



## Bankers Training on Energy Efficiency Finance – Impact Analysis



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AC	Air Conditioner
BEE	Bureau of Energy Efficiency
CA	Chartered Accountants
CIBIL	Credit Information Bureau (India) Limited
D&B	Dun and Bradstreet
DFID	The Department for International Development
DSCR	Debt Service Coverage Ratio
EE	Energy Efficiency
EEF	Energy Efficiency Financing
GIZ	Gesellschaft für Internationale Zusammenarbeit
JICA	Japan International Cooperation Agency
KfW	Kreditanstalt für Wiederaufbau (German Development Bank)
MFI	Micro Financial Institutions
MSME	Micro, Small and Medium Enterprise
NCR	National Capital Region
NMEE	National Mission for Enhanced Energy Efficiency
NPA	Non-performing asset
NPV	Net Present Value
NTPC	National Thermal Power Corporation
SME	Small and Medium Enterprises
SBI	State Bank of India
SIDBI	Small Industries Development Bank of India
TEV	Technical and Economic Viability
UPTECH	Up gradation of Technology
WB	World Bank

# I Executive Summary

Responsible Enterprise Finance is instrumental to global sustainable development challenges such as climate change and poverty. Unless financial systems promote causes like business innovation, green growth, and strengthen economic, environmental and socially responsible behavior, the goal of sustainable economic development cannot be achieved. Financial institutions can make an important contribution towards moving India's private sector, including the MSME sector, onto a more sustainable growth path by improving their supply of risk capital and loans for sustainability-oriented investments. They can integrate social and environmental criteria into their lending or investment decision-making, develop specialized products to provide incentives for technical modernization or to finance innovative business models. They can provide finance to those start-ups, which create jobs and income in rural areas or provide the poor with basic services in areas such as health, water and energy supply.

As part of the MSME Umbrella Programme GIZ has been undertaking a number of activities to facilitate MSME improved access to appropriate financial and non-financial products and services. One of the areas, identified for cooperation with our partner banks is development of nationally transferable innovative financial products, models, instruments and services.

Access to finance for implementation of energy efficiency projects has been identified as one of the gaps by various stakeholders. Improving the knowledge of bankers on energy efficiency finance can help to close this gap. For that matter GIZ has developed a bankers' training on energy efficiency finance.

By raising awareness and building capacity it was expected that bankers identify and appraise energy efficiency loan applications and apply available schemes and subsidies for energy efficiency and cash flow based lending approach and emphasize impact on profitability (business case). The initiative was also aiming at training bankers on how to proactively guide SMEs on energy efficiency and create awareness on how energy efficiency projects can increase profitability and improve the overall risk profile of the company.

It was further demonstrated in the training that energy efficiency projects are an effective business model for MSMEs as well as for banks. Taking into account that latter are directly impacted in terms of profitability, energy efficiency projects help to mitigate the banks' portfolio risk and seize new business opportunities. Further, bankers can play an important role to pave the way for a more energy efficient MSME sector.



## II Introduction

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GIZ had commissioned Dun and Bradstreet (D&B) to develop curriculum and training modules and to conduct trainings for bankers at 50 locations across India. The training was conducted to sensitize the bankers on energy efficiency finance so that they can identify and appraise energy efficiency loan applications; apply available government schemes and proactively guide Small and Medium Enterprises (SMEs) on energy efficiency. Trainings were conducted at 50 centers across India and 2,103 bankers attended these training programs from March 2013 to November 2013.

An impact analysis of the training on energy efficiency finance (EEF), conducted for bankers was carried out. This report is part of the impact analysis undertaken in order to assess whether the objectives of the trainings have been achieved. For conducting this impact analysis 60 bankers have been interviewed in 7 locations from Mid-December 2013 to Mid-February 2014. 25 different banks with a mix of public (15), private (7), and cooperative (3) banks have been covered. Senior bankers mainly in the regional or zonal offices of the banks, who had nominated branch staff for EEF training, have been interviewed. Telephonic interviews were conducted with 4 such bankers to understand their motivation to send their staff for EEF training.

Two set of questionnaires have been prepared - one for the bankers who had nominated their staff for the training and the other for those bankers who were participants of EEF training.

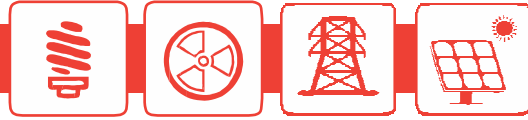
These questions were used for discussions with these bankers. The observations and recommendations from the impact analysis are summarized on the next page:



## 1 Overall Observation

### Key Impacts

- The training on energy efficiency finance was well received by bankers at all locations. This was the first training of its kind giving bankers a perspective on energy efficiency.
- Bankers who had nominated their staff were willing to send more staff for such trainings as they considered this a good initiative in raising awareness on EEF.
- The training has helped bankers establish a link between profitability of the SME owners and benefits of energy efficiency. They now see a business case for the SMEs to invest in energy efficiency machinery and technology.
- Almost all the bankers mentioned that they have been sensitized about energy efficiency and they would be willing to fund proposals which have scope for saving energy.
- As a result of the training, some of the bankers have started analyzing cash flow even when it is not part of the formal procedure for SME loan appraisal.
- The training has resulted in some bankers asking questions on energy efficiency to the clients in case a loan proposal comes for technology up-gradation or for a change in machinery. Some bankers have started looking at the power expenses of the SME unit as a proportion of total expenses of the units.
- The training has helped the bankers understand benefits of energy audits for both the SMEs and for the banks.
- Due to sensitization of the bankers on energy efficiency, some of the bankers have started discussing about possibility of energy conservation in SME units. One of the bankers who were interviewed has encouraged his client to buy energy efficient machinery.
- The bankers found the training useful and relevant for them both personally and professionally. At a personal level, they have become more conscious and are taking measures to conserve energy at their offices and homes.



## Challenges

- Many bankers expected to get separate proposals on energy efficiency, which may not be the case. They need to find scope for energy efficiency in the loan proposal submitted.
- Due to slowdown, bankers are cautious in financing any new SME client. Also, many SME units, having a scope of energy efficiency, are not interested to invest in energy efficiency as it would increase their cost burden at the time of recession. Most of the banks do not have a separate scheme on energy efficiency financing and they do not have any formal agenda to promote energy efficiency among clients. As a result, bankers are not very forthcoming in giving time and effort in discussing energy efficiency with their clients.
- EEF can be included in the internal training curriculum of the banks but for this, a decision has to be taken by the top management.
- Bankers view that SMEs are not aware of government schemes and subsidies on energy efficiency and thus they do not bring proposals to banks for funding energy efficient machines or technology.
- Bankers mentioned that for any kind of investment decision for the business, SME owners rely on the advice of their Chartered Accountants. They come to the bank only after they have made decision on the type of technology/ machinery they want to purchase. Thus, bankers suppose that they cannot play a very active role in guiding SME owners on energy efficiency.
- Cooperative banks, due to their legal structure, are unable to offer government schemes and subsidies on energy efficiency to their clients.
- Bankers perceive the risk that adoption of a new machinery or technology may not go well in SME units which might lead to production losses for the units. Hence, they feel that risks associated with adopting new machinery or processes need to be addressed in a better way to instill confidence in SME owners.
- Bankers are not very clear on the “talking points” of the discussion on energy efficiency with the clients. They fear that they would not be able to respond to queries of SME owners. Bankers fear that the client might think that the banker has some vested interest in pushing EE agenda and this will result in losing the client to another bank.
- Bankers do not have a ready reckoner on energy efficiency schemes.
- Also, no marketing material is available to be given to the clients.
- There is limited scope of energy efficiency in units which are small and not energy intensive.



