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**SOUTH ASIA REGIONAL INITIATIVE FOR ENERGY
COOPERATION AND DEVELOPMENT**

**IMPLEMENTATION OF SUSTAINABLE GUARANTEE
FACILITY**

**REPORT ON THE TECHNICAL ASSISTANCE
PROVIDED TO KEY STAKEHOLDERS**

May 2006

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DISCLAIMER

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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- Mr. Aravinda Perera – Deputy General Manager, Sampath Bank
- Mr. Upul Karunaratne – Assistant General Manager, Sampath Bank
- Ms. Nimali Abeyratne – Manager Development Banking, Sampath Bank
- Mr. Deshapriya Peiris – Staff Assistant, Sampath Bank
- Mr. I.H.A. Wickramasinghe – Chief Manager, Hatton National Bank
- Mr. Shanake Fonseka – Manager, Hatton National Bank
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- Dr. V. Loganathan – Senior Manager, Bank of Ceylon
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Acronyms

A/C	Air conditioning
BOC	Bank of Ceylon
CEO	Chief Executive Officer
CRIB	Credit Information Bureau
DFCC	Development Finance Corporation of Ceylon
ECF	Energy Conservation Fund
EE	Energy Efficiency
EFriends 2	JBIC Loan Facility
ESCO	Energy Service Company
GOSL	Government of Sri Lanka
HNB	Hatton National Bank
IRR	Internal Rate of Return
ISB	Industrial Services Bureau
LTL	Lanka Transformers Limited
M&V	Monitoring & Verification
MOU	Memorandum of Understanding
NPL	Non Performing Loans
NPV	Net Present Value
PF	Power factor Correction
PFI	Participating Financial Institutions
RERED	Renewable Energy for Rural Economic Development
Rs	Sri Lankan Rupees
SARI/Energy	South Asia Regional Initiative for Energy
SGF	Sustainable Guarantee Facility
TA	Technical Assistance
USAID	United States Agency for International Development

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Executive Summary

To overcome the barriers for energy efficiency project investments in Sri Lanka, a Sustainable Guarantee Facility (SGF) was developed under the South Asia Regional Initiative for Energy (SARI/Energy) phase 1.

With lack of collateral being the main barrier for energy efficiency investment, the SGF provides a loan repayment guarantee to lenders as a collateral substitute. It also serves to lower the cost of financing for borrowers and encourages the pursuit of energy efficiency projects, thus substantially increasing funding of energy efficiency projects.

Under the SARI/Energy phase II, technical assistance was provided to key stakeholders to implement the SGF concept. The technical assistance included the development and execution of a Memorandum of Understanding between the facility and participating financial institutions, review of operating guidelines, training and capacity building of stakeholders, development five sustainable energy efficiency projects and guarantee awards presentation to pilot projects as a part of the planned awareness and publicity program. Details of pilot projects developed:

S.No.	ESCO/End-user (Client)	Project Details
1	Access Energy Solutions (Pvt) Ltd/ Sampath Centre	Measures: A/C improvements/loan management Investment: Rs. 25,114,005 Annual saving: Rs. 11,400,354 (IRR – 16%) Financing: RERED + SGF (HNB as PFI) Implementing mechanism: Shared savings
2	LTL Energy (Pvt) Ltd/ Jinadasa Bros. (Garments) Ltd	Measures: lighting improvements/PF correction Investment: Rs. 761,282 Annual saving: Rs. 271,254 (IRR – 31%) Financing: Efriends 2 + SGF (Sampath as PFI) Implementing mechanism: Guaranteed savings
3	ISB Services Ltd/ Samtessi Brush Manufacturers Ltd	Measures: PF correction Investment: Rs. 486,386 Annual saving: Rs. 425,143 (IRR – 90%) Financing: Efriends 2 + SGF (Sampath as PFI) Implementing mechanism: Guaranteed saving + Excess sharing
4	Professional Met Consultancy Services/ Moneragala Paper Mills Ltd	Measures: Boiler fuel switching Investment: Rs. 2,194,500 Annual saving: Rs. 11,103,880 (IRR – 360%) Financing: Commercial loan / RERED + SGF (DFCC as PFI) Implementing mechanism: Guaranteed saving
5	Metropolitan Communications (Pvt) Ltd/ Lalan Gloves (Pvt) Ltd	Measures: PF correction Investment: Rs. 987,000 Annual saving: 905,143 (IRR – 94%) Financing: Efriends 2 + SGF (Commercial bank as PFI) Implementing mechanism: Guaranteed saving

Recommendations

During this technical assistance initiative, the technical assistance team identified certain areas for possible improvement in order to ensure sustainability, improve effectiveness and operational efficiency of the facility. The team lists following recommendations for the consideration of the facility management unit.

- 1) Norms established by the TA team for the evaluation of project proposals for loan guarantees should also be used by the Facility management in reviewing future proposals.
- 2) A review of the program is recommended six months after the initial guarantee awards or when the guarantee amount reaches **80%** of the fund, as planned under SARI/Energy technical assistance.
- 3) In consultation with all stakeholders, the ECF should design and implement a well coordinated publicity program to increase awareness of the end-users on the benefits of the SGF. This is essential to attract large energy efficiency projects for the facility.
- 4) Facility management unit needs strengthening for it to function effectively. ECF should consider filling-up of key posts of the recommended structure (specified in the May 2004 concept proposal).
- 5) Strengthening and Certification of ESCOs should be a priority for the facility. It must implement capacity building and training tasks for ESCOs and developers on a regular basis. ECF should also develop an ESCO certification process, based on ESCOs' experience on performance based energy efficiency project implementation.
- 6) SGF can be used to facilitate funding for many other activities such as renewable energy development. It is recommended that this be considered during the formal review process and amend guidelines if necessary, to accommodate new areas.
- 7) Regional perspective of the SGF is important for the SARI/Energy project and it should consider opportunities for replication of the SGF concept in other SARI/Energy countries and extension of the facility to other areas of the energy sector.

The importance of energy conservation/efficiency for mitigating the impact of increasing energy costs in Sri Lanka has been long recognized. Studies have shown that the net potential benefit from industrial energy efficiency improvements correspond to an annual generation saving of Rs. 4.2 billion. However, there are barriers that have hindered the widespread commercialization and large-scale implementation of end-use energy-efficiency improvements.

To overcome these barriers for energy efficiency project investments and to reduce the cost of borrowing in Sri Lanka, a Sustainable Guarantee Facility (SGF) was developed under the South Asia Regional Initiative for Energy (SARI/Energy) phase 1. As the lack of collateral has been the main barrier for energy efficiency project lending, the SGF will provide a loan repayment guarantee to lenders as a collateral substitute. This guarantee will serve to lower the cost of financing for borrowers and encourage the pursuit of energy efficiency projects, thus substantially increasing funding of energy efficiency projects.

Under the SARI/Energy phase II, technical assistance was provided to key stakeholders to implement the SGF concept. The technical assistance included training and awareness promotion for key stakeholders and development three to five sustainable energy efficiency projects, selected by the Energy Conservation Fund (ECF); the facility management. The SARI/Energy II technical assistance worked in close coordination with the USAID and key stakeholders, including the:

- The ECF as the SGF facility manager
- Financial institutions selected by the ECF as participating financial institutions (PFIs)
- ECF-registered energy service providers (ESCOs) as project developers
- Potential Borrowers for capital investments in Energy Efficiency

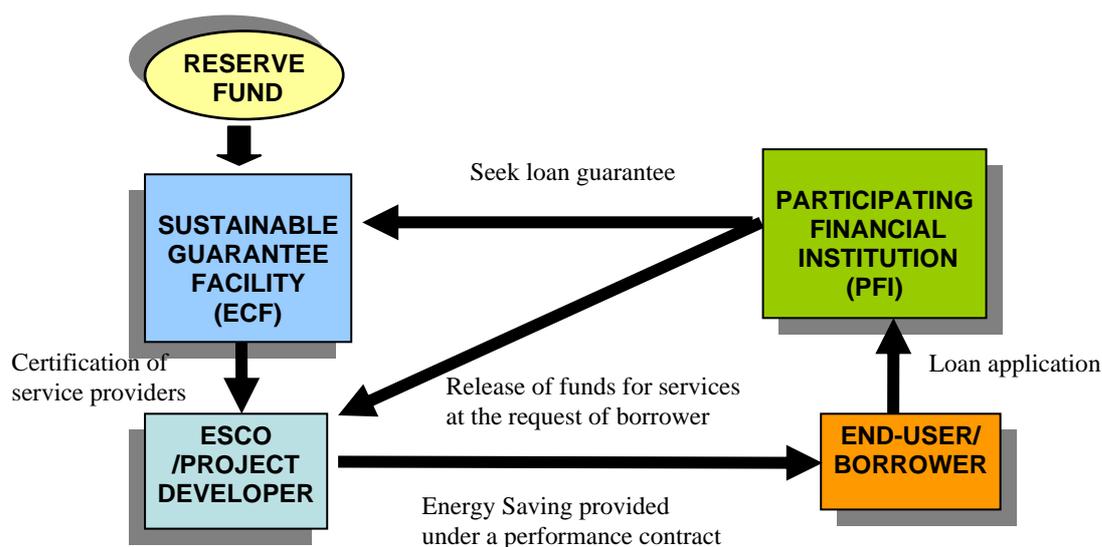


Figure 1.1: SGF operating mechanism

Section 2

Planned Technical Assistance Tasks

The key planned SARI/Energy technical assistance tasks were:

- Training of personnel of the ECF/SGF, the PFIs and ESCOs, through delivery of a training program
- Development of five replicable and sustainable pilot projects
- Increased awareness among all key stakeholders of the SGF,

To accomplish above, Nexant SARI/Energy technical assistance team developed a program of interconnected activities.

2.1 Task 1: Support to ECF/SGF in identifying PFIs

Nexant SARI/Energy TA team using the approaches it has employed in similar initiatives in other countries - explaining the advantages of increased lending business and decreased risk, which could be derived from participating in the SGF initiative, assisted the ECF in identifying Financial Institutions to participate in the program.

The relationship between the ECF and the PFIs is of crucial importance. The principles governing such relation must be as clear and roles and responsibilities cleared defined to ensure there is complete understanding of how interactions and transactions will be conducted.

To facilitate this, SARI/Energy TA team developed a Memorandum of Understanding (MOU) to document roles and responsibilities of each party.

2.2 Task 2: Finalize operating guidelines for stakeholders

The SGF Operating Guidelines of May 2004, developed under SARI/Energy I was subjected to a stakeholder review process. The technical assistance team then reviewed stakeholder comments on the operating guidelines of May 2004 and as appropriate, the comments were incorporated in the final guidelines.

2.3 Task 3: Stakeholders capacity building and training

The stakeholder capacity building and training on the objectives and implementing mechanisms of the SGF were important tasks. A three day training session was conducted for ESCOs, staff of the ECF and the PFIs. Course content of this three day residential program, finalized in consultation with the ECF and the PFIs, discussed in details all SGF operating issues.

2.4 Task 4: Support for the development of pilot projects

In the selection of pilot projects for the SGF, the SARI/Energy team conducted technical and economic review of proposals submitted by the ECF and provided support for the development of five pilot projects as possible candidates to receive for initial guarantees from the SGF.

This support focused on following areas:

- Preparation of project proposals
 - Technology and conceptual design (energy efficiency, replicability) design
 - Cost estimated and energy efficiency calculations
 - Financial analysis and cash flow
 - Implementation and payment schedule
 - Monitoring and verification of savings
 - Performance contract between investor and implementing ESCO
- Review/evaluation of project proposals
 - By PFIs (leading to a contract between investor and PFI)
 - By ECF/SGF
- Award of guarantees

2.5 Task 5: Awareness promotion

The first objective of this initiative was to support a limited number (5) of sustainable and replicable energy efficiency projects, and to use the experience and lessons learned from this for awareness building at national level.

The two Awareness Building Events targeting key stakeholders were planned. They were:

- 1) Guarantee certificate awards for pilot projects
- 2) General awareness seminar for investors

2.6 Task 6: Conduct program review

After a period of six months or when the guarantee reaches **80%** of SGF investment, at the request of ECF, SARI/Energy TA team is expected to conduct a review of the SGF operational performance in general, in order to recommend improvements to strengthen and sustain the SGF.

Appendix A: Planned activity schedule

Section 3 Key Activities under Planned Tasks

The technical assistance team completed the following key activities to support the main tasks listed above and to meet the objectives of the technical assistance initiative.

- Development of an ECF/PFI Memorandum of Understanding
- Definition of Operating Rules and guidelines
- Obtaining approval of PFI's to accept SGF as a collateral substitute
- Stakeholder training and capacity building to implement the SGF
- Support the development of Pilot Projects
- Awareness and Promotion of SGF concept

3.1 Memorandum of understanding (MOU)

An agreement in the form of a Memorandum of Understanding (MOU) was developed to clearly specify roles and responsibilities of the participating institutions such as the ECF and the PFIs in the implementation of the SGF, based on the SGF operating guidelines.

The items listed in the MOU are:

- Loan guarantee process under the SGF
- Obligations of the Participating Financial Institutions
- Default of a guaranteed loan
- Loan Guarantee termination
- Termination of MOU
- Arbitration and dispute resolution between the ECF and the PFI
- Amendments to MOU
- Execution
- Attachment – operating guidelines

The MOU was subjected to an extensive review process, facilitated by the TA team with the main reviewers being the Attorney General on behalf of the ECF and respective legal units and boards of the PFIs.

At the completion of the MOU review process, MOU was signed between the ECF and the PFIs.

Table 3.1: Effective dates of MOU

S.No	Participating Financial Institution	Date of Execution
1	Hatton National Bank	21/04/2006
2	DFCC Bank	02/05/2006
3	Sampath Bank	28/04/2006
4	Seylan Bank	02/05/2006
5	Commercial Bank	31/05/2006
6	NDB Bank	25/05/2006
7	Bank of Ceylon	02/06/2006

Appendix B: Memorandum of Understanding (MOU)

3.2 Operating guidelines

The operating guidelines developed in May 2004 were subjected to a detailed review by the TA team. Amendments were then subjected to a review by participating and non participating stakeholders. Following participated in this review process:

- 1) Participating Financial institutions
- 2) Institutions under the Government of Sri Lanka:
 - i. Ministry of Power and Energy
 - ii. Energy Conservation Fund
 - iii. The treasury
 - iv. The Central Bank of Sri Lanka
- 3) Developers/ESCOs

The operating guidelines of the SGF specify;

- 1) Project eligibility criteria
 - a. Technology defined: Power factor correction, Lighting improvements, boiler improvements, A/C improvements, Compressed air improvements, Motor & drives, Fans & blower systems improvements, Pump & systems
- 2) Terms and conditions of loan guarantee
- 3) Loan guarantee application process
- 4) Declarations to be made by PFI
- 5) Issuance of loan guarantee
- 6) Loan default and recovery
- 7) Loan termination provisions and
- 8) Supplementary provisions for the SGF

It also includes formats for application for loan guarantee, developer project proposal, guarantee certificate, claim from loan guarantee and the premium payment form, as a part of the standardization of documentation for the efficient operation of the facility.

Appendix C: SGF operating guidelines

Further improvements to the SGF operating guidelines were identified by the TA team during the pilot project development stage and listed under recommendations for consideration during the program review process.

3.3 Stakeholder capacity building & training

TA team first conducted a need assessment of stakeholders to implement the SGF efficiently by conducting one to one discussions with all relevant stakeholders. Based on the information gathered, a three day residential training program was designed to cover the most aspects related to Energy Efficiency program development, not limiting to the SGF mechanisms.

