addition to the FC programme. Two of the four cases involved investments which were unprofitable from a microeconomic perspective, thus justifying a subsidy. Two others had profitable investments, and therefore a subsidy was not appropriate. The interest rates in real terms were also not monitored overall.

Effectiveness rating: 4

Efficiency

The SIDBI operates without ongoing subsidies and is, particularly in an Indian context, very efficient. With 15 regional offices, 85 branches and a total of just over 1,000 employees, as of 2013 the SIDBI had achieved an outstanding loan portfolio of approximately 5.8 billion EUR. This can be attributed to the business model (channelling of funds through partner financial institutions), the highly qualified SIDBI workforce as well as streamlined and functional organisation. With the SIDBI's political mandate of promoting SMIs, it was certainly the appropriate institution to choose in the interests of efficiency.

Initially, there were serious delays in implementing the programme funds. The expansion of the target groups in tranche II (from 5 defined industries to 26) allowed for rapid implementation to be achieved. Tranche II is not equal to tranche I in qualitative terms however, owing in particular to the restricted consultant role mentioned above.

Restrictions are needed though in the efficient implementation due to the low level of coordination with other donors. It was not possible to harmonise related programmes between the SIDBI and other donors with the FC programme in terms of the criteria selection for the target group or the analysis. Moreover, the SIDBI conducts no active marketing for the environmental financing product, nor has it teamed up with other actors such as professional associations or the like in order to market the subject.

In our view, more favourable solutions would not have been possible without further jeopardising the success of the programme. From today's perspective, it can even be said that both the accompanying and investment measures should have been larger in order to achieve greater relevance and sustainability. Particularly the accompanying measure was insufficient for the amount of the loan set out, and as a result the consultant in tranche II was only able to perform significantly fewer activities both at the level of the ultimate borrowers and at the level of the SIDBI itself.

Efficiency rating: 3

Impact

Indicator	Status PA	Ex post evaluation
(1) 75 % of a qualified sample of funded companies show that the financed measures are properly operated and bring about the expected emissions reductions and waste avoidance in a sustainable way	0 %	n.a.*

* = It was not possible to perform a comparison of emissions and waste reduction as there was no data available in this regard.

The programme proposal of September 1999 defined the overall objective as contributing to the reduction of the serious environmental impacts caused by industrial pollutants from SMIs, as well as the associated risks to human health. At the same time, a new funding product (environmental credit line) was to be introduced for the programme participants (SMIs and the SIDBI), and improvements made to the profitability of the beneficiary companies. For the overall objective, only the indicator shown in the table was defined. Of the eight SMIs visited from tranche II, the financed measures, i.e. the production facilities, were properly operated in the case of four companies. Proper operation was not observed in the case of the other four companies (e.g. employees exposed directly and without protective clothing to harmful chemicals or extreme heat). The SIDBI, the consultant and the delegation received no data in the majority of cases. Neither emissions nor waste streams were measured prior to or after the introduction of the new installation. In addition, it is generally not possible to carry out a comparison following the implementation of the measure, as the SMIs do not provide reliable production figures. The reason for this is primarily SMIs' concerns that they might have to pay higher taxes. Thus it is not possible to measure whether the expected emissions reduction and waste avoidance objectives have been achieved. Comprehensive performance data was collected for the first tranche. However, only ten companies were listed with (some-

times incomplete) post-monitoring audits in the final report.. Due to the weak information basis, it was also impossible to determine whether the overall development goal had been achieved for tranche I.

Based on the results of the visits, we assume that the environmental impacts did not occur to the desired extent. Even without the development measure, many SMIs would have invested in modernised and therefore more environmentally-friendly production facilities. It is difficult to assess whether the present loan has made a difference here. The accompanying measure was however helpful in tranche I when it came to demonstrating the benefits of resource-efficient production to smaller companies.

The impacts were also very limited because of the relatively low volume of funds. The structural impacts with respect to environmental protection and on the Indian financial sector are very limited.

Impact rating: 4

Sustainability

The SIDBI is in a good financial position with a solid capital base and stable profits. With the increased focus of the business model on the funding of partner financial institutions instead of on the direct financing of SMIs, the outreach may tend to increase. It can be assumed that the SIDBI will continue to be seen by the Indian government as the key player in the promotion of SMIs (or MSMEs). To date, the SIDBI has allocated only a limited amount of its own funds to financing environmentally friendly production processes. The materials developed as a result of the accompanying measure in tranche I and the expertise conveyed through the training sessions have been lost over time, i.e. these measures were not sustainable.

As illustrated above, a global shift in priorities occurred, with the emphasis being taken from environmental protection and placed on climate protection, and in particular energy efficiency. The two areas have a great deal of overlap, but are not congruent with one another. Awareness of the need for environmental protection in India has thus far been very low, or has at best seen slight growth (courts, press, expectations of the international markets).

From an environmental perspective, it is clear that the efficacy of the project in terms of development policy was at best adequate at the time of the ex-post evaluation and is also very unlikely to improve. In the absence of continued consultation and support for SMIs, only the environmental effects that can be achieved through the use of newer technology will be carried forward. Only about half of the companies visited have a sufficient professional approach to allow for the sustainable achievement and optimisation of resource efficiency to be assumed. The approach taken in tranche II of the credit line, which involved financing investments in product/process-integrated environmental protection without consulting the SMI on resource efficiency, appears – even against the background of experience in Germany – to hold out little hope of being sustainable.

Sustainability rating: 4

Notes on the methods used to evaluate project success (project rating)

Projects (and programmes) are evaluated on a six-point scale, the criteria being **relevance, effectiveness, efficiency** and **overarching developmental impact**. The ratings are also used to arrive at a **final assessment** of a project's overall developmental efficacy. The scale is as follows:

Level 1	Very good result that clearly exceeds expectations
Level 2	Good result, fully in line with expectations and without any significant shortcomings
Level 3	Satisfactory result – project falls short of expectations but the positive results dominate
Level 4	Unsatisfactory result – significantly below expectations, with negative results dominating despite discernible positive results
Level 5	Clearly inadequate result – despite some positive partial results, the negative results clearly dominate
Level 6	The project has no impact or the situation has actually deteriorated

Rating levels 1-3 denote a positive assessment or successful project while rating levels 4-6 denote a negative assessment.

Sustainability is evaluated according to the following four-point scale:

Sustainability level 1 (very good sustainability): The developmental efficacy of the project (positive to date) is very likely to continue undiminished or even increase.

Sustainability level 2 (good sustainability): The developmental efficacy of the project (positive to date) is very likely to decline only minimally but remain positive overall. (This is what can normally be expected).

Sustainability level 3 (satisfactory sustainability): The developmental efficacy of the project (positive to date) is very likely to decline significantly but remain positive overall. This rating is also assigned if the sustainability of a project is considered inadequate up to the time of the ex post evaluation but is very likely to evolve positively so that the project will ultimately achieve positive developmental efficacy.

Sustainability level 4 (inadequate sustainability): The developmental efficacy of the project is inadequate up to the time of the ex post evaluation and is very unlikely to improve. This rating is also assigned if the sustainability that has been positively evaluated to date is very likely to deteriorate severely and no longer meet the level 3 criteria.

The **overall rating** on the six-point scale is compiled from a weighting of all five individual criteria as appropriate to the project in question. Rating levels 1-3 of the overall rating denote a "successful" project while rating levels 4-6 denote an "unsuccessful" project. It should be noted that a project can generally be considered developmentally "successful" only if the achievement of the project objective ("effectiveness"), the impact on the overall objective ("overarching developmental impact") and the sustainability are rated at least "satisfactory" (level 3).