## 2 Recommendations

The following recommendations have been made to improve the training outcomes:

### Initiatives that can be taken by the banks

- A push from the senior management is required to promote energy efficiency among the bank staff and clients.
- Banks need to have energy efficiency agenda. Energy efficiency schemes may be routed through banks and should be well communicated to the staff. Posters can also be put in branch premises to promote the schemes.
- For faster uptake separate targets can be provided to banks. It could also be some compulsory proportion of priority sector lending.
- EEF can be made part of performance appraisal of staffs.
- Staff colleges of each bank can include a session on EEF in the induction training and in other trainings like credit appraisal training.
- In order to promote the use of NPV criteria in credit appraisal by banks, directions need to be issued by the credit function within the banks.

### Awareness generation of clients and their associates

- Regular trainings involving bankers and Industry Associations can be conducted to generate awareness on energy efficiency.
- Industry specific information booklets can be provided to the Industry Associations and SME owners. These booklets can provide information on the energy efficient machines and technology for the industries.
- E-mails, newsletters, brochures can be used to promote energy efficiency measures amongst SME owners.
- Chartered Accountants, who prepare loan proposals for the SME owners, can get similar trainings on EEF.
- Suppliers who provide machinery to SMEs can be trained on how to use energy efficiency / energy consumption information as a sales argument.
- Banks can start discussions with existing SME clients who have high energy bills.



### Material for bankers for own use and sharing with the clients

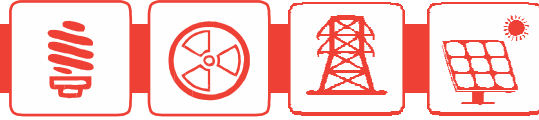
- Clusters/ industry hubs wise brief documents showcasing the successful energy efficient machines and technology can be given to SME owners.
- A ready reckoner with information on energy efficiency specific schemes can be given to the bankers. Also a list of questions which the banker can ask the SME owners while discussing scope of energy efficiency.

### Training – Content Material

- Bankers should be provided clearer vision of the role expected of them in energy efficiency. This can be made more specific by adding the expectations of staffs in different roles:
  - What is expected of an Acquisition Manager or Branch Manager in promotion of energy efficiency? To what extent s/he should discuss about it with the client? What could be a few quick wins which can immediately attract potential customers towards exploring more on energy efficiency?
  - What is expected of a Credit Manager? What extra analysis can s/he do? How can s/he analyze energy efficiency and what decisions s/he can make within existing policies of bank? What energy efficiency related questions should be asked during appraisal?
  - What is expected of Relationship Manager? What advice on energy efficiency can s/he give? What potential sources of technologies, vendors, schemes, subsidies and related processes s/he should explain?
- Emphasis can be made on the fact that there need not be separate energy efficiency proposals. Bankers should be able to find scope for it when an existing or a new client comes with a proposal for changing machinery or technology.
- Training can include discussions on agencies conducting energy audit and its fees.



- Training should have discussions to inform about the risks associated with adopting new machinery or processes. Discussions should also be held on reliability of energy efficient machinery so that anxieties regarding risk of unsuccessful implementation of new machinery can be addressed.
- Examples of equipment relevant to small units rather than to heavy industries (which might not even be used by SMEs) can be included in the trainings.
- Bankers should be provided information about some successful real life case studies on energy efficiency related to specific industries that they are catering to, which they can talk about with their clients.



### III Methodology and Approach for Impact Analysis

Following methodology was adopted for the impact analysis of the training:

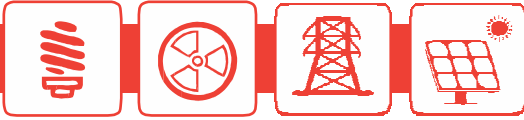
Phase 1: Preparation	
Questionnaires for Bankers & Funders	Mobilization of Bankers
▼	
Phase 2: Interviews	
Training Participants	Bankers Who Nominated Staff
▼	
Phase 3: Report	
Interview Transcripts	Interview Analysis

#### Phase 1: Development of interview questionnaires and scheduling of interviews

M2i, in consultation with GIZ, prepared a questionnaire for the bankers. The questions were designed to understand whether the expected outcomes of EEF trainings have been achieved, what the barriers are and whether access to finance for energy efficiency projects has improved for SMEs. These questions are provided in Annexure 1.

Another questionnaire was prepared for the banks that had sent their staff for the training. The purpose was to understand the expectations/ motivation of the bankers to nominate their branch staff for EEF training. These questions are provided in Annexure 2.

GIZ provided M2i with a list of bankers who had attended the trainings at the seven locations selected by GIZ. A mandate letter was also issued by



GIZ, which explained the purpose of the project and M2i's role in it. This was given to the bankers by M2i, as and when required for seeking the appointments.

Before contacting the bankers for the interviews, M2i with help of GIZ, explored all possible challenges that it could face and the possible solutions for mobilizing the bankers.

**Box 1: Approach for mobilizing bankers**

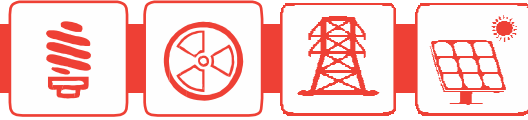
Possible Challenges	Possible Solutions
<ul style="list-style-type: none"> <li>• Staff is unaware of the reasons for this exercise &amp; shows resistance</li> <li>• Selected staff has retired</li> <li>• Selected staff does not agree</li> <li>• Selected staff is transferred</li> <li>• Selected staff is unavailable on the day of visit</li> </ul>	<ul style="list-style-type: none"> <li>• Use GIZ letter for bankers</li> <li>• Shortlist banks where more than 4 staff attended the training</li> <li>• Contact 6-7 banks at each location</li> <li>• Email immediate superior of the selected staff about the purpose of meeting, if required</li> <li>• Contact 4-5 staff (with different job profiles) from the selected banks</li> <li>• Contact both private &amp; nationalized banks</li> </ul>

M2i selected bankers based on the following key criteria:

- To maintain a mix of public and private sector banks
- To have representation from Cooperative banks
- To have a mix of bankers holding different responsibilities - relationship officers, credit analysts, branch heads, specialized SME unit staff
- To have bankers operating in industrial hubs and in specialized SME branches

However, it was found that most of the bankers who had attended the training were the branch heads (details of the bankers interviewed are provided in Section 3).





## Phase 2: Conducting Interviews

### A. Conducting interviews of the bankers who had attended the training

As part of the assignment, two-member teams of M2i Consultants visited the seven locations and interviewed the bankers who had attended EEF training.

M2i teams conducted a total of 60 interviews at these locations (details in Section 3). Before meeting the bankers, M2i team discussed possible challenges that it could face while interviewing the bankers and the possible ways to meet these challenges.