The course content included

- 1) An introduction to energy management and SGF
- 2) Potential for EE improvements in Sri Lanka
- 3) EE project development cycle

- 4) Introduction to an Investment-Grade Audit
- 5) Financial analysis associated with an IGS
- 6) Documentation for the SGF
- 7) Risk Assessment of EE Projects and
- 8) Role of the facility management unit.

The course was conducted on December 1, 2 and 3, 2005 with over thirty stakeholders from PFIs and developers participating in the program.

Appendix D: Report on the training program

3.4 Development of pilot projects

TA team conducted a technical and economic review of proposals submitted by the facility and identified five projects to develop under the pilot project development task for initial guarantee awards, as a part of the technical assistance provided under the SARI/Energy project.

Table 3.2: Details of project identified for pilots

S.No.	Developer/ESCO	Client	Type of Installation	Status as at the selection stage
1	Access Energy Solutions (Pvt) Ltd	Sampath Centre	Commercial Building	Detailed audit completed and measures identified: A/C improvement and load management
2	LTL Energy (Pvt) Ltd	Jinadasa Bros. (Garments) Ltd	Apparel Industry	Detailed audit completed and measure identified: PF correction, pump improvements and lighting improvements
3	ISB Services Ltd	Samtessi Brush Manufacturers Ltd	Brush Manufacturing Industry	Walk- through audit completed
4	Professional Met Consultancy Services	Monaragala Paper Mills Ltd	Paper Mill	Walk-through audit completed and measure identified is fuel switching of boiler
5	Metropolitan Communication (Pvt) Ltd	Lalan Gloves (Pvt) Ltd	Rubber Industry	Walk- through audit completed and measure identified is PF correction

Technical assistance to these projects included review of audit proposals, development of saving verification methodologies and performance contracts, financial analysis of proposals and preparation of documents for loans and loan guarantees.

As a part of the project development assistance, consultants visited sites with the developers/ESCOs and at times participated in detailed audits to refine proposals to make them bankable.

Table 3.3: Specific assistance provided to pilot projects

S.No	Project details	Specific Technical Assistance Provided
1	<p>ESCO: Access Energy Solutions (Pvt) Ltd Client: Sampath Centre Measures: A/C improvements & load management Investment: Rs. 25,114,005 Annual saving: Rs. 11,400,354 Payback: 2.2 years IRR: 16% NPV: Rs. 823,980 Contract type: Shared savings 80/20 – 47 months, 20/80 from 48 – 60 months and 0/100 after 60 months Financing: RERED + SGF</p>	<ol style="list-style-type: none"> 1) Review of the energy audit proposal 2) Further studies at site to update the energy audit proposal 3) Selection of project financing structure for ESCO 4) Detailed financial analysis 5) Amendments to the Saving monitoring and verification procedure 6) Amendments to the proposed performance contract 7) Preparation of documents for SGF and RERED loan facility 8) Assistance to PFI and ECF to review and approve proposal
2	<p>ESCO: LTL Energy (Pvt) Ltd Client: Jinandasa Bros. (Garments) Ltd Measures: Lighting improvements and PF correction Investment: Rs. 761,282 Annual saving: Rs. 271,254 Payback: 2.81 Years IRR: 31% NPV: Rs. 379,730 Contract type: Guarantee savings Financing: EFriends 2 + SGF</p>	<ol style="list-style-type: none"> 1) Review of the energy audit proposal 2) Selection of a project financing mechanism 3) Detailed financial analysis 4) Amendments to the saving monitoring and verification procedure 5) Amendments to the performance contract 6) Preparation of documents for the SGF. 7) Assistance to PFI and ECF to review and approve proposal
3	<p>ESCO: ISB Services Ltd Client: Samtessi Brush Manufacturers Ltd Measures: PF correction Investment: Rs. 486,386 Annual Saving: Rs. 425,143 Payback: 1.14 Years IRR: 90% NPV: Rs. 1,301,930 Contract type: Guaranteed saving with excess sharing Financing: EFriends 2 + SGF</p>	<ol style="list-style-type: none"> 1) Assisted in detailed energy audit 2) Assisted in the selection of a project financing option 3) Conducted a detailed financial analysis 4) Developed the saving monitoring and verification procedure 5) Developed a performance contract 6) Prepared documents for the SGF 7) Assisted the PFI and ECF in the proposal review and approval process
4	<p>ESCO: Professional Met Consultancy Services Client: Moneragala Paper Mills Measures: Boiler fuel switching Investment: Rs. 2,194,500 Annual saving: Rs. 11,103,880 Payback: 3 months IRR: 360% NPV: Rs. 26,335,840 Contract type: Guaranteed saving Financing: RERED/Commercial loan + SGF</p>	<ol style="list-style-type: none"> 1) Review of the detailed energy audit 2) Assisted in the selection of a project financing option 3) Conducted a detailed financial analysis 4) Developed the saving monitoring and verification procedure 5) Developed a performance contract 6) Prepared documents for the SGF 7) Assisted the PFI and ECF in the proposal review and approval process

5	ESCO: Metropolitan Communication (Pvt) Ltd Client: Lalan Gloves (Pvt) Ltd Measure: PF correction Investment: Rs. 987,000 Annual Saving: Rs. 905,143 IRR: 94% NPV: Rs. 2,820,390 Contract type: Guaranteed saving Financing: EFriends 2 + SGF	1) Review of the detailed energy audit report 2) Assisted in the selection of a project financing option 3) Advised on Tax Incentives 4) Conducted a detailed financial analysis 5) Developed the saving monitoring and verification procedure 5) Developed a performance contract 6) Prepared documents for the SGF 7) Assisted the PFI and ECF in the proposal review and approval process
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Appendix E: Detailed reports of pilot projects

3.5: Awareness and publicity for the SGF

According to the proposed technical assistance under the SARI/Energy program, two key tasks for increase awareness and publicity for the SGF were planned.

3.5.1 Stakeholder awareness seminar

Awareness seminar planned for January/February 2006; immediately after the stakeholder capacity building component was postponed till the completion of pilot projects at the request of USAID and the ECF. Three awareness seminars are now planned .

3.5.2 Guarantee awards for pilot projects

Guarantee certificates for pilot projects were awarded as planned, at the end of the pilot project development stage. This was identified as the main event of the initiative. Awards were presented to two PFIs and for three projects out of five developed by the TA team. In addition to the guarantee awards presented to the PFIs, certificates were also presented to the developers and end-users to acknowledge their participation in the pilot project development process for the SGF.



Photograph 3.1: Mr. Aravinda Perera, Deputy General Manager, Sampath Bank receiving a guarantee certificate from Hon. John Seneviratne, Minister of Power and Energy



Photograph 3.2: Mr. I H A Wickramasinghe, Chief Manager, Project form Hatton National Bank receiving a guarantee certificate from Hon. John Senevirante, Minister of Power and Energy

4.1 Established norms for evaluation of proposal for loan guarantees

The technical assistance team established norms for reviewing project proposals for granting loan guarantees, which can be used by the facility staff to review future proposals. Details are listed below. However, the facility staff will have the freedom to deviate from these norms if they can justify the deviation

Table 4.1: Established norms for project evaluation

S.No.	Item	Established norm
1	ESCO proposal & costs: Project management fee	Limited to 15% of the total cost
2	ESCO proposal & Payments: Advance payment to ESCO	Limited to 50% of the total cost
3	ESCO proposal: Cost of equipment	Three quotations for equipment considered for a project should be included in the proposal and if not, reasons should be justified
4	ESCO proposal: Equipment suppliers	All main equipment suppliers should be listed in the proposal for the review by the facility staff.
5	Financial Analysis of proposal: Energy cost escalation Contingencies	Limited to 5% per annum Limited to 5% of the total cost
6	Project Financing: EFriend 2 loan with SGF	Interest rate considered as 7% with reduced collateral to accommodate SGF premium

4.2 Program review

TA team strongly recommends a review of the program six months after the initial guarantee awards or when the guarantee amount reaches **80%** of the fund, as planned under the SARI/Energy technical assistance program and also training of the facility staff during this review process to regularly review the progress.

Program review can be divided into three categories:

4.2.1 Stage 1: Regular meetings of stakeholders

TA team recommends the ECF to convene regular meetings of all stakeholders to review progress of facility operations until a formal review is conducted after a specified period of time. The stakeholders could consider changes to guidelines if necessary, performance of ESCOs, capacity building and training requirements, publicity and awareness programs, monitoring of progress of projects that have received guarantees, identify other stakeholders to promote and sustain the concept, etc

4.2.2 Stage 2: Formal review of the process

Formal program review should be carried out at the end of the specified period and should include:

1) General review of the program –

It should include a review of how successful the program has been by identifying the number of projects submitted for guarantees, guarantees approval rating, loan default rate, impact of the program in terms of savings at national level, etc.

In addition to above it should also review the performance of stakeholders- ECF, PFIs and ESCOs and capacity building and training requirements to sustain the SGF operations

2) Review of operating guidelines –

Implementation of operating guidelines should be reviewed.

3) Review of specific guidelines, identified by the TA team -

a) Eligible projects & end-use technologies:

Review the ECF listed end-use technologies in consultation with all stakeholders to add or delete as required and then publish revised lists as soon as a review is completed.

b) Extent of guarantee:

Review of the extent of guarantee can be two fold – guarantee percentage and maximum guarantee amount. TA team recommends a reduction of guarantee percentage and increase in the maximum guarantee amount in order to strengthen the process and to fall inline with some of the worldwide practices.

c) Repayment period and maximum guarantee period:

This clause may need a revision and should be considered during the first formal review of the program. After a certain percentage of the loan is repaid, the guarantee should be an option since PFIs may no longer consider it is essential in view of their reduced risk.

d) Guarantee fee:

This is closely linked to guarantee extent clause. If the guarantee percentage is reduced as recommended after a review, it is strongly recommended to reduce the guarantee fee too.

e) SGF documentation:

This should include a review of the SGF documentation in the guideline and if possible, simplification is always recommended in consultation with stakeholders. e.g.: stipulated financial analysis, performance contracts and M&V process.

4.2.3 Stage 3: Review of progress of project implemented

This should be a detailed review of projects that have already received guarantees and should include:

- 1) Saving monitoring and verification process practiced by the ESCOs in order for the client to service debt
- 2) Quality of services and equipment provided by the ESCOs
- 3) Review of regular project progress reporting mechanisms introduced by the Facility as specified in the project proposal.
- 4) Project progress monitoring mechanisms of PFIs and payment of guarantee fee by the PFIs to SGF.

4.3 Awareness and publicity for the SGF

In consultation with all stakeholders, the ECF should design a program to increase awareness of end-users on the benefits of the SGF. This program should be reviewed at regular meetings of stakeholders with the SGF progress for the Facility to take appropriate steps to strengthen the publicity program, if necessary, to meet the year end targets of the facility.

Present end-user awareness of the facility is inadequate for the program to attract large sustainable energy efficiency project. Therefore, it is advisable for the ECF to consider this as a priority.

4.4 Strengthening of facility management Unit

Facility management unit needs strengthening for the SGF to be effective. Key posts of the recommended structure (specified in the May 2004 concept proposal) should be filled immediately.

4.5 Strengthening and Certification of ESCOs

Although twelve organizations are registered with the Facility as ESCOs, only a few have the capability of providing performance-based energy services to clients. Therefore, an ESCO certification process should be established by the ECF immediately. This could be based on projects completed on performance contracts over a specified period of time and the availability of resources. The ECF should also conduct capacity building and training programs for others to meet these requirements.

Equipment supplier and energy auditors should be encouraged to join certified ESCOs as sub contractors and service providers to ESCOs, during the certification process. This is required to provide reliable service in order to sustain benefits.

4.6 Other uses of the facility

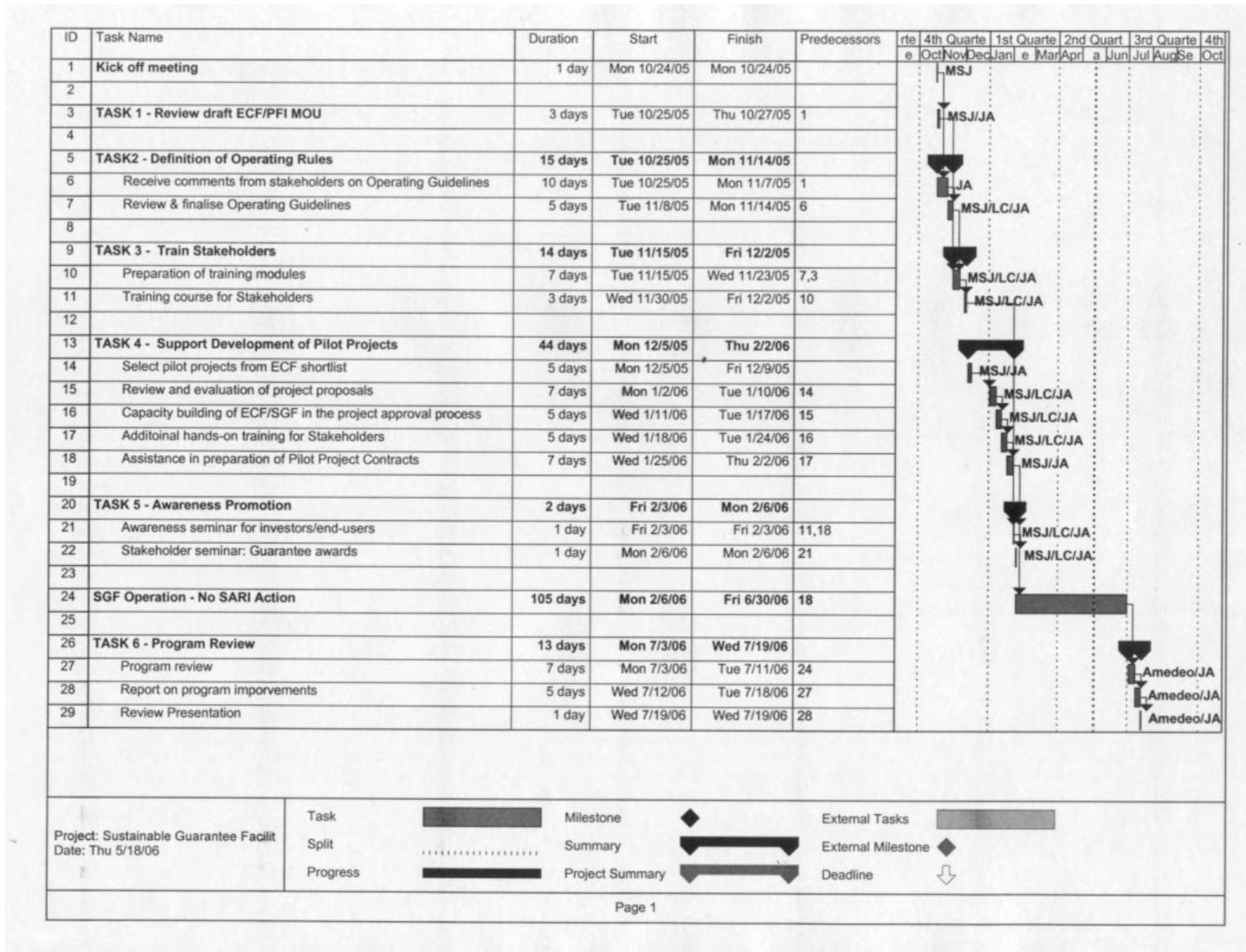
The SGF can be used to facilitate funding many other activities such as renewable energy development. It is recommended that this be considered during the formal review process and amend guidelines if necessary, to accommodate renewable energy development and others.

4.7 Replication and regional perspective of SGF

SARI/Energy should consider opportunities for replication of the SGF concept in other SARI/Energy countries and could also consider an extension of the facility to other areas of the energy sector.