#### Box 2: Approach for conducting interviews

Possible Challenges	Possible Solutions
<ul style="list-style-type: none"> <li>• Staff thinks that the interview analysis will be shared with their superiors</li> <li>• Staff thinks that their opinion will be published</li> <li>• Staff thinks that questions related to global/national data will be asked</li> <li>• Staff thinks that they will be assessed on this interview by the bank</li> </ul>	<ul style="list-style-type: none"> <li>• Explain purpose of the interview</li> <li>• Explain how information will be used</li> <li>• Explain confidentiality of information given</li> <li>• Explain that this is not an evaluation and no results will be shared with the superiors</li> <li>• Use more qualitative questions which are opinion seeking than quantitative</li> </ul>

### B. Conducting Interviews of the bankers who had nominated staff for the training

Telephonic interviews of 4 bankers were conducted who had nominated two or more bank staff for the training. Details of bankers interviewed are given in Annex 3B. Bankers' view was taken to understand their motivation to send staff for EEF training, expectations from EEF training, their willingness to send staff for such trainings in future and possibility of including EEF as part of internal trainings of the banks.

## Phase 3: Transcripts and Report

Based on the interviews with bankers, M2i prepared detailed transcripts of those interviews. In addition M2i has prepared this high-level report, highlighting:

1. Whether the expected outcome of GIZ bankers' training has been achieved
2. Barriers in implementing EEF in banks
3. Suggestions from various bankers on improving EEF



## IV Profile of the Bankers

M2i interviewed total 60 bankers in 7 locations from Mid-December 2013 to Mid-February 2014. Details of interviews at each location are given in Annex 3A.

25 Banks were covered in total with a mix of private, public and cooperative banks. M2i team met bankers from more than 4 banks at each location.

Table 1 shows number of bankers interviewed and number of banks

Number of	Total	Gurgaon	Faridabad	Ludhiana	Jamnagar	Bengaluru	Pune	Kolkata
Interviews	60	8	8	12*	8	8	8	8
Banks	25	7	4	6	7	5	6	6
Public sector	15	4	4	4	2	4	5	6
Private sector	7	3	-	2	3	1	-	-
Cooperatives	3	-	-	-	2	-	1	-

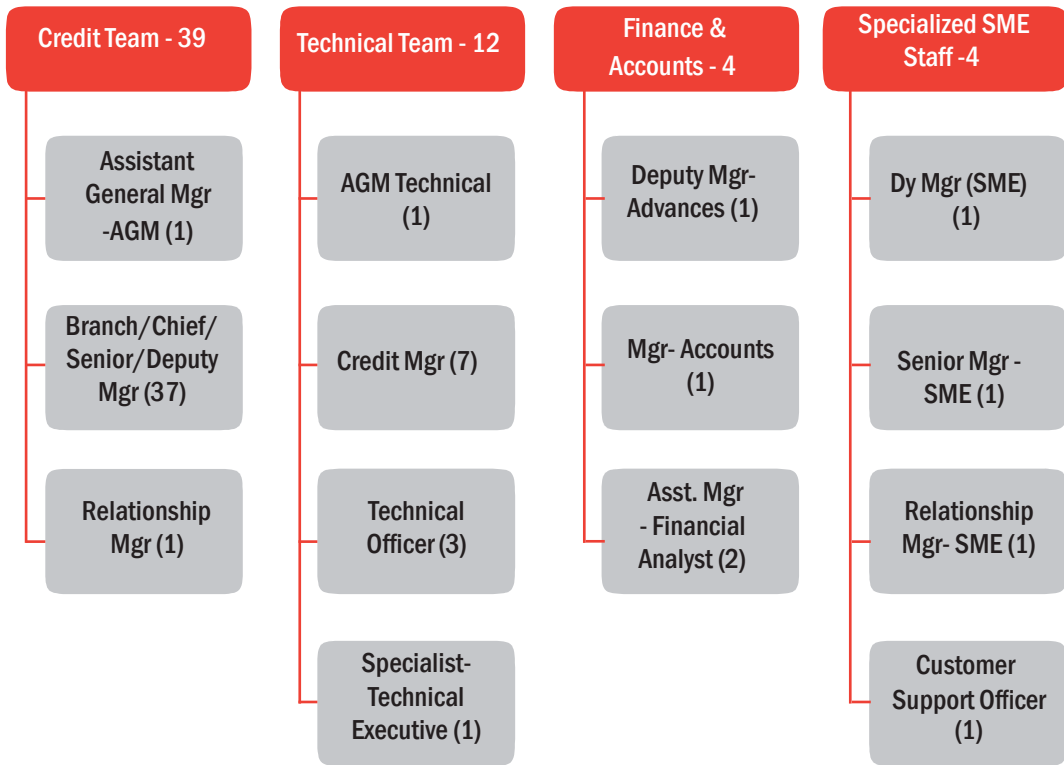
\* includes 1 interview with a GIZ consultant working in Ludhiana to implement EEF with small and medium industrial units

List of banks visited by the M2i team is given in Annex 4

- For the interviews, M2i shortlisted those bankers who were holding different positions in the banks with a reasoning that they would apply the learning of the training in a different manner. Interviews were conducted for the bankers with different job profiles as shown in Box 3. It was seen that most of the training attendees were branch heads of the banks.



**Box 3: Number of bankers with different job profiles interviewed by M2i**





## V Training Impact Analysis – Findings

There were 4 objectives of the bankers' training on EEF, as mentioned in Section I. The achievement of each of the four objectives is discussed here.

### 1 Objective 1 – Overall Analysis

The first objective of the training was that the “bankers get sensitized on the importance of energy efficiency”. In order to assess whether this objective was fulfilled or not, we have divided it into 3 sub-objectives which are:

- a) Bankers' view on EEF in context of their role
- b) Benefits of EEF training – both professionally and personally
- c) Retention of learning from training

#### Objective 1 - Overall analysis

Based on our discussions with different bankers, it is clear that the first objective of the training has been met to a great extent.

All the bankers have appreciated the initiative taken by GIZ to conduct training for different stakeholders like banks and SME associations on energy efficiency. The bankers had received this kind of training for the first time and they got an overall view on the importance of energy efficiency for the country, for their banks and their clients. They have been able to see the linkage of energy efficiency with the profitability of their SME clients and the benefits for their bank in the long run.



Bankers mentioned that they will be more open to funding energy efficiency loan applications. Most of the bankers remembered discussions held on relevance and benefits of energy efficiency, energy audit reports and CIBIL reports. However, there was low retention on specific details like the relevance of BEE, different websites and government schemes on energy efficiency. Bankers mentioned that they have started making efforts to conserve power at their homes and offices at personal level, after the training.

#### a) Bankers view on Energy Efficiency Finance

Areas covered in the training - The training discussed the meaning of energy efficiency, what is the role of bankers in promoting it with SME owners, different stakeholders and their role in promoting EE.

Application of learning - All the bankers had a very positive attitude about energy efficiency financing. They appreciated the initiative taken by GIZ to raise awareness of bankers on EEF. Apart from one banker, all others had attended training on the topic of energy efficiency finance for the first time.

All the bankers mentioned that energy efficiency finance is a very relevant topic in today's world of scarce energy resources and climate change. They considered that this is an apt time for such discussions as this topic is

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“ “ Now I have clear vision of role of clients, banks & general public in EE. Now we have more knowledge of how to discuss EE with clients. ” ”

Response from a banker in Jamnagar

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now widely discussed worldwide and efforts need to be made by all the stakeholders to conserve energy. They were of the opinion that this might become an important compliance requirement in the future. Many bankers could understand the importance of different stakeholders in promoting energy efficiency among the SME owners.



The bankers were able to relate benefits of energy efficiency with profitability of their clients. They mentioned that energy efficiency can reduce costs, improve margins and can strengthen their customer's balance sheet and thus, bank's loan is less likely to turn NPA. Most of the bankers mentioned that use of reliable energy efficient technology and reliable machines reduces energy consumption (in the form of electricity and coal). Thus, measures taken to improve energy efficiency of SME units can help conserve non-renewable resources of the nation. They did not treat EEF as one of the corporate social responsibility areas of the bank but mentioned that the current processes and schemes of the banks should encourage funding for energy efficiency proposals.

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“ I became aware that the client can save cost by using energy efficient machines; productivity of the units can improve. Once the SME owner gets the energy audit done, it will benefit him immediately and the bank in the long run. Also, it will be beneficial for the environment ”

Response from a banker in Faridabad

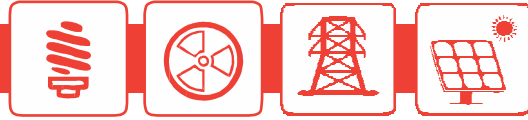
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b) **Benefits of Energy Efficiency Finance training – both professionally and personally**

Areas covered in the training – The training discussed different benefits that can accrue to the banker, SME owner and to the nation if efforts are made to make SME units more energy efficient

Application of learning in current and future work profile – Majority of bankers mentioned that they have understood the benefits of EE for banks, for SMEs and even for the nation. They are now sensitized on the potential of financing proposals.

- Bankers in the technical team - Many bankers especially the ones who are part of the credit team of the banks mentioned that they are now more sensitized towards EEF proposals. Some of them have begun to look at the proportion of power cost to the total cost while appraising the proposals (more details in Section 4.2).



- Bankers with non SME job profile - Some of the bankers who were interviewed were part of the SME team at the time of training but now have been transferred to other departments, where they do not look at SME financing. All these bankers found the training useful but they are unable to use it in their current work. They mentioned that the knowledge gained will help them in case their job profile is changed and they start looking at SME proposals with a new perspective.
- Bankers responsible for client acquisition and relationship – Some of these bankers mentioned that the training was useful but they are not able to apply the learning fully. They told that the units funded by them are very small and do not consume high energy. There is not much scope of energy efficiency in such units (more details in Section 4.2).

#### Application of learning at personal level - Knowledge enhancement at a personal level

Bankers in all the seven locations found the training useful. They mentioned that they gained knowledge on the subject of energy efficiency. Most of the bankers had attended training related to their current work profile but not on a topic like EEF.

Bankers mentioned that they were aware of the benefits of energy conservation in past also, but they were not very conscious of conserving energy. Bankers felt that they have started taking proactive steps for saving electricity in their homes and offices now. They switch off the computers, tube lights, fans in the office while going home in the evening.

“ After attending the training, my team in bank makes efforts to cut down the electricity cost by switching off all electric appliances like fan, lights, ACs, computers when not in use. We have managed to reduce our bank’s monthly electricity bill from Rs 20,000 to

Rs 16,000”.

Response from a banker in Jamnagar

#### c) Retention of learnings from the training

Areas covered in the training – The training on Energy Efficiency Finance had covered various topics like relevance of EE, different government schemes for promoting EE financing, aspects (cash flow, NPV) to consider while doing financial appraisal of EE proposals, websites providing information on technology, machinery technology suppliers and cost of machines & technologies etc.



Application of learning- Bankers' retention of learning on various topics like the general context of energy efficiency, its relationship with profitability of SMEs and benefits for banks was high but the retention was low on the specifics of energy efficiency. They found the concept relevant but not many have been able to apply it (details in Section 4.2c). Thus, less application in current work is one of the main reasons for low retention of the specific schemes and websites.

Larger segment of the bankers remembered that there was a discussion on useful EE websites but they could not recall the names of the websites and they had not visited these websites. Some of them had taken a note of these websites so that they can refer to it whenever required. Some bankers had visited the websites immediately after returning from the training.

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“ I have always done an internet check on the type of machinery proposed by the client to check the reputation of the supplier and cost of the machine. I can now start using the BEE website and can even refer the websites to my clients who require loan for technology upgradation. ”

Response from a banker in Faridabad

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“ There is a list of vendors on SIDBI website who can supply EE machines and equipment. So now I know that if there is some proposal where EE can be important I can refer the website or can also inform the entrepreneurs about it ”

Response from a banker in Jamnagar

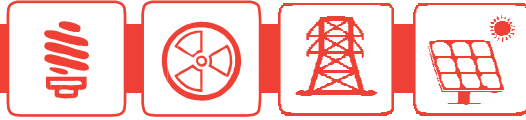
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Limitations on applying the learning - There was low retention on current Government schemes for promoting EEF and need of including cash flow and NPV for financial appraisal of such proposals. This is shown in Box 4.

Some of the reasons quoted by the bankers for low retention were:

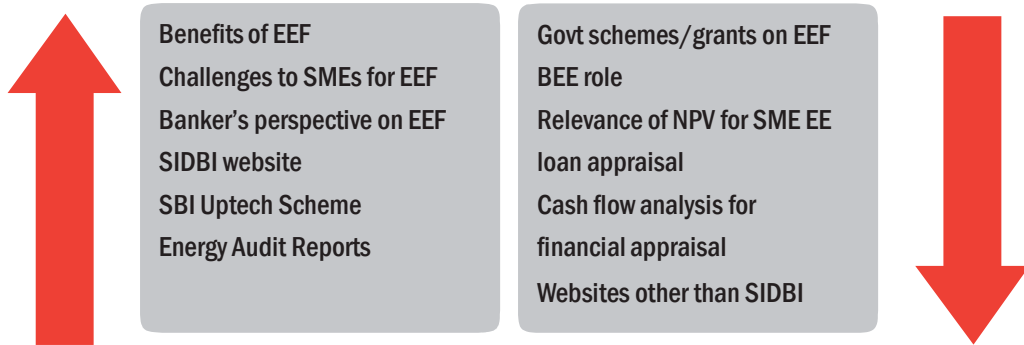
1. Bankers do not have any target from their banks to promote/ fund these schemes
2. Most of the bankers have not received any proposals from new or existing clients on EEF; they are unable to apply learnings of the training and are not able to retain the key learnings





3. The training was held 7-8 months prior to the interview by M2i and thus, they are unable to recall the learnings
4. They are over-burdened with work and do not get time to revisit the reading material provided during the training
5. They referred the detailed reading material given during the training but they found it too bulky to carry anywhere and it was also difficult to find relevant schemes from it
6. They do not have a ready reckoner of the Government Schemes/Support for Energy Efficiency Financing, which they can quickly refer to
7. Some of the examples were not updated and showed unrealistic gains by changing from one technology to another. Hence, they were not very eager to refer to the reading material

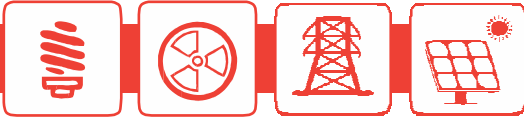
#### Box 4: Areas of high and low retention



#### Recommendations

Some of the suggestions to sensitize the bankers and improve their retention on learnings are given below:

1. Train and sensitize relationship managers of the banks - Most of the participants were branch heads. In private banks, relationship managers meet clients on a regular basis. Trainings can be organized for these managers mentioning the specific areas that they should discuss with the clients.
2. Provide handy booklet as training material - Bankers require a thin booklet as a training material and a soft copy of the same. This is needed so that they can refer to it anytime and can take it when going for field visits at clients' SME units. More details are given in recommendations of Section 4c.
3. Re-emphasize that separate proposals for EEF are not necessary. Bankers should be able to find scope of it when an existing or a new client comes with a proposal for changing machinery or technology. Also, bankers should have discussions with existing units which consume high energy and motivate them towards energy efficiency.