Exhibit A

Planned Activity Schedule



SUSTAINABLE GUARANTEE FACILITY

MEMORANDUM OF UNDERSTANDING

BETWEEN

THE ENERGY CONSERVATION FUND

AND

.....**BANK.**

This Memorandum of Understanding (MOU), made and entered into at Colombo on this day of, 2006, between,

- i) **Energy Conservation Fund**, (ECF) established under Act No.2 of 1985 of the Parliament of the Democratic Socialist Republic of Sri Lanka, hereinafter called as the ECF, having its registered office at 3G-17, BMICH, Baudhaloka Mawatha, Colombo 7, Sri Lanka, of the one part, AND
- ii)**Bank**, (the Bank being a Participating Financial Institution) hereinafter called as Bank, having its registered office at....., Colombo 3, Sri Lanka, of the other party,

Hereafter collectively referred to as ‘the parties’

WHEREAS

- (A) By a decision of the GOVERNMENT OF SRI LANKA dated January 13, 2005 (Cabinet paper 04/1792/026/059), the ECF has been authorized to establish a loan guarantee facility for a sum of Rs. 50 Million, to encourage lending for commercial energy efficiency projects in order to reduce industrial energy consumption by **20%** as per the terms and conditions set forth in the attached operating guidelines aforesaid;
- (B) The ECF andBANK have agreed to enter into this MOU for the operation of the Sustainable Guarantee Facility (SGF) in accordance with the Sustainable Guarantee Facility – Operating Guidelines (December 2005) prepared by USAID for the ECF, attached hereto

NOW THEREFORE the parties hereto agree as follows:

ARTICLE 1

Definitions

Section 1.01 wherever used in this MOU ordinary words and phrases shall have the respective meanings therein set forth and the following additional terms shall have the following meanings:

- (a) “LOAN GUARANTEE” means a repayment guarantee to a Participating Financial Institution (PFI) for a loan made to targeted Energy Efficiency Project of a Qualified Enterprise
- (b) “QUALIFIED ENTERPRISE” means any enterprise in Sri Lanka which meets sound banking, commercial and financial criteria; as stipulated in the guidelines.
- (c) “ENERGY EFFICIENCY PROJECT”: A commercially viable project of a Qualified Enterprise acceptable to the ECF that it will reduce its overall costs in relation to utilization of energy.
- (d) “QUALIFIED PROJECT” means a specific project structured in accordance with the provisions of the OPERATING GUIDELINES to be carried out by an QUALIFIED ENTERPRISE utilizing the proceeds of the a General Loan given by a Participating Financial Institution for the implementation of an Energy Efficiency Project;

- (e) “GENERAL LOAN” means a loan provided by a Participating Financial Institution for the implementation of an Energy Efficiency Project
- (f) “FACILITY MANAGEMENT UNIT (FMU)” means the SGF management unit established under the Energy Conservation Fund for reviewing SGF applications, granting approval and monitoring of progress.
- (g) “ESCO” means an energy service company or provider registered or acceptable to the ECF as a project developer.
- (h) “OPERATING GUIDELINES” are a set of criteria formulated in consultations of all stakeholders to SGF for the efficient functioning of the SGF to meet its stated objectives and attached to this document.

ARTICLE II

The LOAN GUARANTEE

Section 2.01 The ECF shall guarantee the partial repayment of a loan provided by BANK (.....BANK being one of the PFIs) on the terms and conditions set forth or referred to in this MOU and attached Operating Guidelines (annex 1).

- (a) The total guarantee from the SGF for a Qualified Project will not exceed **75%** of the total loan offered by the BANK. However, the maximum guarantee per project is limited to Rs. 10 million. There is no minimum guarantee size. The guarantee will be adjusted quarterly to reduce the value of the Guarantee to not more than **75%** of the amount outstanding on the loan.
- (b) Usually, the loan repayment period will be the project payback period guaranteed by the energy services company (ESCO) plus one year. However, the maximum guarantee will be limited to six (6) years.
- (c) The grace period would normally be from the time of release of the advance/ or first installment of the loan up to the time when the project is commissioned.
- (d) Interest rates are to be decided by theBANK. However, taking into consideration the repayment guarantee by the ECF, theBANK is expected to reduce interest rates from those applicable to loans without a repayment guarantee. This should result in a considerable reduction in the cost of funds (as a result of lower risks to the Bank) available for energy efficiency projects.

Section 2.02

- (a) In respect of loan guarantee, theBANK shall before requesting a guarantee, furnish details for the Energy Efficiency Project in a form acceptable to the ECF describing the Energy Efficiency Project regarding compliance with the terms and conditions of the Operating Guidelines.
- (b) The ECF will have the sole discretion to either accept or reject granting a guarantee to any project referred to it by theBANK.

ARTICLE III

Obligations of the SEYLAN BANK

Section 3.01

- (a)BANK shall perform all of its obligations under the MOU, with due diligence and efficiency in conformity with sound banking, administrative, financial, social protection, environmental and business practices and in accordance with the Banking Act, and the Statement of Policies and Operating Procedures of the BANK.
- (b)BANK shall comply with the provisions of the OPERATING GUIDELINES to the extent that it may be applicable to theBANK.
- (c) Loans approved by theBANK to QUALIFIED ENTERPRISES or ESCOs for QUALIFIED PROJECTS shall be in accordance with the terms referred to in the operating guidelines, in particular the Loan Guarantee Application Procedure set out in Section 4 and 5 of the said Operating Guidelines.
- (d) An annual guarantee premium **0.5%** of the amount guaranteed or outstanding in the loan account will be charged from the borrower by the Bank on behalf of the ECF. The value of the guarantee in respect to each loan will be adjusted quarterly by the ECF in consultation with theBANK

Section 3.02

- (a) Disbursement of Loan funds from theBANK shall be made only to the ESCOs as approved by the ECF in the evaluation stage in terms and conditions of the contract entered into with ESCO.
- (b) Without limitation of the generality of the foregoing the BANK and the ECF shall take necessary steps to ensure that any goods procured shall be purchased at reasonable and competitive prices due account being taken also of other relevant factors such as time of delivery quality and reliability of the goods and availability of the maintenance facilities and spare parts thereof;
- (c) the ECF and theBANK shall have the right to inspect such goods, QUALIFIED ENTERPRISES, QUALIFIED PROJECTS and ESCOs for any relevant records and documents;
- (d) TheBank shall ensure that the QUALIFIED ENTERPRISE shall obtain and maintain with responsible insurers, insurance against such risks and in such amounts as shall be consistent with sound business practice and without any limitation upon the foregoing such insurance shall cover hazards, incidents to the acquisition transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation and for such insurance any indemnity shall be payable in a currency freely usable to replace or repair such goods;
- (e) The ECF and theBANK shall each be entitled to obtain all such information as each shall reasonably request relating to the Loan and the goods and services financed out of the proceeds of the Loan the QUALIFIED PROJECT the QUALIFIED ENTERPRISE and other related matters and the ECF and the

.....BANK shall monitor the financial and economic performance of QUALIFIED PROJECTS;

ARTICLE IV

Default of the Loan

Section 4.01 Without prejudice to Section 2 of this Agreement if a Borrower fails to make three consecutive payments on a loan, based on monthly repayments, theBANK shall inform the ECF of this fact.

Section 4.02 On observing, in the opinion of the Bank, the first signs of borrower delinquency, theBANK, shall notify the ECF in writing of its observations and any actions it proposes to take.

Section 4.03 Before submitting a claim for payment under the Sustainable Guarantee Facility, theBANK must exhaust the possibility of rescheduling the borrower's loan to enable the loan to be paid. Any consideration of rescheduling must be forwarded to the ECF supported by a written request from the borrower and accompanied by an explanation and appropriate supporting documentation that indicates how the additional time will enable the borrower to repay the loan. The ECF will convey to theBank its decision on the coverage of the guarantee to any additional period for the rescheduled loan, within two weeks from the date of receipt of the communication by the Bank for rescheduling the loan.

Section 4.04 It is the duty of theBANK to take prompt and effective action to enforce normal recovery procedure under the laws of Sri Lanka, prior to submission of a claim on the Loan Guarantee to recover any overdue amount if the loan rescheduling process fails.

Section 4.05 Even after the settlement of a claim under the Loan Guarantee, theBANK shall keep the ECF informed of the action taken by theBANK to recover the outstanding amount and of any the developments related to such recovery from time to time.

Section 4.06 All amounts recovered after payment of a claim on the Loan Guarantee should be shared between the ECF and the BANK in proportion to an amount equivalent to the percentage of the outstanding amount paid by the ECF in terms of the Loan Guarantee.

ARTICLE V

Loan Guarantee Termination

Section 5.01 The ECF at its sole discretion may terminate a loan guarantee agreement as per Operating Guidelines if the annual premium on the loan guarantee is not received before the expiry of 30 days from the due date;

ARTICLE VI

Termination of MOU

Section 6.01 Either party may terminate this MOU by giving three months notice in writing

to the other party. Such termination shall not affect loan guarantees already granted under this MOU.

ARTICLE VII

Arbitration and Dispute Resolution

Section 7.01 Each party agrees that any dispute or controversy arising out of or relating to any interpretation of this MOU shall be settled by arbitration to be held in Sri Lanka in terms of the Sri Lanka Arbitration Act, No.11 of 1995 as amended and any laws as shall then be applicable to arbitration in Sri Lanka. The laws of Sri Lanka shall govern this MOU and the agreement to arbitrate.

ARTICLE VIII

Amendments

Section 8.01 Both parties agree that any amendment to the clauses herein above mentioned shall be amended only with the consent of both parties by an instrument in writing executed by parties.

Article IX

Execution

Section 9.01 Any action required or permitted or any documents permitted or required to be executed under this MOU on behalf of the Parties hereto shall be taken or executed by their duly authorized representatives or such person or persons as shall be designated in writing by the Parties.

IN WITNESS WHEREOF the parties hereto acting through their representatives thereunto duly authorized have caused this MOU to be signed in their respective names and to be delivered in Colombo Sri Lanka as of the day and year first above written

For and on behalf of the ENERGY CONSERVATION FUND

For and on behalf of the BANK

.....
By authorized representative

.....
By authorized representative

Facility Manager
Facility Management Unit
Energy Conservation Fund
Ministry of Power & Energy
Colombo 7

.....
.....
.....
.....
.....

Signed this day of in Colombo, Sri Lanka.

ENERGY CONSERVATION FUND

**SUSTAINABLE GUARANTEE FACILITY
OPERATING GUIDELINES -December 2005**

....

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Acronyms

CEO	Chief Executive Officer
CRIB	Credit Information Bureau
ECF	Energy Conservation Fund
EE	Energy Efficiency
ESCO	Energy Services Company
PFI	Participating Financial Institution
Rs	Sri Lankan Rupees
SGF	Sustainable Guarantee Facility

Section 1

Overview

The Energy Conservation Fund (ECF) established the Sustainable Guarantee Facility (SGF) to provide repayment guarantees to participating financial institutions (PFIs) for loans made to targeted energy efficiency improvement projects.

The main purpose of the SGF is to overcome the major barrier faced by energy efficiency projects, namely the lack of collateral, by providing a repayment guarantee that will act as a collateral substitute.

The PFIs are the lending institutions that will provide financial assistance to energy efficiency projects. They will have the option of requesting repayment guarantees. PFIs will agree to follow the guidelines provided by the SGF for this purpose.

The purpose of these Operating Guidelines is to provide guidance to SGF staff and to participating bank staff on the policies and procedures for considering loan guarantees under the Sustainable Guarantee Facility.

Section 2

Eligibility

2.1 Eligible Applicants

The SGF's mission is to provide loan guarantees for energy efficiency improvement projects. The SGF seeks to act as a catalyst to increase financing of such projects. In this regard, the SGF welcomes applications for loans for energy efficiency improvement projects implemented by industrial enterprises, service providers, and project developers acceptable to the PFIs.

2.2 Eligible Energy Efficiency Improvement Projects

In accordance with its Operating Guidelines, the SGF seeks to support energy efficiency retrofit projects that have an acceptable payback period as a general principle. Other desirable characteristics can be found in projects that:

- a) Demonstrate the economic and productivity advantages of energy efficiency investments;
- b) Demonstrate the technical viability of energy efficiency systems;
- c) Have a high probability of replication in the future;
- d) Use technology that is proven in terms of feasibility and effectiveness; and
- e) Have a clear payback schedule and are financially capable of repaying the principal and interest amount of the project loan.

The SGF supports loan guarantees for projects whose primary purpose must be energy savings and conservation. Such projects include, but are not limited to, those concerned with motor and drive efficiency controls, lighting efficiency controls, power factor correction, variable speed drives, chiller improvements, boiler improvements, air, water and steam distribution systems, thermal energy recovery, cogeneration, and process improvements.

Section 3 Terms and Conditions for Loan Guarantee

The terms and conditions for the loans guaranteed under the SGF are described below.

3.1 Extent

The guarantee from the SGF for a particular project will not exceed **75%** of the total loan offered. However, the maximum guarantee per project is limited to Rs. 10.0 million. There is no minimum guarantee.

The guarantee will be adjusted yearly to reduce the value of the guarantee amount to **75%** of the outstanding amount in order to reallocate released amount for new projects.

3.2 Repayment Period and Maximum Guarantee Period

Usually, the loan repayment period will be the project payback period guaranteed by the energy services company (ESCO) plus one year. However, the maximum guarantee period is limited to six years, whatever the repayment period for the loan granted by PFI.

3.3 Grace Period

The grace period would usually be from the time of release of the advance or first installment of the loan to the time when the project is commissioned, limited to a maximum period of one year.

3.4 Interest Rates for Guaranteed Loans

Interest rates are to be decided by the PFI. However, the SGF expects a reduction from the prevailing lending rate of the PFI for a facility with a similar risk, taking into consideration the provision of a below-market guarantee fee (at **0.5%**) for the guaranteed loan. This should result in a considerable reduction in the cost of funds (with low risk factor) available for energy efficiency projects.

3.5 Payment of Premium

An annual guarantee premium of 0.5 percent of the outstanding guaranteed amount in the loan account will be charged from the borrower by the PFI on behalf of the SGF. At the end of each calendar year, based on the information provided by the PFIs, the SGF will reduce the value of the guarantee to reflect the repayments made during the year. The extent of guarantee will continue to be the same percentage of the loan determined for the guarantee at the time of issuing the guarantee cover.

The premium will become due to the SGF at the beginning of each year, on January 31 and the SGF will inform the PFIs two weeks before due date of the reduction of the value and the premium payable.

3.6 Effective Date

The guarantee cover would become effective on the date of disbursement of the first installment of the loan.

Section 4 Loan Guarantee Application Procedure

Given that the majority of the SGF's resources will be focused on loan guarantees for participating banks, the application for guarantee relies to a large extent on the participating banks' due diligence in analyzing and providing the required credit information and supporting information. In this regard, the following minimum information requirements listed on the application are designed to demonstrate the borrowers' ability and willingness to repay the loan.

The information required for the processing of the application is as follows:

- a) The application for SGF guarantee should include a description of the energy efficiency improvements, as well as of the borrower's creditworthiness.
- b) The PFI should certify, through a Declaration of Certification, that it has performed reasonable due diligence in providing the information included in its application.
- c) The PFI must provide a copy of a certificate of insurance showing that the borrower has property and casualty insurance in force.
- d) The documentation of the loan between the PFI and the borrower, the complete project proposal submitted to the borrower by the ESCO (together with any performance guarantees offered), and quotations and/or proforma invoices for the procurement of equipment and services to be provided under the loan should be forwarded to the SGF.
- e) The PFI should be satisfied with the contract executed between the contractor (an ESCO certified by the ECF/SGF) and the borrower.
- f) Once all the documents are in order and the application is accepted, the SGF will issue to the PFI a guarantee cover note to cover the loan for its duration, within 15 working days.
- g) Quarterly reports signed by both the ESCO and the borrower verifying the status of the project in terms of its effectiveness at reducing energy consumption should be forwarded to the SGF.
- h) The PFI should, in the agreement with the borrower, obtain the necessary rights to permit the PFI, the SGF, and the representative of the ECF to enter upon and inspect the premises where the project supported by the loan for which the guarantee was obtained is being implemented.
- i) The ECF should be notified immediately on release of the first and final installment of the loan guaranteed by the PFI.
- j) Reports giving recovery status on a quarterly basis to be forwarded by the PFI to the SGF.