4. Conduct refresher trainings – Bankers suggested that refresher trainings can be conducted by their banks. Such trainings should also become regular part of the internal trainings of the banks in order to train more regular staff from the bank.
5. Give updated examples, relevant to the industry where bank's branches are located - Include examples of equipment relevant more for small units than heavy industries (which might not even be used by SMEs). Use updated examples (avoid examples of very old technology which is rarely in use now).

## 2 Objective 2 – Overall Analysis

The second objective of the training was that the “bankers can identify, appraise energy efficiency applications, apply a. available schemes, subsidies for EEF b. use cash flow based lending approach and emphasize impact on profitability. In order to assess whether this objective was fulfilled or not, we divided it into 3 sub-objectives which are:

- a) Identification of EEF loan applications
- b) Appraisal of applications for EEF– cash flow, NPV, technical aspects, energy audits
- c) Application of Government schemes & subsidies

### Objective 2 - overall analysis

EE specific bank schemes; Formal directives from banks on using cash flow and NPV for loan appraisal; Demand from SMEs through regular sensitization will help meet this objective fully

This objective of the training is partially met. The training has sensitized bankers; some bankers have talked or plan to talk about energy efficiency with their clients who have high energy intensive units. Majority of bankers mentioned that they have not got energy efficiency loan applications and hence, they cannot apply the government schemes. These bankers are not very clear that there need not be a new separate energy efficiency proposal but they have to see a scope for energy efficiency in the proposal submitted.

The training talked about giving high weightage to NPV and cash flow analysis than collateral. Most of the banks do look at projected cash flows and projected profits but these are seldom substitutes for collateral. None of the banks use NPV for loan appraisal of SME projects and after training too, there has not been any change in the appraisal process of the bankers. Main reason for this is that the bankers are guided by their banks' own guidelines and formats for carrying out loan appraisals and in their current roles, they cannot deviate from it. Any change in this needs to come from the top management of the banks.



Bankers have cited many reasons for not applying the schemes on energy efficiency. These reasons range from having no demand from the clients to reluctance of banks themselves to fund new projects in light of the slowdown and rising NPAs in the sector.

We have given our recommendations to promote energy efficiency which are detailed out at the end of this section.

#### a) Identification of energy efficiency loan applications

Areas covered in the training – Discussions were held at the time of training on how bankers should proactively discuss about energy efficiency with their clients and identify loan applications with scope for energy efficiency. One of the ways to do that is by looking at the power expenses of the SME unit as a proportion of total expenses of the units. Thus, looking at the proposal bankers can know that the suggested unit has the potential for enhancing energy efficiency.

Application of learnings of training in bankers' work – Based on the discussions with bankers at all the seven locations, it was found that the bankers are willing to fund proposals that have an aspect of energy saving.

The bankers have mentioned that now they are more sensitized towards energy efficiency and do look at the power consumption of the SME unit, while earlier they mostly looked at the total expenses and net profits.

“ Although much has not changed in our working, but definitely now we give high priority to proposals which are related to EE. Prior to training we were unaware of government policies in this sector. But again, we can only finance under our banks financing policy. ”

**Banker in Jamnagar**

Some of the bankers in Ludhiana, Mandi Gobindgarh, Jamnagar and Kolkata mentioned that they have funded rolling mills, units using oil furnaces and brass clusters which consume huge power. Power cost for such units is as high as 25% of the average total expenses of the unit. These bankers are open to having discussions with their clients but at an appropriate time (after the slowdown in the industry is over - Details in Section 4.2c).



Some of the bankers in Faridabad, Gurgaon were even willing to share the contact details of these SME owners with M2i so that GIZ can directly meet and discuss with them about energy conservation.

During discussions, M2i found out that the bankers have started thinking in the direction of energy conservation. Some of them had shared their ideas on energy conservation with their existing clients. For example, one banker in Jamnagar mentioned that his clients can set up windmills and sell energy to related government departments which in turn will reduce their power cost.

Limitations of applying the learnings - Majority of bankers mentioned that they have not received energy efficiency loan applications and hence, they cannot apply the government schemes. These bankers are not very clear that there need not be a new separate proposal for EEF but they have to see a scope for energy efficiency in the proposal submitted.

b) Appraisal of EEF applications – cash flow, NPV, technical aspects, energy audits

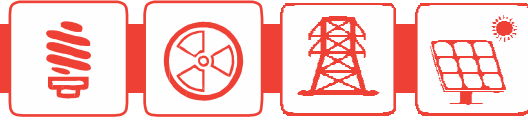
### Current Credit Appraisal Process

Majority of bankers from public sector banks mentioned that the branch team is collectively responsible for client acquisition and retention. The branch head or a credit officer in the bank conducts credit appraisal for SME loans applications. The appraisal focuses mainly on the financial analysis. Different financial ratios are calculated by the banks. A detailed technical appraisal is not done for loans below Rs 10 crores and currently, bankers cannot differentiate whether the machines to be installed are energy efficient or not.

Credit appraisal for higher loan amount (average Rs 10 crores and above) applications is done by the Regional/ Zonal/ Head office of the banks. Most of the bankers mentioned that Technical and Economic Viability (TEV) study is done for loan applications which are on an average above Rs 10 crores. Such TEV studies are done at the head office by the credit team or by the empanelled consultants. TEV looks at the brand of the machine; its cost in the market; reputation of the machinery supplier; success rate of the machine but it does not look whether the machinery is energy efficient or not.

### Use of cash flow analysis for SME loan appraisal

Areas covered in the training – The training mentioned about the relevance, method and use of cash flow analysis for appraising EEF proposals.



Application of learnings of training in bankers' work – Most of the banks do look at projected cash flows and projected profits but these are seldom substitutes for collateral. Bankers, who are in the technical wing of the banks, responsible for appraising the loan applications, mentioned that they found the session on cash flows useful. Some of them have started analyzing cash flow informally even if it is not part of the formal rules for SME loan appraisal.

They use cash flows to compute Debt Service Coverage.

“ The training helped us understand that cost reduced because of EE equipment is also like a cash inflow and will positively impact the DSCR. It has created a foundation for the appraisal. ”

Banker in Faridabad

Limitations of applying the learnings – Post training there has not been any change in the appraisal process of the bankers. Majority of bankers mentioned that cash flow analysis can form part of the appraisal but it cannot be a substitute for collateral submitted by the SME client. They can start using cash flow based lending approach if there are formal guidelines from the bank's head office for the same.

#### Use of NPV for SME loan appraisal

Areas covered in the training – The training talked about relevance and use of NPV for appraising proposals for EE.

Application of learnings of training in bankers' work – None of the banks use NPV for loan appraisal of SME projects and after training too, there has not been any change in the appraisal process of the bankers. Some bankers mentioned that NPV is calculated for loan proposals which are for Rs 10 crores and above. NPV is generally calculated for TEV studies.

Limitations of applying the learnings – Bankers mentioned that they are guided by the bank's own guidelines and formats for carrying out loan appraisals and in their current roles, they cannot deviate from it. A positive NPV and good cash flow does not become a substitute for collateral. They would not fund a proposal if the NPV is positive but the client does not have required collateral.



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“ See for banker the first thing that comes to his mind is collateral and to secure the loan. The method taught in the training was focused on future cash flows but we would like to get our portfolio secured. We have to see that our unsecured portfolio does not grow beyond certain limit. ”

Response from a banker in Gurgaon

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“ We already do that (Cash flow analysis). We carry out cash flow analysis but definitely that does not mean that we do not look at assets and collateral. We do not offer unsecured loans but the value of collateral may change (read go down) if cash flows are strong. We go down to 50% (of the value of loan) or sometimes even lower if cash flows are good. ”

Response from a banker in Gurgaon

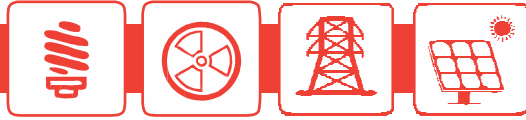
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### Checking if new machine/technology is energy efficient for SME loan appraisal

Areas covered in the training - The training discussed the need of asking questions related to energy efficiency at the time of loan appraisal. It mentioned that the bankers should start looking at the power expenses of the SME unit as a proportion of total expenses of the units cost. While appraising projects for new machinery or change in technology, a banker should see if the machine/technology is energy efficient or will it have a scope to reduce current power bills.

Application of learnings of training in bankers' work – Bankers found the discussion useful. There are some bankers from Gurgaon, Ludhiana, Mandi Gobindgarh, Jamnagar and Kolkata who, after the training, have started looking at the power expenses as a proportion of total expenses of the units at the time of loan appraisal.

Some bankers mentioned that now they have started asking questions on energy efficiency to the clients in case a loan proposal comes for technology upgradation or for change in machinery. Majority of bankers mentioned that they have not received loan applications for



EEF due to slowdown in the industry but they have shown willingness to fund proposals that have an aspect of energy saving. However, bankers wanted that there should be a clear policy from their banks and they should know what role is expected of them on EEF.

“ I am currently evaluating a project and the first thing I saw in the proposal was how much cost they have allocated for power and how power cost is progressing over the years. So I did have it in the back of my mind but appraisal was not completely done on that basis. I do specifically look the power cost component now after the training and how it has been projected for future.”

Response from a banker in Gurgaon

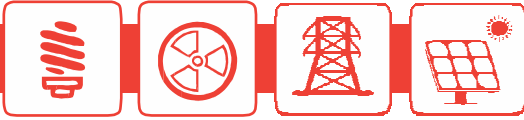
Limitations of applying the learning - Majority of the bankers mentioned that the current SME loan appraisal of their banks is mainly based on financial analysis and there is no detailed technical analysis. In case a client wants to change the machinery, bankers are concerned about the reputation of the supplier of the machinery and they consider the increase in profits as a result of increased output from the new machine. They generally do not check whether the new machinery is energy efficient or not. Even TEV studies done for high investment proposals do not check if the technology or machinery proposed is energy efficient or not.

“ Bank has own technical engineers placed at the regional office who are responsible for technical appraisal of big proposals. They visit the units but do not look at the efficiency of the machines or the alternatives available for the machines.”

Response from a banker in Faridabad

Some of the reasons mentioned by the bankers for not checking the energy efficiency aspect of the proposed machines at the time of SME loan appraisal are:

1. Checking whether new machine is energy efficient or not does not form part of the bank's own guidelines and formats for carrying out loan appraisals
2. Bankers do not have detailed technical knowledge on various aspects of energy efficiency and they are not even trained to do so



3. Bankers (mostly public sector banks) are overburdened with work due to shortage of staff. Within the limited time it is difficult for them to go beyond financial analysis and do extra analysis which is not even part of their formal appraisal method

“ We do not look at whether the technology proposed is energy efficient or not for small units. Even if the entrepreneur uses new technology we can still finance him. I rather look at the entrepreneur’s integrity, ability to service loan and collateral. ”

Banker in Gurgaon

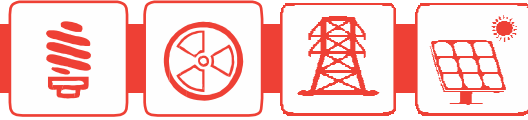
4. SME owners who want to purchase new imported machines do the research on their own. SME owners are concerned about the quality of machinery and have an intuitive understanding of energy efficiency. They generally buy energy efficient machines (mainly responses from Pune, Bangalore, Kolkata) and inform the bankers when they come to submit loan applications
5. Small SME units like auto ancillary units in Faridabad, Gurgaon purchase second hand machines to increase the output. These owners cannot afford an expensive energy efficient machine. Also, the power cost is not more than 10% of the total monthly expenses in such units
6. Bankers are more concerned with the overall profitability, positive cash flows and the collateral, not so much about individual components like efficiency of machines

## Energy Audits

Areas covered in the training - The training talked about benefits of energy audit for SMEs and banks; agencies that conduct energy audits; areas covered in an audit and cost involved in energy audit.

Application of learnings of training in bankers’ work - Bankers mentioned that energy audit is a good way to find out areas where a SME owner can conserve energy. The training helped them understand benefits of these audits for both the SMEs and for the banks. Some of the bankers discussed scope of energy audit with their clients after attending the training. Many bankers mentioned that energy audit report is seen at the time of appraisal of big energy intensive projects (non SME) but they think that it will become too expensive for a SME owner.





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“ “ After attending the training, I had called a meeting of my MSME clients to discuss the business advantages of EE. I talked about Energy Audits and recommended it to them. However, I am not sure whether any of the entrepreneurs actually undertook energy audits because they are reluctant to undertake activities that are perceived to be in the nature of compliance (like EE). ” ”

Response from a banker in Kolkata

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Limitations of applying the learnings on energy audit - Some of the responses mentioned by the bankers are:

1. Energy audit of SME units is a very good idea but at the time of recession in the industry, no SME owner would like to spend money on this
  2. SME owners are very cost conscious and they would not like to add any extra cost burden
  3. No bank has made energy audit as a compulsory aspect of SME loan appraisal. Thus, if one bank starts asking for an energy audit report at the time of loan appraisal then the client can move to another bank
  4. At the time of loan appraisal, bankers are concerned about the overall financial soundness of the SME client's business and about the collateral. Bankers consider energy audit as an additional aspect
  5. Policies of the banks do not require them to see energy audit reports at the time of appraisal. Thus, they are hesitant in guiding clients on this
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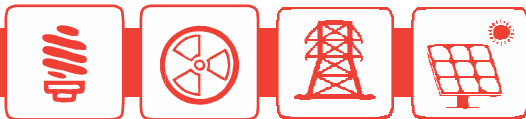
“ “ Client will be resistant in getting energy audit done as they think that it will only add to their cost – cost of audit fees, cost of making changes as per audit recommendations. ” ”

Response from a banker in Gurgaon

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c) Application of Government schemes & subsidies

Areas covered in the training - One of the sessions in the training was about different grants and concessions available to SMEs for energy audits, awareness programmes, product certification licenses for buying machinery/ technology upgradation.



Application of learnings of training in bankers' work – Most of the SBI bankers have funded SMEs under project UPTECH. Bankers mentioned that project UPTECH has been widely promoted by the bank to its clients; there is a formal policy on the implementation of this project; staffs are internally trained on the appraisal of such projects; SBI branches had banners informing clients about the scheme and the branches have brochures too. All these efforts have made project UPTECH scheme popular amongst both bankers and SME owners.