Section 5 Declaration and Undertaking by the PFI

The PFI should accept and agree that:

- a) It shall exercise all reasonable care and prudence in granting the loan to the borrower; and
- b) If the borrower at any time fails to repay the loan on the due date, the PFI shall take all steps that may be necessary to effect recovery.

The PFI should undertake to meet the SGF's minimum credit standards. The SGF's credit standards are designed to serve as clear, transparent criteria to qualify potential borrowers for guarantees. Borrowers that meet the Fund's minimum credit standards, outlined below, are likely to be approved for guarantees in an expedited fashion. If a borrower fails to meet the standards, the SGF may still approve a guarantee request provided that appropriate mitigants are offered to offset the credit risk of the borrower.

Minimum credit standards are:

- a) The borrower must have a favorable letter of reference from its bank and a clean CRIB report.
- b) The borrower must have positive operating cash flow for the latest year.
- c) The borrower must have positive net income for the latest two years.
- d) The borrower must have a debt-service-coverage ratio of 1.25. This ratio is defined as earnings before interest, taxes, depreciation and amortization as a percentage of interest + current maturities on long-term debt. (Please note that cost savings from implementing the energy efficiency project may be included in the calculation.)

Note: Condition (b) above may be relaxed by the PFIs if the borrower has a negative cash flow due to high energy related expenditure but it becomes positive after the implementation of the energy efficiency project.

Section 6

Loan Guarantee

6.1 Issuance of Guarantee

The ECF will issue its guarantee to the participating bank upon satisfactory review of the application, which includes the credit information, supporting information, and declaration and undertaking by the participating bank (see Section 5).

6.2 Procedure for Claiming SGF's Guarantee

If a borrower defaults on three consecutive monthly principal and/or interest payments, the PFI must inform the SGF and begin proceedings to pursue a judgment against the borrower. However, if the PFI decides to claim the guarantee, the PFI must submit the claim to the SGF thirty days after serving the demand notice on the borrower but not later than three months. The demand notice for this purpose will be the letter of demand served on the borrower by the legal officer of the PFI.

The claim under the guarantee will be limited to the extent of the guarantee on the principal amount in default and interest accruals thereon for a period not exceeding four months and the time taken for the SGF to process the application and honor the claim. The extent of the guarantee will be the same percentage of guarantee determined for the loan at the time of issuing the guarantee cover note. The exposure in the event of a default will be shared between the SGF and the originating PFI in the initial ratio of 75:25 or whatever applicable at the time of the disbursement.

The ECF/SGF will take all necessary steps to honor the guarantee payment within 60 days from the date of receipt of the claim together with all required documents.

Section 7

Loan Default & Recovery

7.1 Definition of Default

Borrower default is defined as the borrower's failure to make three consecutive principal and/or interest payments on a loan, based on monthly repayments.

7.2 Notice of Borrower Delinquency

On observing the first signs of borrower delinquency, the PFI must notify the SGF in writing of its observations and any actions it proposes to take.

7.3 Rescheduling of Borrower Payment Terms

Before submitting a claim for payment under the sustainable guarantee facility, the PFI must explore the possibility of rescheduling the borrower's loan. Any consideration of rescheduling must be forwarded to SGF supported by a written request from the borrower and accompanied by an explanation and appropriate supporting documentation that indicates how the additional time will enable the borrower to repay the loan.

The SGF will convey its decision on the coverage of the addition period of rescheduled loan, to a PFI within two weeks from the date of receipt of the application for rescheduling.

7.4 Recovery

It is the duty of the PFI to take prompt and effective action for the recovery of any overdue amount in all ways open to it, even after the settlement of a claim under the guarantee, and to keep the SGF informed of the action taken and of any developments.

7.5 Division of Recovery

All amounts recovered after payment of a claim should be shared between the SGF and the PFI in the proportion of an amount equivalent to the percentage of the amount paid by the SGF.

Section 8 Loan Guarantee Termination Provisions

The SGF may terminate a loan guarantee agreement if the annual premium is not received before the expiry of 30 days from the due date, January 31 of the year.

Section 9

Supplementary Provisions

The SGF/ECF will make such supplementary or additional provisions as may be necessary for the purpose of this scheme.

Appendix A

Application for ECF Guarantee and PFI Declaration

Ministry of Power & Energy

Energy Conservation Fund (ECF)

Application for Loan Guarantee Under Sustainable Guarantee Facility (SGF)

PART I

We

(Name of bank and branch)

hereby apply for a loan guarantee under the above scheme, the terms and conditions of which are described in Operating Guidelines of SGF. The guarantee is requested with respect to the loan proposed to be granted for an energy efficiency project, forwarded by an energy services company (ESCO) certified by the ECF, as detailed below.

1. Particulars of the borrower:

.....
(Name of the firm)

.....
(Address)

.....
(Type of industry)

2. Particulars of the ESCO:

.....
(Name of the ESCO)

.....
(Address)

3. Brief description of the project for which the loan is granted:

.....

4. Particulars of the loan approved:

(a) Cost of project: Rs.

(b) Total loan approved: Rs.

(c) Date loan approved:

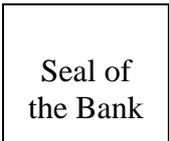
We undertake to meet the minimum credit standards given below:

1. The borrower must have a favorable letter of reference from its bank and a clean CRIB report.
2. The borrower must have positive operating cash flow for the latest year.
3. The borrower must have positive net income for the latest two years.
4. The borrower must have a debt-service-coverage ratio of 1.25. This ratio is defined as earnings before interest, taxes, depreciation, and amortization as a percentage of interest + current maturities on long-term debt. (Please note that cost savings from implementing the energy efficiency project may be included in the calculation.)

We hereby declare and certify that the above representations and statements made by us are true to the best of our knowledge and belief and that we have not misrepresented or omitted any material fact that has a bearing on the guarantee applied for.

We agree that this declaration and all the representations, statements, and undertakings contained herein shall form the basis of, and be incorporated in, the guarantee and that the truth of such representations and statements and the due performance of each and every undertaking contained herein or in the guarantee shall be a condition precedent to any liability of the Energy Conservation Fund under the guarantee and to the enforcement thereof by us.

.....
Signature of authorized officer; seal of the bank



.....
Name and title of authorized officer

Address of the bank:
.....
.....

Date:

The application to be forwarded to:
**Fund Manager
Sustainable Guarantee Facility
C/o Energy Conservation Fund,
BMICH, Colombo 7
Sri Lanka**

All applications should be submitted by the headquarters or central office of the PFI, endorsed by the authorized officer, and not by branch officers

Appendix B

ESCO Project Proposal Format

ESCO PROJECT PROPOSAL FORMAT

PROPOSAL FOR ENERGY EFFICIENCY IMPROVEMENTS AT [INSTALLATION]

Date:

Dear Sir:

We at [name of energy services company], an ECF-certified energy service provider, recently conducted an energy survey at [client’s installation] and identified several measures to reduce energy costs and effect efficiency improvements at [installation].

Based on the aforesaid energy survey, we are pleased to forward herewith for your consideration a proposal to effect the cost-effective energy efficiency improvements. A summary of the proposal is given below.

1. The total cost of the implementation of the proposed energy efficiency improvement project (EEIP) on a turnkey basis, with a saving guarantee, will be Rs.
2. The annual energy cost savings, based on current energy tariffs, would be Rs.
3. Based on above, the estimated simple payback period would be years.

<para> (to justify/promote the proposal, ESCO project skill and other services offered with the projects)

1. SCHEDULE OF PROPOSALS

S.No	Efficiency Measure	Description	Savings (Rs)	Investment (Rs)
1	Measure 1			
2	Measure 2			
3	Measure 3			
4	Measure 4			
	Measurement and Verification			
	Project Management and Consultancy			
	TOTAL			

Simple Payback period	
------------------------------	--

2. PROJECT IMPLEMENTATION SCHEDULE

Item	Completion from advance payment
Project Development	
Performance Contract	
Implementation of Measure 1	
Implementation of Measure 2	
Implementation of Measure 3	
Commissioning	
Monitoring & Verification of Saving	
Capacity-building & Training	
Total Project	

3. WARRANTY ON EQUIPMENT

All equipment supplied will carry a full manufacturer's warranty covering the entire payback period, guaranteed by the local agent for equipment in Sri Lanka. The warranty given shall be deemed null and void if the system is not protected with an acceptable surge protection system where vendor warranty is less than the payback period, we shall obtain insurance cover for such equipment.

4. GUARANTEE OF SAVINGS

[ESCO] will guarantee savings as per the attached performance contract during the project payback period.

5. PAYMENT TERMS

Implementation with Guaranteed Savings

- **X%** advance payment immediately after the signing of a performance contract.
- **Y%** upon delivery of equipment
- Remaining amount upon submission of a saving verification certificate after the completion of all tasks listed in the proposal/implementation schedule.
(Typical values: X = 30% and Y = 40%)

6. VALIDITY

This offer is valid for _____ weeks.

We hope this proposal satisfies your requirements. Should you need more information, please do not hesitate to contact us.

Yours truly,

Manager
[ESCO]

Addenda:

- 1.0 Financial Analysis,
- 2.0 Sample performance contract,
- 3.0 Details of EE measures proposed, and
- 4.0 Other supporting documents.

ENERGY EFFICIENCY IMPROVEMENT PROJECT FINANCIAL ANALYSIS

Sheet 1

Name of Client

Name of ESCO

Name of Bank

Project Ref No

Contact Persons

	Name	Phone
Client	<input style="width: 100%;" type="text"/>	<input style="width: 100%;" type="text"/>
ESCO	<input style="width: 100%;" type="text"/>	<input style="width: 100%;" type="text"/>
Bank	<input style="width: 100%;" type="text"/>	<input style="width: 100%;" type="text"/>

Proposal Date

Project Location

Brief Description of Project

Capital Outlay (LKR '000)

Total

Recurrent Outlay/Month (LKR '000)

Incremental Maintenance Expenses

Monitoring and Verification Expenses

Additional Op Expenses

Annual Increase of Recurrent Expenses %

Financed By

Equity (LKR) %

Debt (LKR)

Project Implementation Period Months

Loan Details

Interest Rate %

Grace Period Months

Repayment Period Years

Exchange Rates

USD/LKR

EURO/LKR

JY/LKR

Discount rate %

Depreciation Rate %

Tax Rate %

Estimating Annual Savings Cost

Sheet 2

Electricity		Saving					
Annual Electricity Saving		Rs.'000	0				
Forecast Annual Tariff Escalation			0%				
Other Sources of Energy - Type 1							
Type of Energy Source			Diesel				
Annual Saving in Rs.'000			0				
Forecast of Fuel Cost Escalation			0%				
Other Sources of Energy - Type 2							
Type of Energy Source			Heavy				
Annual Saving in Rs.'000			0				
Forecast of Fuel Cost Escalation			0%				
Savings Schedule							
Year		1	2	3	4	5	6
Electricity		0.00	0.00	0.00	0.00	0.00	0.00
Other sources of energy: 1		0.00	0.00	0.00	0.00	0.00	0.00
Other sources of energy: 2		0.00	0.00	0.00	0.00	0.00	0.00
Total		0.00	0.00	0.00	0.00	0.00	0.00

Sheet 3

Estimating Project Cost

Direct Costs		Rs.'000					
Measures			-				
ESCO's management fee			-				
Project Overheads			-				
Professional Fees			-				
Bank Charges			-				
10% Contingency			-				
Total Project Cost			0				
Interest During Implementation			0.00				
Depreciation Schedule							
Year		1	2	3	4	5	6
Op Balance of Capitalized Assets		0.00	0.00	0.00	0.00		
Depreciation		0.00	0.00	0.00	0.00		
Closing Balance of Fixed Assets		0.00	0.00	0.00	0.00		

Sheet 4

PROJECT FINANCING

Loan Schedule

Loan Amount-LKR '000 (with IDC) -

Year	0	1	2	3	4	5
Op Balance	0.00	0.00	0.00	0.00	0.00	0.00
Repayment		0.00	0.00	0.00	0.00	0.00
Closing Balance		0.00	0.00	0.00	0.00	0.00
		0.00	0.00	0.00	0.00	0.00
Interest		0.00	0.00	0.00	0.00	0.00

Sheet 5

Profit and Loss Statement-LKR '000

Year		1	2	3	4	5	6
Savings		0.00	0.00	0.00	0.00	0.00	0.00
Less:							
	Maintenance Costs	0.00	0.00	0.00	0.00	0.00	0.00
	Depreciation	0.00	0.00	0.00	0.00	0.00	
	Additional Op costs	0.00	0.00	0.00	0.00	0.00	0.00
	M&V Costs	0.00	0.00	0.00	0.00	0.00	0.00
Gross Additional Profit		0.00	0.00	0.00	0.00	0.00	0.00
Less:							
	Interest	0.00	0.00	0.00	0.00	0.00	0.00
Net additional Profit before Tax		0.00	0.00	0.00	0.00	0.00	0.00
Additional Tax		0.00	0.00	0.00	0.00	0.00	0.00
Additional Profit after Tax		0.00	0.00	0.00	0.00	0.00	0.00

Project and Equity Cash flow-LKR '000

Year		1	2	3	4	5	6
Profit after Tax		0.00	0.00	0.00	0.00	0.00	0.00
Add back:							
	Depreciation	0.00	0.00	0.00	0.00	0.00	0.00
	Interest	0.00	0.00	0.00	0.00	0.00	
Project Cash flow	-	0.00	0.00	0.00	0.00	0.00	0.00
Cumulative Project Cash flow		0.00	0.00	0.00	0.00	0.00	0.00
Discounted Project Cash flow	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Discounted Cum. Project Cash flow		0.00	0.00	0.00	0.00	0.00	0.00
Net Present Value-Project		0.00					
Internal Rate of Return-Project		0.00					
Project Cash flow		0.00	0.00	0.00	0.00	0.00	0.00
Less:							
	Interest	0.00	0.00	0.00	0.00	0.00	0.00
	Repayment	0.00	0.00	0.00	0.00	0.00	0.00
Equity Cash flow	-	0.00	0.00	0.00	0.00	0.00	0.00
Discounted Equity Cash flow	-	0.00	0.00	0.00	0.00	0.00	0.00
NPV on Equity Cash Flow	0.00						
IRR of Equity Cash Flow	0.00						
Savings	-	0.00			0.00	0.00	0.00
Loan	-	0.00	0.00	0.00	0.00	0.00	0.00

Sheet 6

DEBT SERVICING

Year	1	2	3	4	5	6
Debt Service Cover	0.00	0.00	0.00	0.00	0.00	0.00
Interest Cover	0.00	0.00	0.00	0.00	0.00	0.00
Project IRR	0.00					
Equity IRR	0.00					
Project Pay Back						
Discounted Payback						

Appendix C

Guarantee Certificate

	<p>Ministry of Power and Energy/Energy Conservation Fund</p> <p>Sustainable Guarantee Facility</p> <p><i>Loan Guarantee Certificate</i></p>
<p>-----</p> <p><i>(Name of Bank)</i></p>	
<p>-----</p> <p><i>(Name of Borrower)</i></p>	
<p>in the amount of Rupees-----</p> <p><i>(in words)</i></p> <p>-----<i>(Rs-----)</i></p>	
<p>for an energy efficiency improvement/conservation project, subject to the terms and conditions set forth and contained in the Operating Instructions of SGF and declarations/undertakings made in the guarantee application. The extent of the guarantee is limited to Seventy Five percent of the loan amount approved, subject to a maximum liability of Rs. 10.0 million.</p>	
<p>ECF/SGF/LG/.....</p> <p><i>Date of Issue</i></p>	<p>For and on behalf of the Energy Conservation Fund</p> <p><i>General Manager/ CEO</i> Energy Conservation Fund</p>

Appendix D Application for Claim of Loan Guarantee

Ministry of Power & Energy

Energy Conservation Fund (ECF)

Application for Claim of Loan Guarantee Under Sustainable Guarantee Facility (SGF)

1. Name of PFI:

Branch:

We hereby declare that:

(Defaulter's name).....