However, bankers mentioned that it has been discontinued by their bank now.

“ After attending this training I went through the reading material and looked for related circulars in our office. It was then I came across this circular, where I learned that we can actually promote EEF by providing discount of 0.25% to 0.5% on interest rate. Based on this information, I have forwarded two proposals to our head office for approval. ”

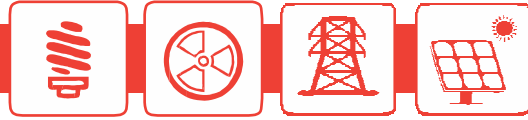
Response from a banker in Jamnagar

Bankers suggested that similar efforts need to be made to promote other schemes on EEF (JICA-SIDBI scheme or other bank's scheme). They consider this training to be the first step in this regard and suggested that each bank should adopt it as part of their formal policy and procedure.

It was seen in Kolkata that the bankers discussed about possibility of energy conservation in SME units and one of the bankers encouraged his client to buy energy efficient machinery. Similar case was seen in Jamnagar.

At Ludhiana and Mandi Gobindgarh a consultant, who is a retired SBI banker, has been hired by GIZ to motivate and support SME owners to implement energy efficiency measures in their units (GIZ has provided financial assistance to 50 SME units for conducting energy audits). Two of these units have now submitted loan applications for EEF, where they would get benefit under the Government Schemes.

GIZ consultant at Ludhiana is hopeful of getting more positive responses from SME owners once the economy starts recovering and the SMEs are able to run their units at full capacity.



Limitations of applying the learnings - Majority of bankers mentioned that they are unable to apply the government schemes as they do not get proposals for EEF from their clients. The bankers were not very clear that a separate loan applications for energy efficiency is not necessary and one can see the scope of saving energy in the proposal submitted (example, when a client is going for a change in technology/machines). Bankers can talk about energy efficiency during their routine discussion with the clients.

Bankers were positive and open to funding any loan proposal which would help save energy at their SME clients' units. However, the bankers have currently not been able to apply the schemes on energy efficiency due to following reasons:

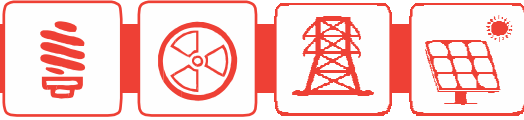
1. No specific EEF scheme from the banks - Bankers mentioned that each bank can have a scheme on EEF. Alternatively, schemes may be routed through banks and should be well communicated to the staffs. The bank staff should be trained on communication with the clients and on appraisal of such proposals. They should be given targets which may be linked to incentives too
2. Legal structure of cooperatives - Bankers from cooperative banks in Jamnagar and Pune mentioned that they cannot provide government subsidies to their clients as they are not nationalized banks. They found this a big constraint and mentioned that they are losing business as the clients shift to other banks
3. Banks cautious in funding at the time of slowdown - Bankers from Ludhiana mentioned that many SME units are closing down in Mandi Gobindgarh and Ludhiana. Banks are reluctant in funding new projects in light of the slowdown and rising NPAs in the sector. Similar thoughts were shared by bankers at other locations.

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“ Lack of awareness among SME owners is a critical bottle neck. I think they should be made aware about the advantages of EE. Then they will themselves demand loans for EE projects. ”

Bankerin Kolkata

4. SME owners are cautious in making new investments - Many units are hit by current recession; SME owners are operating the units at less than full capacity. Bankers feel that this is not the right time to target SME owners as they are trying to reduce their current expenses and would not be interested in any extra investment even if it reduces their expenses in the long run



5. Self-funding by SMEs for EE improvements – Energy audit was done with the help of GIZ for 50 SME units in Ludhiana and Mandi Gobindgarh together. Around 10 units are very small where investment required for improving energy efficiency in the units is less (Rs 50,000 - Rs 100,000). Also, there are big units which can do investment on their own. In such cases, SME owners are willing to make investment from their business funds rather than taking a loan from a bank
6. Less demand from SMEs – Many bankers mentioned that greater awareness among SME owners regarding subsidies in EEF will help in creating demand for such projects. Demand in the market will help the bankers make need based schemes
7. Less scope of energy efficiency in SMEs - Many bankers mentioned that the SME units funded by them do not have a scope of energy efficiency as the power cost is less than 10% of the total cost. For example, majority of SME clients with a bank in Bangalore were from silk twisting sector, which is labor-intensive; many clients in Gurgaon and Faridabad had small ancillary units; banks in Ludhiana had funded many small embroidery units. Raw material cost is the biggest component of average monthly cost of these units. Any extra cost to make them more energy efficient might outweigh the benefits from such an investment
8. Perceived risk in applying new technology – Bankers mentioned that a transition from old to new energy efficient technology or machine has to be seamless. The bankers feel that risks associated with adopting new machinery or processes need to be addressed better. If a SME suffers from production losses after new process or machinery, then it might turn sick

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“ “ As ours is not a nationalized bank, we are not allowed to extend government subsidies, which is a big drawback. My clients having working capital limits have to go to other banks for term loans in which subsidy is allowed. ” ”

Response from a banker in Jamnagar

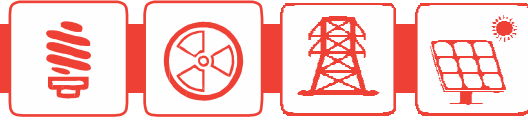
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“ “ There is no push from Bank on EE. There are no targets for financing of EE projects. If there is a push like certain % of targets for EE projects or to make it compulsory for SME to adopt EE, then this can get a boost. ” ”

Response from a banker in Faridabad

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### Box 5: Reasons for not actively applying schemes on EEF

<b>Bottlenecks in applying schemes</b>	No EEF specific bank scheme
	Bank's legal structure – cooperatives
	Banks cautious in funding at the time of slowdown
	SMEs do not want any additional investment due to slowdown
	Self-funding by SMEs
	Less demand from SMEs – lack of awareness
	Less scope of EE in SME units
	Perceived risk in applying new technology

### Recommendations

One of the ways suggested by majority of bankers to meet this objective fully is by creating demand amongst the SME owners. The bankers mentioned that SME owners and those who influence their decisions like their Chartered Accountants can be sensitized. To bring changes in the approach of appraising energy efficiency proposals, clear guidelines have to be given by the top management of the banks to their branch staff. Some of the suggestions are:

1. Formulate a bank scheme on EEF – Almost all the bankers suggested that each bank can have a scheme on EEF or the schemes should be routed through banks. Bankers are more open to discussions with their clients when they direct the clients to a particular scheme which is run by their bank
2. Clear communication for promotion of EEF from Top Management of Banks – Majority of bankers were not aware of any energy efficiency agenda of their banks. The bank's scheme on EEF should be well communicated to the staffs. Posters can also be put in branch premises to promote the schemes
3. Guidelines from the bank for any change in loan appraisal for EEF proposals - In order to give priority to positive NPV and cash flows while doing appraisal, formal directives should be issued by the bank. A banker at the branch cannot formally start calculating NPV for SME proposals
4. Part of performance appraisal - Include Energy Efficiency Financing in performance appraisal criteria of staff. It could be made part of their Key Performance Indicator
5. Trainings for Industry Associations and Banks – Regular trainings involving bankers and Industry Associations can be conducted
6. Make Industry specific information booklets – The Industry Associations and SME owners should be given information on the energy efficient machines and technology for the industries in which they operate