Address.....

is indebted to us to the extent of Rs. (figures), or

Rs.(words)

and that the debt is covered under the Energy Conservation Fund, Sustainable Guarantee Facility, guarantee program, the particulars of which are given below:

Guarantee Certificate No. Guarantee	Date of Issue (DD/MM/YYYY)	Extent of
ECF/SGF/LG.....	Rs.....

2. (a) Particulars of the loan are given below:

- i) Loan granted: Rs.
 - ii) Total amount repaid (principal): Rs.
 - iii) Amount due as on date (principal) (i-ii): Rs.
 - iv) Interest accruals (max. 4 months): Rs.
- Total claimed (iii + iv): Rs.

9. We declare that we have complied with the terms and conditions of the ECF’s SGF scheme for energy efficiency projects and accordingly claim payment of.% percent (the extent of guarantee) of the outstanding debt of Rs. (figures) (Rs.....) (words).

10. We further undertake that irrespective of the receipt of the amount claimed by us we shall pursue recovery action to pay to the ECF its share of any amount recovered from the borrower or from any other person or source immediately upon the receipt of the amount by us.

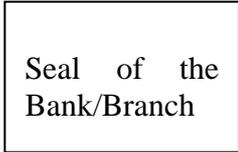
11. We declare and certify that all statements and representations made herein or in any letter written in this connection are true to the best of our knowledge and belief and undertake to inform you promptly of any change in the position as and when such change takes place.

12. The check or draft in settlement of this claim may be made payable to

Name and signature of authorized officer

.....

Title of signatory



Date:.....

To be forwarded to:
Fund Manager
Sustainable Guarantee Facility
C/o Energy Conservation Fund,
BMICH, Colombo 7
Sri Lanka

Appendix E

Premium Payment Form

Ministry of Power & Energy Energy Conservation Fund (ECF)

Loan Guarantee Under Sustainable Guarantee Facility (SGF)

PAYMENT OF PREMIUM

Bank/Branch:

Guarantee Certificate No.:

ECF/SGF/LG.....

Borrower's Name:

Guaranteed Loan Amount:

Date of Disbursement of 1st
Installment:

Amount Disbursed:

Premium for the Period:
From.....to.....

Premium Due:

Cheque No. :

Date of Cheque:
(Cheques to be drawn in favor of the Fund Manager, Sustainable Guarantee Facility)

.....
Name and signature of Authorized officer of the bank



.....
Title of signatory

Address of the Bank

.....

To be forwarded to:
**Fund Manager
Sustainable Guarantee Facility
C/o Energy Conservation Fund,
BMICH, Colombo 7, Sri Lanka**

Sustainable Guarantee Facility**Stakeholder Training Workshop****December 1, 2 and 3, 2005****Report on the Stakeholder Training Workshop**

Program: The 2 ½ day stakeholder training workshop on the implementation of the Sustainable Guarantee Facility was conducted by Nexant, Inc. on behalf of the United States Agency for International Development, under the South Asia Regional Initiative for Energy.

Program was conducted at Hotel Coral Garden, Hikkaduwa (located in a Tsunami affected area) from December 1-3, 2005.

Objective: The objective of the training session was to build capacity of participating credit institutions, energy service providers and staff attached to the Facility Management Unit of the Energy Conservation Fund to implement the SGF.

Agenda: Final program agenda is attached – Annex 1.

Participation: 33 stakeholders participated in the 2 ½ day workshop and included:

PFI	= 13
ESCO	= 12
Others	= 8

List of participants is attached – Annex 2.

Course evaluation:

Evaluation of the course was conducted by the participant using the evaluation form provided with the course material, at the request of Nexant, Inc.

Course evaluation was analyzed by categorizing the evaluation into two categories; PFIs and Technical personnel.

Summary of evaluation done by PFIs is given in Annex 3.

Summary of evaluation done by technical personnel is given in Annex 4.

Remarks: From the evaluation done by participants, it is clear that all have found the program useful. More than **54%** of the participants have rated the program as excellent and the remaining **46%** have found it to be very good.

Further improvements and requirements specified by the participants:

- 1) Capacity building of PFIs on technical issues

- 2) Awareness programs to attract clients
- 3) ESCO capacity building
- 4) Another training session after the pilot projects are developed.

M S Jayalath
Sr. Consultant for Nexant, Inc.
December 6, 2005

Annex 1

**Residential Training Program for Key Stakeholders (ECF/PFI/ESCOs)
December 1, 2 and 3, 05 at Hotel Coral Gardens, Hikkaduwa**

List of Participants

Participation Finance Institutions (PFIs)

S. No.	Name of Participant	Organization	Designation	Tele/Fax	Email
1	Mr. Asela Leuwanduwa	Com Bank	Executive Officer Development Credit	2384356 2459213	Asela_Leuwanduwa@combank.net
2	Mr. Samantha Ratnayaka	Com Bank	Junior Executive Officer	2384356 2459213	Samantha_Ratnayaka@combank.net
3	Mrs. Chatura Kulasinghe	NDB	Manager	2440179	chatura.kulasinghe@ndbank.com
4	Mr. Suranjith Chandrasekara	Seylan Bank	Assistant Manager- Credits	4701475	suranjithc@seylan.lk
5	Mr. Lushantha Ranasinghe	Seylan Bank	Executive Officer	4701477	lushanthar@seylan.lk
6	Ms. Sajani Abeysekara	Sampath Bank	Staff Officer	4730218	sajani@credit.sampath.lk
7	Mr. Deshapriya Peiris	Sampath Bank	Staff Assistant	4730219	db.mgr@sampath.lk
8	Mrs. Dilunika Jayasinghe	HNB	Project Relationship Manager	2661764	profin@hnb.lk
9	Mr. Puspika Jayasundara	HNB	Project Relationship Manager	2661764	No E-mail
10	Mrs. P S Perera	BOC	Junior Executive Officer	2445812	No E-mail
11	Mr. K L T R Jayawardana	BOC	Executive Officer	2445812	No E-mail
12	Mr. Viboda Chandrasekara	DFCC	Assistant Relationship Manager	2442442	Viboda.Chandrasekara@dfccbank.com
13	Mr. Saminda Goonasekara	DFCC	Relationship Manager	2442442	Saminda.Goonasekara@dfccbank.com

Energy Service Providers

S. No	Name of participant	Organization	Designation	Tele/Fax	Email
14	Mr. Sameera Ganegoda	LTL Energy (Pvt) Ltd	Electrical Engineer	2695007	sameera@ltl.lk
15	Mr. Mahilal Narangoda	Venigross Ltd	Engineering Executive	0332255091	No Email
16	Mr. Ananda Narmal	NERD Centre	Head of Department	5354374	tilla@sltnet.lk
17	Mr. Anil Kumara	ISB	Consultant	03722-23721	anilk@isb.lk
18	Mr. Lahiru Boralugoda	Professional Met Consultancy Services	Project Engineer	4721224	promet@slt.lk
19	Mr. Indika Wijesena	Metropolitan Agencies (Pvt) Ltd	Application Engineer	4413975	indikaw@metropolitan.lk
20	Mr. Vipul Perera	Access Energy Solutions (Pvt) Ltd	Manager – Engineering	2302302	vipul@access.lk
21	Mr. Roshal Perera	Access Energy Solutions (Pvt) Ltd	General Manager	2302302	roshal@access.lk
22	Mr. Ruwan Sampath	EMS	Manager – Engineering	2504531	ruwan@iqsystems.lk
23	Mr. Kosala Samaraweera	Hayleys Industrial Solutions	Application Engineer	2699100	kosala.samaraweera@hayleys.lk
24	Mrs. Chinthika Pathiraja	Brandix Energy Management	Electrical Engineer	4727079	ChinthikaP@brandix.com
25	Mr. Ameer Sadam	Brandix Energy Management	Electrical Engineer	4727081	SadamA@brandix.com

Energy Conservation Fund

S. No	Name of Participant	Organization	Designation	Tele/Fax	Email
26	Mr. M M R Pathmasiri	ECF	Director-Energy Management	2677445	ranjith@energy.gov.lk
27	Mr. H A Wimal Nadeera	ECF	Program Manager-Energy Management	2677445	nadeera@energy.gov.lk
28	Mr. W Tilakaratne	ECF	Program Manager –Finance	2677445	info@energy.gov.lk

Resource Persons & Office Staff

S. No	Name of Participant	Organization	Designation	Tele/Fax	Email
29	Mr. M S Jayalath	Nexant, Inc.	EE Specialist	2452155 2386021	msjayalath@sari-energy.org
30	Mr. Ravindra Pitigalage	Nexant, Inc.	Finance Expert	2695007	Ravindra@ltl.lk

31	Mr. Chandana Deshapriya	Nexant, Inc.	Project Analyst	2386021	dchandana@sltnet.lk
32	Mr. Kelum Tennakoon	Nexant, Inc.	Office Assistant	2386021	sadakelum13@yahoo.co.uk
33	Mr. Manjula Thanranga	Nexant, Inc	Office Staff	2386021	No E- mail

Annex 2

**SARI/Energy Technical Assistance
Implementation of Sustainable Guarantee Facility
Residential Training Program for Key Stakeholders (ECF/PFI/ESCOs)
December 1, 2 and 3, 05 at Hotel Coral Gardens, Hikkaduwa**

Program

Day 1:

- 830 – 900 hrs:** **Registration**
- 900 – 1000 hrs:** **Session 1: Inauguration/Introduction (ECF/USAID)**
- Welcome remarks – ECF/USAID
 - Program overview – M Jayalath, Nexant SARI/Energy
- 1000 – 1030 hrs:** **Tea**
- 1030 – 1100 hrs:** **Session 2: Introduction to Energy Management (M Jayalath)**
- Basics of energy efficiency
 - Components of an Energy Management Program
 - Implementation approach and contracting
 - EE project financing
- 1100 – 1145 hrs:** **Session 3: Sustainable Guarantee facility
(M Jayalath/R Pitigalage)**
- Key features
 - Operating guidelines
 - End-use technologies selected
- 1145 – 1215 hrs:** **Session 4: Findings from Recent Energy Audits
(Harsha Wickramasinghe/Padmasiri)**
- 1215 – 1230 hrs** **Moderated discussion (Harsha Wickramasinghe)**
- 1230 – 1400 hrs:** **Lunch**
- 1400 – 1500 hrs:** **Session 5: EE project development cycle
(M Jayalath/R Pitigalage)**
- Phases of an Energy Audit

- Identification of EE measures and preliminary analysis
- Performance contracting
- Monitoring and verification of savings

1500 – 1530 hrs: Tea

1530 – 1630 hrs: **Session 6: Investment grade Audit** (M Jayalath/R Pitigalage)

- Components of an IGA
- Detailed financial analysis
- Contracts
- Monitoring and verification of savings
- Reports/Formats

1630 – 1645 hrs: **Discussion** (M Jayalath/R Pitigalage)

DAY 2:

900 – 1000 hrs: **Session 7: Investigating Financial Viability of an EE project** (R Pitigalage)

- Components of the total investment cost
- Calculating cost
- Pitfalls in estimating project cost

1000 – 1030 hrs: Tea

1030 – 1130 hrs: **Section 8: Introduction to Cash Flow Statements** (R Pitigalage)

- Cash Flow Statements
- Introduction to the Automated Cash Flow Projection

1130 – 1200 hrs: **Group exercise**

1200 – 1230 hrs: **Group presentations**

1230 – 1400 hrs: **Lunch**

1400 – 1500 hrs: **Session 9: Risk and Risk Mitigation** (M Jayalath/R Pitigalage)

- Major risk
- Sensitivity analysis
- Risk mitigation with SGF

1500 – 1530 hrs: Tea

1530 – 1630 hrs: **Session 10: Structuring of Project Documentation for SGF**
(M Jayalath/R Pitigalage)

- Reporting formats
- Contracts and agreements
- Special requirements for SGF

DAY 3:

- 900 – 930 hrs:** **Session 11: Role of FMU (M Jayalath)**
 ▪ Project proposal evaluation
 ▪ Project progress monitoring
- 930 – 1000 hrs:** **Discussion on issues related to project financing**
 (M Jayalath/R Pitigalage)
- 1000 – 1030 hrs:** **Tea**
- 1030 – 1130 hrs:** **Session 12: TA under USAID for Pilot projects**
 (M Jayalath/R Pitigalage)
 ▪ Pilot project identification
 ▪ TA assistance to projects
 ▪ Discussion on further requirements
- 1130 – 1145 hrs:** **Course evaluation**
- 1145 – 1200 hrs:** **Course wrap up: ECF/USAID**
- 1200 – 1400 hrs:** **Lunch/ END**

Annex 3**Sustainable Guarantee Facility**

Stakeholder Training Workshop
December 1, 2 and 3, 2005
Evaluation of Course by PFIs

Note:

- 1) Evaluation was done by participants using the course evaluation form included
- 2) Number participated in the evaluation was 33 (13 PFIs + 11 ESCOs + 9 others).

1) Program content

Description	Poor	Good	Excellent
Program content	0%	54%	46%
Instructional method & delivery	0%	38%	62%
Balance between theory & practicals	3%	48%	49%
Consultations with participants	0%	38%	62%
Discussions	0%	54%	46%
Pace of instructions	0%	54%	46%
Course material	0%	23%	77%

Sessions

Name of resource person/topic	Content	Presentation	Applicability	Overall
Introduction to energy management	81%	88%	77%	82%
Sustainable Guarantee Facility	85%	88%	87%	87%
Finding of recent audits	77%	71%	69%	72%
EE project development cycle	83%	85%	77%	81%
Investment grade audit	77%	81%	71%	76%
Financial viability of EE project	88%	88%	90%	89%
Cash flow statements	87%	90%	92%	90%
Risks and Risk management	83%	81%	87%	83%
Structuring project documents	79%	77%	79%	78%
Role of FMU	79%	83%	79%	80%
Technical Assistance from USAID	75%	75%	71%	74%

General

Did the seminar meet expectations?	100%
Improvements & requirements	1) More on technical issues required 2) Focused training for Bankers 3) Awareness seminars during project development

3) Overall rating of course by participants:

Excellent (100%)	- 54%
Very good (75%)	- 46%
Good (50%)	- 0%
Poor (25%)	- 0%

Annex 4

Sustainable Guarantee Facility

Stakeholder Training Workshop December 1, 2 and 3, 2005 Evaluation of Course by ESCOs

Note:

- 1) Evaluation was done by participants using the course evaluation form included
- 2) Number participated in the evaluation was 33 (13 PFIs + 11 ESCOs + 9 others).

1) Program content

Description	Poor	Good	Excellent
Program content	0%	44%	56%
Instructional method & delivery	0%	33%	67%
Balance between theory & practicals	3%	33%	64%
Consultations with participants	0%	11%	89%
Discussions	5%	0.0%	95%
Pace of instructions	0%	33%	67%
Course material	0%	44%	56%

2) Sessions

Name of resource person/topic	Content	Presentation	Applicability	Overall
Introduction to energy management	75%	89%	81%	81%
Sustainable Guarantee Facility	92%	92%	83%	89%
Finding of recent audits	69%	78%	83%	77%
EE project development cycle	83%	89%	86%	86%
Investment grade audit	83%	89%	94%	89%
Financial viability of EE project	89%	89%	89%	89%
Cash flow statements	83%	94%	94%	91%
Risks and Risk management	89%	92%	83%	88%
Structuring project documents	86%	92%	89%	89%
Role of FMU	89%	97%	86%	91%
Technical Assistance from USAID	81%	83%	81%	81%

3) General

Did the seminar meet expectations?	100%
Improvements & requirements	1) More case studies 2) More details and discussions on EE financial analysis modules 3) Analysis of risk with case studies

4) Overall rating of course by participants:

Excellent (100%)	- 56%
Very good (75%)	- 44%
Good (50%)	- 0%
Poor (25%)	- 0%

Presentation1 : Introduction to SGF



USAID
FROM THE AMERICAN PEOPLE

**SOUTH ASIA REGIONAL INITIATIVE FOR ENERGY
COOPERATION AND DEVELOPMENT**

**Introduction to the
Sustainable Guarantee Facility
- Sri Lanka**

M S Jayalath
Sr. Energy Consultant
Nexant SARI/Energy
May 3, 2006



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FROM THE AMERICAN PEOPLE

Need for Energy Efficiency

- Worldwide energy costs are increasing at alarming rates.
- Cost of electricity generation is an issue for CEB as a result.
- Production costs have increased due to fuel price hikes
- However, energy costs to industry can be reduced by 25-30% from cost effective energy saving measures.
- Potential for energy saving investments in industry & commercial sector is estimated to be around Rs. 6 Bil
- Industry has not fully benefited from concessionary and other financing mechanisms used, due to inherent problems associated with them.
- Need to overcome these weaknesses in various funding mechanisms used, for the country to benefit from EE initiatives.



Activities Leading

- Issues related EE project funding was studied under USAID funded SARI/Energy project - 2003
- A Guarantee Facility to overcome barriers for financing was developed by USAID at the request of GOSL & accepted by Ministry of P&E: Dec/Jan 2004.
- Ministry of P&E directed ECF to fully develop the concept and invest funds: Jan 2004
- Further technical assistance from USAID to develop the concept was provided to ECF: Feb 04.
- Loan Operating guidelines were established: May 2004
- ECF receives GOSL approve for implementation: Mar/Apr 2005
- Guarantee Facility launched: Jun 30, 2005
- USAID completes technical assistance for five pilot projects leading guarantee awards: May 2006



Review of Worldwide Practices

- Loan Guarantee Mechanism – Hungary & China
- Conditional Loans as a vehicle to support EE activities – Republic of Georgia, India
- Utility as a main borrower – Croatia
- “Design-build” mechanism – Mexico
- Interest rate buydown grants – Poland
- Direct loan structures
- DCA loan guarantee mechanism – Bulgaria
- Concessionary funding - Sri Lanka (Efriends/pf correction)
- Loan guarantee mechanism for SMI – Central Bank of SL.



Purpose of the Facility

- Increase commercial funding for energy efficiency activities.
- Create a sustainable mechanism for Energy Efficiency investments.
- Overcome barriers for funding such as issues related collateral & high interest rates for end-user/borrowers
- Assist thinly capitalized ESCO/Developers to invest in EE projects
- Leverage resources to the greatest extent possible by offering repayment guarantees to banks lending for EE projects.
- Operate as a "reserve fund".
- Establish transparent/user-friendly operating mechanisms to facilitate/increase financing for energy efficiency projects.



Stakeholder Participation

- Task leader & Facility Management
 - Energy Conservation Fund
- Participating Financial Institution:
 - National Development Bank
 - DFCC
 - Sampath Bank
 - Hatton National Bank
 - Seylan Bank
 - Commercial Bank
 - Bank of Ceylon
- Energy Service providers
- End-users as borrowers
- Non-participating stakeholders involved in the concept development stage: Treasury, Central Bank, Consultants



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Resulting Features of "Sustainable" Guarantee Facility

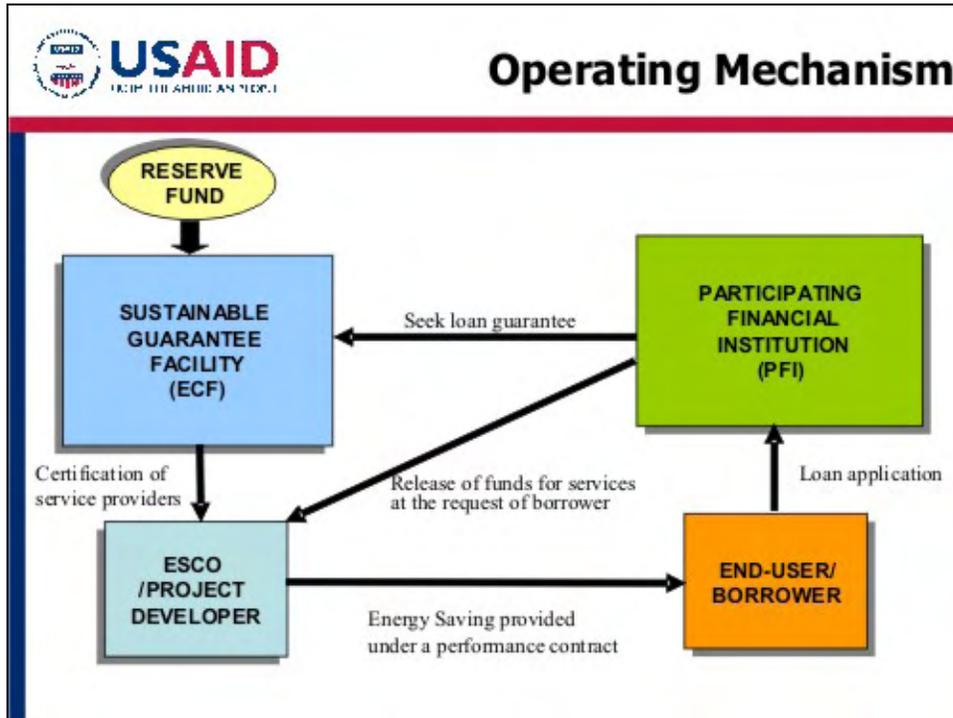
- Provides repayment guarantee to PFIs to overcome barriers of EE project financing – issues related to collateral and high cost of funding
- Guarantee is limited to 75% of the total loan amount, covering both technical and commercial risks of loan
- A Reserve Fund of Rs. 50 Mil has been created by the ECF.
- With an estimated loan loss reserve of 15%, SGF will facilitate an investment of Rs.400 mil from Rs. 50 mil initial deposit
- Maximum guarantee amount per project is set at Rs.10 million
- SGF will guarantee the project payback period guaranteed by the developer plus 1-year, up to a max of six years.
- Interest rates offered by PFIs is expected to be reduced by at least 2% from the current lending rates.
- Annual Guarantee Premium of 0.5% of the amount guaranteed will be charged by the facility.
- Credit standards for borrowers specified.



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Guarantee Application Process

1. PFI submits **Application for Guarantee to ECF** after reviewing proposal submitted by borrower.
2. With the application **PFI submits a Certificate of Declaration:** Applicant's bank certifies that has performed reasonable due diligence in verifying the authenticity of the information provided in its Application for Guarantee.
3. **ECF issues a Certificate of Guarantee** to the bank based on approval of the Application and receipt of the following information:
 - Copy of loan documentation between the bank and the borrower.
 - Contract between ESCO and borrower (end-user).
 - Copy of borrower's Certificate of Insurance evidencing property and casualty insurance in force.
 - Invoices that evidence equipment and services provided for the project.
4. Yearly reports **signed by both ESCO and borrower** verifying status of the project.



-
- Eligible Projects**
- Facility will support replicable projects by reducing the costs and perceived risks:**
- Projects that demonstrate the economic and productivity advantages of energy efficiency investment
 - Projects that have a high probability of replication in the future
 - Projects that have a clear pay-back timeframe
 - Project borrowers that are financially capable of loan repayment
 - Projects using technology that is proven in terms of its feasibility and effectiveness
 - Projects developed by developers (ESCOs) with the technical and managerial capacity to successfully complete and manage the project



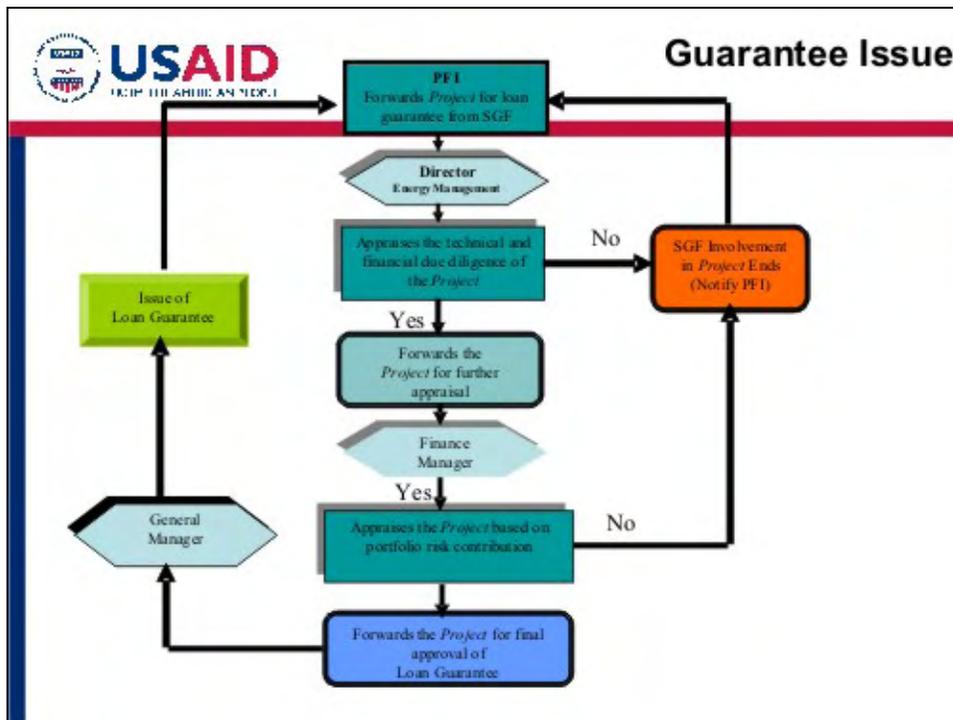
Loan Default Claim Process

- Loan Default is defined as borrower's failure to make 3 consecutive monthly principal and interest payments.
- PFI may submit a Claim to the SGF after the expiry of 1-month, but not later than 3-months from date Demand Notice served to the borrower.
- Prior to making a Claim to the SGF, the PFI must explore the possibility of rescheduling the loan.
- PFI must take prompt action for the recovery of any overdue amounts, with any recoveries shared on a proportional basis between the SGF and PFI.



Facility Management Unit -Key Tasks

- Review guarantee application and project proposals
- Issue guarantees for acceptable projects
- Monitor progress of guaranteed projects
- Identify short-term investments for SGF
- Seek donor funding to strengthen/enhance SGF capacity
- Certification of Energy Service Provider
- Capacity building/training of service providers
- Publicity & awareness



PFIs - Key Tasks

- Review project proposals for funding & analysis of borrowers credit standards
 1. A favorable Letter of Reference from their bank & a dean Credit Report (CRIB)
 2. A positive operating cash flow for the latest year.
 3. A positive net income over the latest two years.
 4. A debt-service-coverage-ratio of 1.25.
- Apply for loan guarantee from SGF
- Payments to ESCO on behalf of end-user
- Recover loan installments & SGF levy from end-user
- Issue letter of demand in case of default
- Request payment from SGF for default loan
- Initiate recovery process
- Share recovered amounts with the SGF



Service Providers – Key Tasks

- Build capacity to undertake EE projects on performance guarantees
- Seek certification from ECF
- Identify end-users for projects
- Introduce ESCO concept to clients
- Preparation of investment-grade project proposals.
- Install equipment
- Monitor & verify savings using monitoring/verification protocols
- Maintenance agreement for services after pay-back period
- End-user Capacity building & training.
- Monitoring & reporting of saving a regular intervals.



SGF & Other Loan Facilities

Loan Facility	Features	Benefits from SGF
RERED	US\$ 10 mil Interest: AWDR+X% (10.8% approx)	1) Collateral Substitute 2) Lower Interest
EFriends 2	Rs. 50 mil, limited 70% Interest: 6.5% 10 year repayment	1) Collateral substitute
Commercial	Interest rate: 14-16%	1) Collateral substitute 2) Lower interest

 Contact Details of PFIs for SGF			
PFI	Name & Designation of Contact Person	Address	Tele/fax and Email
HNB	Mr. I H A Wickramasinghe Chief Manager, Project finance	HNB, Project Division No.479, T.B. Jaya Mawatha, Colombo 10	2661756/2661718 indrajw@hnb.lk
Sampath Bank	Ms Nimali Abeyratne Manager, Development Banking	No.110, Sir James Peiris Mawatha, Colombo 02	2300260/4730630
Seylan Bank	Mr. Sirilal Amarasinghe Chief Manager Development Finance Credit	Ceylinco Seylan Tower, No.90, Galle Road, Colombo 03	4701458/2452549 sirilala@seylan.lk
Bank of Ceylon	Mr. K K D Karunaratne Assistant General Manager – Development Banking	Bank of Ceylon Tower, Colombo 1	2394592 0777514311
NDB Bank	Ms. Chathura Kulasinghe Manager – SME Banking	40, Nawam Mawatha, Colombo 02	2448448/2341048 chathura.kulasinghe@ndbbank.com
Commercial Bank	Mr. Gamini Jayadewa, Senior Manager	21, Bristol Street, P.O. Box 856, Colombo 01	2384356/2459213
DFCC Bank	Mr. H A Ariyaratne Sr. Vice President	DFCC Bank 73/5, Galle Road, Colombo 3	2442442

 Contact Details of FMU for SGF		
Name	Designation of Contact Person	Tele/fax and Email
Mr. Harsha Wickramasinghe	CEO/General Manager	Tele: 2677445 Fax: 2682534 harsha@energy.gov.lk
Mr. M M R Padmasiri	Director Energy Management	Tele: 2677445 Fax: 2682534 ranjith@energy.gov.lk
Mr. Wimal Nadeera	Program Manager Energy Management	Tele: 277445

Presentation 2: Sri Lanka Sustainable Guarantee Facility

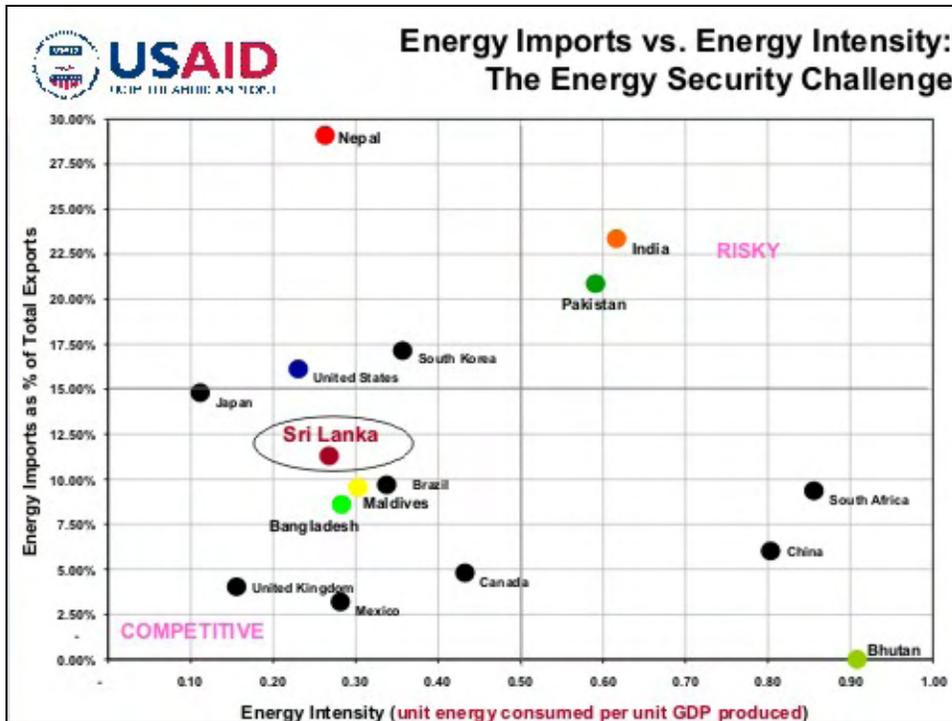


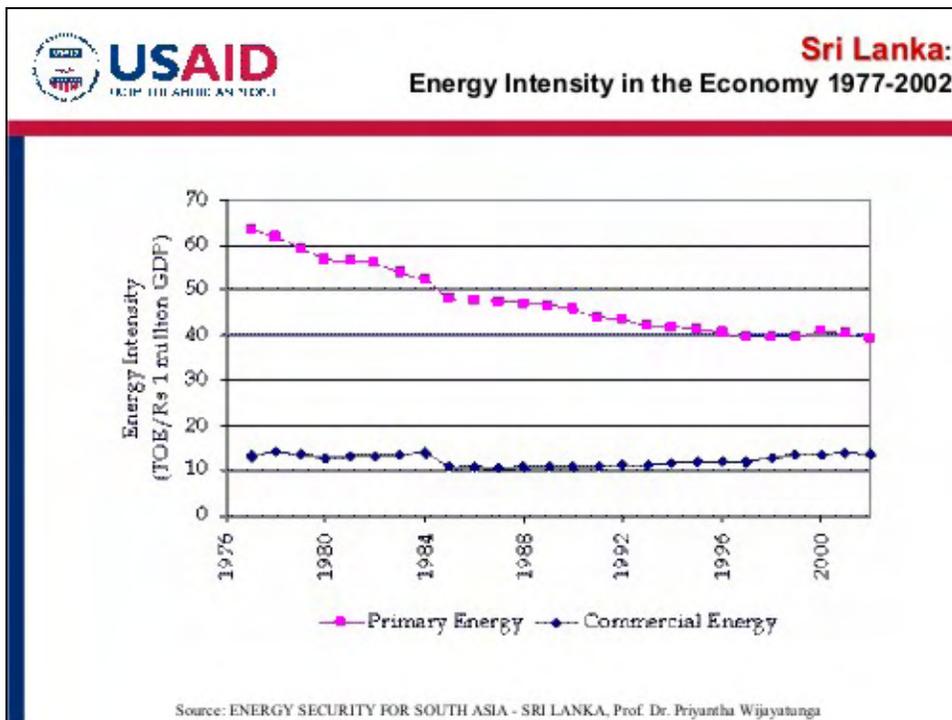
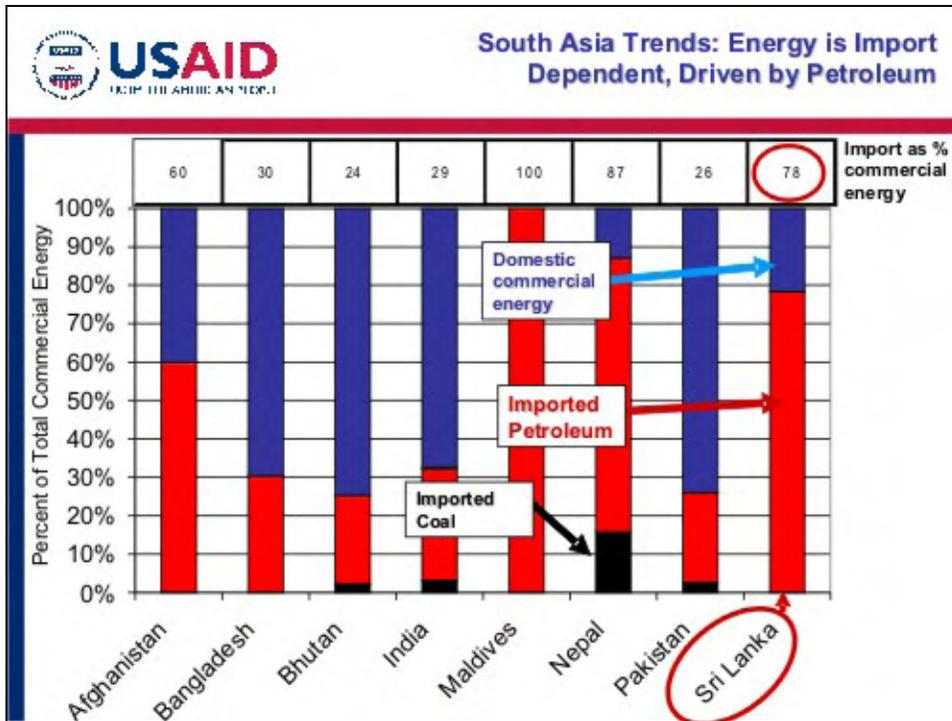
USAID
FROM THE AMERICAN PEOPLE

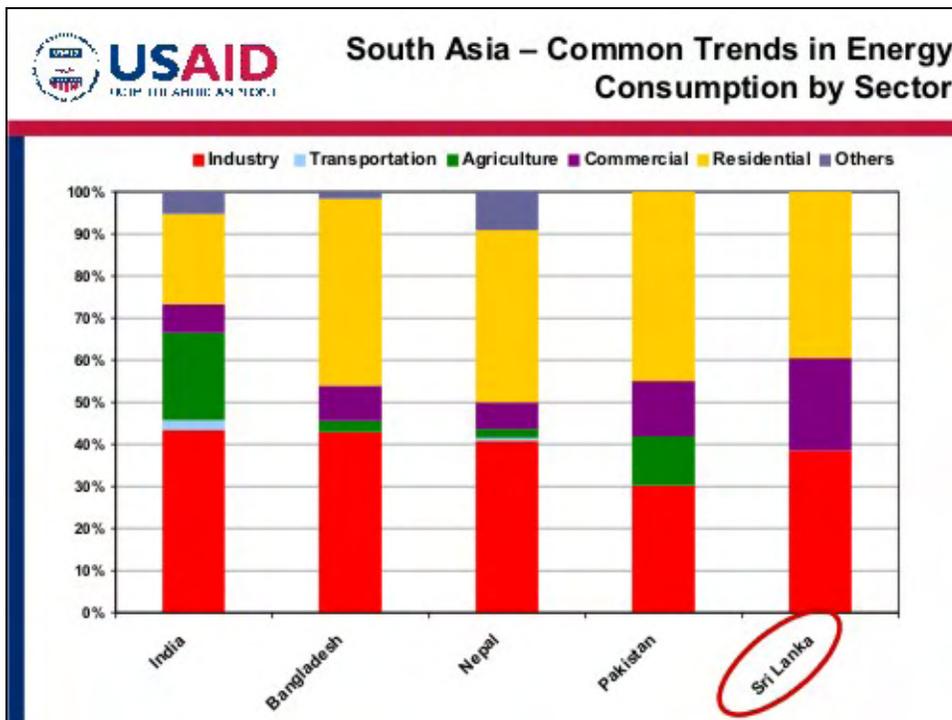
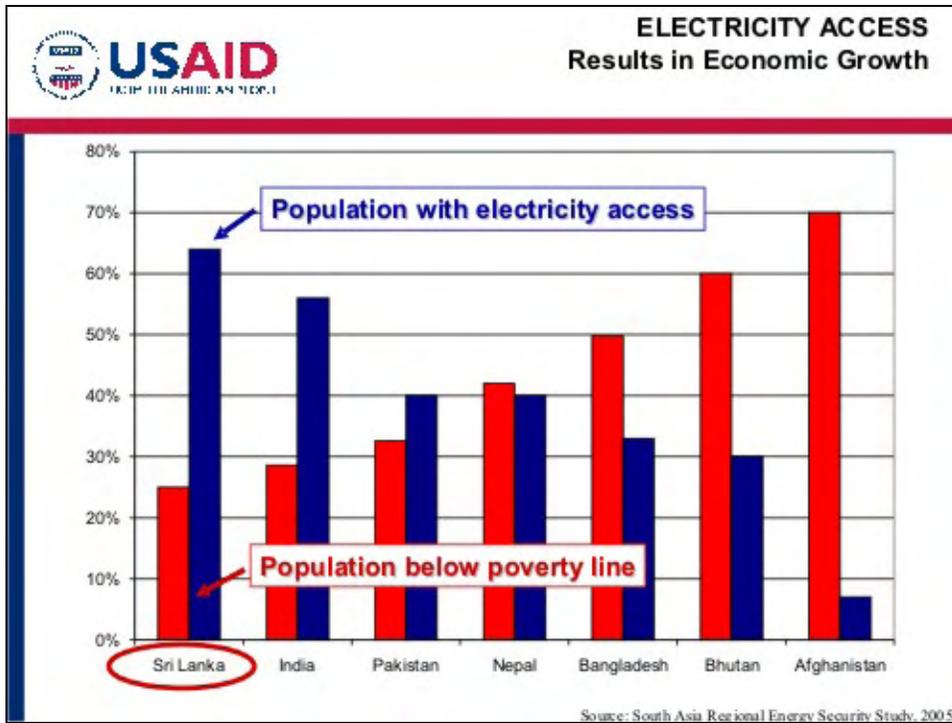
SOUTH ASIA REGIONAL INITIATIVE FOR ENERGY
SARI/Energy

The Sustainable Guarantee Fund

Supported by USAID SARI/Energy







USAID **Determining the Optimal Structure for Sri Lanka: Comparison to other ESCO Funding Mechanisms**

Comparison of Funding Mechanism Suitable Energy Projects

Facility	Country	Features	Funder	Remarks
1. Loan Guarantee Facility	Hungary	Transaction guarantee Portfolio guarantee for small loans	WB/GEF GRANT \$ 5 Mil + IFC Contribution of \$8.5 Mil in reserves	Other agencies use guarantees: Export-Import Bank of US Hermes - Germany Coface - France
2. Loan Guarantee Facility	China	Transaction guarantee Cofinancing of loan loss reserves	GEF contribution to cover first losses	
3. Conditional Loan facility	Georgia	For thinly capitalized service providers Operate through escrow accounts	US Export - Import Bank	Reflects as a 100% guarantee
4. Conditional Loan facility	India	Longer term and low interest	USAID conditional grant: \$ 150,000	SECO-India solar home systems
5. Utility as a Borrower	Croacia	Loans to utility Utility pays for ESCO services Customer pays back from Utility bills	No external funding	Utility provide project development assistance
6. Interest rate buy down grant	Poland	Subsidized interest National Fund to meet interest buy down	National Fund of Poland	
7. Direct Loan Structures	Sri Lanka	Longer repayment Subsidize interest	JIBC Fund	30% equity + collateral req Limited period
8. Principal guarantee	Bulgaria	50% principal guarantee	DCA \$ 425,000	Mobilized \$6,250,000
9. Sustainable Guarantee Facility	Sri Lanka	75% principal + interest guarantee	GO.SL: Rs. 50 Mil	Exp to mobilize Rs. 400 Mil

USAID **USAID South Asia Regional Initiative for Energy (SARI/Energy)**

SARI/E Participating Countries:

SARI/E OBJECTIVE:
PROMOTE ENERGY SECURITY

SARI/E ACTIVITY AREAS:

1. Access to clean energy - through efficiency, new, and renewable sources
2. Cross border trade and investment - through energy marketplace development



Other SARI/EE Activities

Launching ESCO's & Projects:

- Sustainable Guarantee Fund launched in Sri Lanka
- ESCO started in Nepal

Regional Activities:

- Regional Association for EE Standards
- Review of Appliance Testing Capabilities in South Asia
- Roadmap for Harmonization of Energy Efficiency Standards in South Asia
- Opportunities for Regional Harmonization of Appliance Standards & Labeling Program

On Establishing ESCO's:

- Performance Monitoring Verification Protocols: Sri Lanka, Nepal and Bangladesh
- Model ESCO Performance Contracts: Sri Lanka, Nepal and Bangladesh
- Concept for Financing of Industrial Energy Efficiency/ Conservation Projects: Sri Lanka, Nepal and Bangladesh

On Standards & Labeling:

- Energy Efficiency Standards and Labeling for Appliances in Nepal, Bhutan and Bangladesh
- Lessons Learned from and Recommendations for Sri Lanka's Ballast Labeling Program
- Energy Efficiency Standards & Labeling Institutional Structure: Bangladesh
- Action Plan for Development of a Ballast Standard and Labeling Program: Nepal



SOUTH ASIA REGIONAL INITIATIVE FOR ENERGY SARI/Energy

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New Delhi 11021

PRESENTATION 3: SGF PILOT PROJECTS

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**SOUTH ASIA REGIONAL INITIATIVE FOR ENERGY
COOPERATION AND DEVELOPMENT**

Sustainable Guarantee Facility

Pilot Projects

M S Jayalath
Sr. Energy Consultant
Nexant SARI/Energy
May 3, 2006



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FROM THE AMERICAN PEOPLE

Developing Pilot Projects

- Technical assistance was provided by USAID under SARI/Energy Project
- Purpose was to build capacity of key stakeholders to implement the SGF
- Details of training/capacity building provided:
 - ESCOs and project developers in developing bankable projects
 - PFIs in reviewing and approving EE investments
 - ECF in reviewing and awarding guarantees for projects developed by certified service providers

 Pilot Project 1	
Developer	Access Energy Solutions (Pvt) Ltd
Client/Type	Sampath Centre/Commercial Building
EE Measures	A/C improvements & Load Management
Investment	Rs. 25,114,005
Annual Saving	Rs. 11,400,354
Simple Payback	2.20 Years
IRR	16%
NPV	823,980
ESCO model	Shared Saving 1-47 months 80/20 Basis 47-60 months 20/80 Basis After 60 months 0/100 Basis
Financing Institution	Hatton National Bank
Financing structure	RERED+SGF
Status	Guarantee approved

 Pilot Project 2	
Developer	LTL Energy (Pvt) Ltd
Client/Type	Jinadasa Brothers (Pvt) Ltd/Apparel Industry
EE Measures	PF & Lighting improvements, pump replacement
Investment	Rs. 761,282
Annual Saving	Rs. 271,254
Simple Payback	2.81 Years
IRR	31%
NPV	Rs. 379,730
ESCO model	Guaranteed Saving
Financing Institution	Sampath Bank
Financing structure	EFriends 2 + SGF
Status	Guarantee approved

 Pilot Project 3	
Developer	ISB Services Limited
Client/Type	Samtessi Brush Manufacturers (Pvt) Ltd
EE Measures	PF improvement
Investment	Rs. 486,386
Annual Saving	Rs. 425,143
Simple Payback	1.14 Years
IRR	90%
NPV	Rs. 1,301,930
ESCO model	Guaranteed Saving + Excess Sharing
Financing Institution	Sampath Bank
Financing structure	EFriends 2 + SGF
Status	Guarantee approved

 Pilot Project 4	
Developer	Professional Met Consultancy Services
Client/Type	Monaragala Paper Mills (Pvt) Ltd
EE Measures	Boiler Fuel Switching
Investment	Rs. 2,194,500
Annual Saving	Rs. 11,103,880
Simple Payback	3 months
IRR	360%
NPV	Rs. 26,335,840
ESCO model	Guaranteed Saving
Financing Institution	DFCC Bank
Financing structure	Commercial loan/RERED + SGF (PFI review)
Status	Guarantee to be approved

 Pilot Project 5	
Developer	Metropolitan Communications (Pvt) Ltd
Client/Type	Lalan Gloves (Pvt) Ltd/Rubber Procession Industry
EE Measures	PF improvement
Investment	Rs. 987,000
Annual Saving	Rs. 905,143
Simple Payback	1.09 Years
IRR	94%
NPV	Rs. 2,820,390
ESCO model	Guaranteed Saving
Financing Institution	Sampath bank
Financing structure	EFriends 2 + SGF (Client review)
Status	Guarantee to be approved

 Next Step	
<ul style="list-style-type: none"> • ECF plans commission at least 50 large projects during 2006. • Awareness is still a major issue and should be addressed • Final project report will include <ul style="list-style-type: none"> – Recommendations for improvements – Facility awareness & marketing program – Program review methodology and timeframe 	



Acknowledgements

On Behalf of the USAID – SARI/Energy Technical Assistance Team
I wish thank for the following for their valuable contributions for the successful completion of this task:

- 1) Chairman, GM and others at ECF
- 2) Attorney General's Department
- 3) Participating Banks – HNB, Sampath Bank, DFCC Bank, NDB Bank, Seylan Bank, Bank of Ceylon and Commercial Bank
- 4) Developers/ESCOs – LTL Energy (Pvt) Ltd, ISB Services Ltd, Access Energy Solutions (Pvt) Ltd, ProfMet and Metropolitan
- 5) Senior officials at the Treasury and Central Bank
- 6) USAID – Mission Director, Regional Program Manager, Director, Program coordinator – Upali Daranagama and Richard Smith - Nexant in Delhi
- 7) Dr. Ananda Mallawathantri – (former USAID) UNDP
- 8) End-users
- 9) Members of the team – Ravindra Pitigalage and Chandana Deshapriya



SOUTH ASIA REGIONAL INITIATIVE FOR ENERGY COOPERATION AND DEVELOPMENT

END

Thank you

A Nexant SARI/Energy presentation

Guarantee Award Certificates**Borrower - Access Energy Solutions Pvt. Ltd.****PFI - Hatton National Bank**

Ministry of Power & Energy/Energy Conservation Fund		 
Sustainable Guarantee Facility (SGF)		
LOAN GUARANTEE CERTIFICATE		
HATTON NATIONAL BANK		
----- (Name of Bank)		
ACCESS ENERGY SOLUTIONS (PVT) LTD		
----- (Name of Borrower)		
SEVEN MILLION AND FIVE HUNDRED THOUSAND ONLY		
in the amount of Rupees -----		
7,500,000/=		
----- (Rs -----)		
for an energy efficiency improvement project, subject to the terms and conditions set forth and contained in the Operating Instructions of SGF and declarations/undertakings made in the guarantee application. The extent of the guarantee is limited to Seventy Five percent of the loan amount approved, subject to a maximum liability of Rs. 10.0 million.		
		For and on behalf of the Energy Conservation Fund
		General Manager/ CEO Energy Conservation Fund
001 - May 3, 2006		

Borrower - Jinadasa Bros. (Garments) Ltd.

PFI - Smapath Bank

Ministry of Power & Energy/Energy Conservation Fund Sustainable Guarantee Facility (SGF)		 
LOAN GUARANTEE CERTIFICATE		
SAMPATH BANK		
----- <small>(Name of Bank)</small>		
JINADANA BROS. (GARMENTS) LTD		
----- <small>(Name of Borrower)</small>		
THREE HUNDRED AND NINETY NINE THOUSAND, SIX HUNDRED		
in the amount of Rupees -----		
AND SIXTY EIGHT ONLY	399,668/=	
----- (Rs -----)		
for an energy efficiency improvement project, subject to the terms and conditions set forth and contained in the Operating Instructions of SGF and declarations/undertakings made in the guarantee application. The extent of the guarantee is limited to Seventy Five percent of the loan amount approved, subject to a maximum liability of Rs. 10.0 million.		
		For and on behalf of the Energy Conservation Fund
		General Manager/ CEO Energy Conservation Fund
002 - May 3, 2006		

Borrower - Samtessi Brush Manufactures Pvt. Ltd.

PFI - Smaph Bank

Ministry of Power & Energy/Energy Conservation Fund Sustainable Guarantee Facility (SGF)		 
LOAN GUARANTEE CERTIFICATE		
SAMPATH BANK		
----- (Name of Bank)		
SAMTESSI BRUSH MANUFACTURERS (PVT) LTD		
----- (Name of Borrower)		
TWO HUNDRED AND FIFTY FIVE THOUSAND, THREE HUNDRED		
in the amount of Rupees -----		
AND FIFTY THREE ONLY	255,353/=	
----- (Rs -----)		
for an energy efficiency improvement project, subject to the terms and conditions set forth and contained in the Operating Instructions of SGF and declarations/undertakings made in the guarantee application. The extent of the guarantee is limited to Seventy Five percent of the loan amount approved, subject to a maximum liability of Rs. 10.0 million.		
	For and on behalf of the Energy Conservation Fund	
		General Manager/ CEO Energy Conservation Fund
003 - May 3, 2006		

Guarantee certificates

Ministry of Power and Energy/Energy Conservation Fund
Sustainable Guarantee Facility




LOAN GUARANTEE CERTIFICATE

HATTON NATIONAL BANK

(Name of Bank)

ACCESS ENERGY SOLUTIONS (PVT) LTD

(Name of Borrower)

SEVEN MILLION AND FIVE HUNDRED THOUSAND ONLY

in the amount of Rupees -----
7,500,000/=
----- (Rs-----)

for an energy efficiency improvement project, subject to the terms and conditions set forth and contained in the Operating Instructions of SGF and declarations/undertakings made in the guarantee application. The extent of the guarantee is limited to Seventy Five percent of the loan amount approved, subject to a maximum liability of Rs. 10.0 million.

For and on behalf of the Energy Conservation Fund

General Manager/ CEO
Energy Conservation Fund



001 - May 3, 2006

Guarantee certificates

**Ministry of Power and Energy/Energy Conservation Fund
Sustainable Guarantee Facility**




LOAN GUARANTEE CERTIFICATE

SAMPATH BANK

(Name of Bank)

LTL ENERGY (PVT) LTD

(Name of Borrower)

THREE HUNDRED AND NINETY NINE THOUSAND, SIX HUNDRED

In the amount of Rupees -----
AND SIXTY EIGHT ONLY **399,668/=**

----- (Rs-----)

for an energy efficiency improvement project, subject to the terms and conditions set forth and contained in the Operating Instructions of SGF and declarations/undertakings made in the guarantee application. The extent of the guarantee is limited to Seventy Five percent of the loan amount approved, subject to a maximum liability of Rs. 10.0 million.

For and on behalf of the Energy Conservation Fund

**General Manager/ CEO
Energy Conservation Fund**



002 - May 3, 2006

ESCO certificates




Ministry of Power & Energy/Energy Conservation Fund
Sustainable Guarantee Facility

hereby confers upon

ACCESS ENERGY SOLUTIONS (PVT) LTD

this certificate officially recognizing successful development of
an Energy Efficiency Project
for the *Sustainable Guarantee Facility*.

3 day of May, 2006

Chairman, ECF **Chief Executive Officer, SGF**

ESCO certificates

Ministry of Power & Energy/Energy Conservation Fund
Sustainable Guarantee Facility



hereby confers upon

ISB SERVICES LTD

this certificate officially recognizing successful development of
an Energy Efficiency Project
for the *Sustainable Guarantee Facility*.

3 day of May, 2006

Chairman, ECF

Chief Executive Officer, SGF

ESCO certificates

Ministry of Power & Energy/Energy Conservation Fund
Sustainable Guarantee Facility



hereby confers upon

LTL ENERGY (PVT) LTD

**this certificate officially recognizing successful development of
an Energy Efficiency Project
for the *Sustainable Guarantee Facility*.**

3 day of May, 2006

Chairman, ECF

Chief Executive Officer, SGF

Developers certificates

Ministry of Power & Energy/Energy Conservation Fund
Sustainable Guarantee Facility



hereby officially recognize

JINADASA BROS. (GARMENTS) LTD

as a successful developer of an Energy Efficiency Project
for the *Sustainable Guarantee Facility*.

3rd day of May, 2006

Chairman, ECF

Chief Executive Officer, SGF

Developers certificates

Ministry of Power & Energy/Energy Conservation Fund
Sustainable Guarantee Facility



hereby officially recognize

SAMPATH CENTRE

as a successful developer of an Energy Efficiency Project
for the *Sustainable Guarantee Facility*.

3rd day of May, 2006

Chairman, ECF

Chief Executive Officer, SGF

Developers certificates

Ministry of Power & Energy/Energy Conservation Fund
Sustainable Guarantee Facility



hereby officially recognize

SAMTESSI BRUSH MANUFACTURERS (PVT) LTD

as a successful developer of an Energy Efficiency Project
for the *Sustainable Guarantee Facility*.

3rd day of *May*, 2006

Chairman, ECF

Chief Executive Officer, SGF

Project 1: Access Energy Solutions (Pvt.) Ltd.**1) Brief description of Project:**

- a) Developer : Access Energy Solutions (Pvt) Ltd – Mr. Roshal Perera
- b) Client/end-user : Sampath Center – Major R M Punchibanda
- c) Energy Efficiency Measures : A/C improvements, load management and peak clipping
- d) Investment : Rs. 25,114,005
- e) Annual Saving : Rs. 11,400,354
- f) Simple payback : 2.20 years
- g) IRR : **16%**
- h) NPV : Rs. 823,980
- i) Project mechanism : Shared saving –
1 to 47 months 80/20 (developer/client) basis
48 to 60 months 20/80 (developer/client) basis
After 60 months 0/100 (developer/client) basis
- j) Load facility selected : RERED
- k) Loan amount : Rs. 10 million
- l) Guarantee amount : Rs. 7.5 million
- m) PFI : Hatton National Bank

2) Present status:

- a) Project development stage : Fully completed (Project proposal, M&V procedure, performance contract and financial analysis)
- b) Proposal review by PFI : Completed & proposal accepted by PFI
- c) Guarantee approval : Granted for Rs. 7.5 million
- d) Load approval process : Underway

3) Recommended follow up action:

- a) Signing of performance contract between Developer and client should be closely monitoring
- b) Formal request from PFI for guarantee should be obtained after conclusion of loan negotiations
- c) Monthly project progress monitoring is essential during the first 6 months

Detailed proposal forwarded separately

Project 2: LTL Energy (Pvt.) Ltd

1) Brief description of Project:

a) Developer	: LTL Energy (Pvt) Ltd – Mr. Dammika Nanayakkara
b) Client/end-user	: Jinadasa Bros. (Garments) Ltd
c) Energy Efficiency Measures	: PF and Lighting improvements
d) Investment	: Rs. 761,282
e) Annual Saving	: Rs. 271,254
f) Simple payback	: 2.81 years
g) IRR	: 31%
h) NPV	: Rs. 379,730
i) Project mechanism	: Guaranteed saving
j) Load facility selected	: Efriends 2
k) Loan amount	: Rs. 532,890
l) Guarantee amount	: Rs. 399,668
m) PFI	: Sampath Bank (HO/Borellesgamuwa)

2) Present status:

a) Project development stage	: Fully completed (Project proposal, M&V procedure, performance contract and financial analysis)
b) Proposal review by PFI	: Completed & proposal accepted by PFI
c) Guarantee approval	: Granted for Rs. 399,668
d) Load approval process	: Underway

3) Recommended follow up action:

- Formal request from PFI for guarantee should be obtained after conclusion of loan negotiations.
- Monthly project progress monitoring is essential during the first 6 months.

Detailed proposal forwarded separately

Pilot Project 3: ISB Services Ltd

1) Brief description of Project:

- a) Developer : ISB Services Limited – Mr. Gamini Senanayake
- b) Client/end-user : Samtessi Brush Manufacturers' (Pvt) Ltd
- c) Energy Efficiency Measures : Power Factor Improvement
- d) Investment : Rs. 486,386
- e) Annual Saving : Rs. 425,143
- f) Simple payback : 1.14 years
- g) IRR : **90%**
- h) NPV : Rs. 1,301,930
- i) Project mechanism : Guaranteed saving + Excess sharing
- j) Load facility selected : EFriends 2
- k) Loan amount : Rs. 340,470
- l) Guarantee amount : Rs. 255,353
- m) PFI : Sampath Bank (HO/Kurunegala)

2) Present status:

- a) Project development stage : Fully completed (Project proposal, M&V procedure, performance contact and financial analysis)
- b) Proposal review by PFI : Completed & proposal accepted by PFI
- c) Guarantee approval : Granted for Rs. 255,353
- d) Load approval process : Underway

3) Recommended follow up action:

- a) Formal request from PFI for guarantee should be obtained after conclusion of loan negotiations
- b) Monthly project progress monitoring is essential during the first 6 months

Detailed proposal forwarded separately

Pilot Project 4: Metropolitan Communications Ltd

1) Brief description of Project:

- a) Developer : Metropolitan Communication (Pvt) Ltd
– Mr. Charith Molligoda
- b) Client/end-user : Lalan Gloves (Pvt) Ltd
- c) Energy Efficiency Measures : Power Factor Improvement
- d) Investment : Rs. 987,000
- e) Annual Saving : Rs. 905,143
- f) Simple payback : 1.09 years
- g) IRR : **94%**
- h) NPV : Rs. 2,820,390
- i) Project mechanism : Guaranteed saving
- j) Load facility selected : Efriends 2
- k) Loan amount : Rs. 690,900
- l) Guarantee amount : Rs. 518,175
- m) PFI : Commercial Bank (Head Office)

2) Present status:

- a) Project development stage : Fully completed (Project proposal, M&V procedure, performance contact and financial analysis)
- b) Proposal review by PFI : Not commenced. Client yet to decide on funding
- c) Guarantee approval : No request
- d) Load approval process : Not commenced

3) Recommended follow up action:

- a) ECF & developer should advise the client on funding mechanisms
- b) Developer should establish baseline consumption after renovations
- c) ECF should monitor progress during the initial period.

Detailed proposal forwarded separately

Pilot Project 5: Professional Met Consultancy Services

1) Brief description of Project:

a) Developer	: Professional Met Consultancy Services Ltd – Mr. Justin
b) Client/end-user	: Monaragala Paper Mills (Pvt) Ltd
c) Energy Efficiency Measures	: Fuel Switching
d) Investment	: Rs. 2,194,500
e) Annual Saving	: Rs. 11,103,880
f) Simple payback	: 3 months
g) IRR	: 360%
h) NPV	: 26,335,840
i) Project mechanism	: Guaranteed saving
j) Load facility selected	: RERED / Commercial loan
k) Loan amount	: Rs. 1,536,150
l) Guarantee amount	: Rs. 1,152.112
m) PFI	: DFCC Bank (Head Office)

2) Present status:

a) Project development stage	: Fully completed (Project proposal, M&V procedure, performance contract and financial analysis)
b) Proposal review by PFI	: Underway
c) Guarantee approval	: Underway
d) Load approval process	: Underway

3) Recommended follow up action:

- PFI should expedite to look for customer's credit worthiness to offer a commercial loan

Detailed proposal forwarded separately

U. S Agency for International Development

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