7. Demonstration of successful examples- Bankers should be provided information about some successful real case studies on energy efficiency related to specific industries that they are catering to, which they can talk about with their clients
8. Target Chartered Accountants who prepare proposal for the SME owners
9. Target Suppliers - Suppliers who provide machinery to SMEs can be trained on how to use energy efficiency / energy consumption information as a sales argument
10. Use e-mails, newsletters, brochures to promote energy efficiency measures amongst SME owners
11. Target SME owners at an appropriate time - At the time of slowdown, SME owners are not interested in making any extra investment in form of energy efficiency measures even if it will benefit them in long run. Discussion should be held with SME owners at the time when their business is expanding than at the time of slowdown

### 3 Objective 3 – Overall Analysis

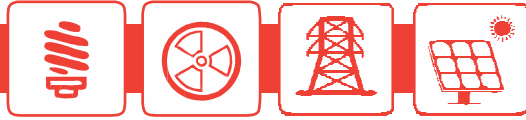
The third objective of the training was that the “Bankers proactively guide SMEs on energy efficiency and create awareness on how energy efficiency projects can positively benefit the profitability and the overall risk profile of the company”.

#### Objective 3 - Overall analysis

Based on our discussions with different bankers, there is more work that needs to be done in order to make bankers more comfortable to discuss energy efficiency with their clients

The training was the first step in the entire process of promoting energy efficiency among different stakeholders like banks and SME owners. This was the first training of its kind which was given to the bankers that sensitized them towards benefits of energy efficiency. They got to know that there are energy efficiency schemes of the Government which are available for SMEs.

After the training, some of the bankers discussed about energy efficiency with their clients. One of them held a meeting in his office with 6-7 SME owners; another one has started asking questions on energy efficiency aspects while appraising loans for new machinery; another banker discussed it with a client whom the banker thought is open to change and financed him an energy efficient machine.



Since this was the first training, the bankers have not become very confident in discussing about scope of energy efficiency with their clients. They are open to having such discussions but need more support to have meaningful conversation with their clients. They have cited many reasons for not being very active in talking about energy efficiency which are given in Box 5.

With proper guidance, formal bank policies on EEF and regular trainings, the bankers would be able to create awareness on EE among their clients (recommendations are given at the end of this section).

Areas covered in the training - The trainers held a discussion with the bankers to understand the possible reasons that hinder a banker from funding energy efficiency loan proposals; benefits that can accrue to a bank by funding energy efficiency loan proposals; points of communication with the client where discussions can be held with the clients on energy efficiency etc.

Application of learnings of training in bankers' work - After attending the training, some of the bankers held informal discussions with their SME clients on the scope of conserving energy in their units.

One of the bankers at Kolkata had funded an entrepreneur for a project of setting up a new energy efficient unit. This entrepreneur is an engineer, and open to adopting modern technology. Another banker at Kolkata tried to raise awareness among SME entrepreneurs during his interactions with them but he found low awareness among those who undertake processing of metal (Iron and Steel industry). Similarly, some bankers at other locations had also discussed about energy efficiency with their clients.

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“ After training, if some client comes for financing of machinery, first question I ask is; “is this machine energy efficient? or have u compared this with other machines?” and other related questions. After training we have started to have this type of discussion. ”

Response from a banker in Jamnagar

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The bankers have become more aware now and in case they come to know that an industry/SME unit which consumes more energy, they are more likely to bring the topic of energy efficiency with their clients. For example, a banker in Jamnagar, where banks



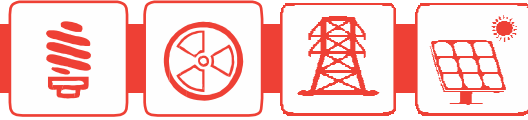
fund high energy - intensive brass units, discussed with his three clients to adopt energy efficiency machines.

### Limitations of applying the learnings

Some of the reasons quoted by the bankers for not actively discussing energy efficiency with the clients are:

1. Absence of formal bank policy - There are no EEF schemes of the banks and thus there are no clear guidelines on loan appraisal of such proposals. There are no targets for the branch on EEF and no incentives related to EEF
2. Lack of EEF agenda - Bankers mentioned that there has to be a push from the top management of the bank to promote EEF
3. Lack of clarity on communication points - Bankers were not very clear on the “talking points” of the discussion on energy efficiency with the clients. Almost all of them mentioned that they do not have technical expertise to discuss energy efficiency with the clients and they would be unable to answer queries of the SME owner in case he shows interest in energy efficiency. Bankers do not know energy consultants who can guide their SME clients
4. Less scope of EE - Many bankers mentioned that their clients are very small; using machines which are not very energy-intensive. Many SME clients are traders having small offices. Some mentioned that power cost is not more than 10% of clients’ total monthly expenses and thus there is less scope of energy efficiency at such places
5. Energy Efficiency is SME owner’s concern – Some bankers felt that the type of technology to be used is SME owner’s concern and not so much of banker’s. SME owners do not expect such advice from bank. They feel that when SME owners come to submit proposal, all these aspects are already decided and it is difficult to change their decision at that stage
6. Too many schemes - Bankers mentioned that it is difficult to remember different government schemes (including EEF schemes). There is no ready reckoner which gives details of EEF schemes. Also, no marketing material is available to be given to the clients
7. Risk of client shifting to other bank - Bankers feared that the client might think that the banker has some vested interest in pushing energy efficiency agenda or a technology and this will result in losing the client to another bank and will also create reputational risk personally and for the bank
8. Heavy dependence on CAs - Bankers at some locations mentioned that the SME clients rely on the advice of their Chartered Accountant who helps them in preparing loan documents. SME clients would not follow banker’s advice as they assume that the banker is only good at finance work
9. Lack of staff and time - Bankers (mainly from public banks) mentioned that small units do not maintain proper records and getting financial information from these clients is





a time consuming process. Holding any discussion on using EE machines would add to the bankers' current work load. They do not have separate relationship officers/mangers whose main responsibility is to interact with clients

10. High cost of energy audits – Bankers fear that the client would not like to add to current cost by getting energy audits done or taking advice of energy consultants
11. Examples of successful technology in the same cluster – Bankers need examples where they can showcase the successful Energy Efficiency Financing (EEF) model. They need such examples to show their SME clients and to build their confidence

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“ There are over 70-80 schemes that are currently running & it is not possible for me to provide awareness of schemes to customers, help them get subsidies. So if a customer comes to me with specific requirement, asking for a particular scheme then only I can help him).

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Response from a banker in Faridabad

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“ There is a limitation to the extent to which we can engage with clients, we cannot be their consultants or guide them too much. If someone comes to me with a proposal, we do discuss different aspects. If someone can save cost by using EE then it is definitely beneficial for them and also for us. But it is the target group who has to get sensitized on it.

”

Response from a banker in Faridabad

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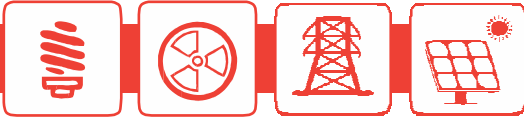
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“ When a SME customer comes to me he is only concerned with finance, he's not at all expecting me to discuss unit's machines, technology, investments etc. For such discussions, he goes either to CA or to other peer industries. SME customers never consult such things with bankers, they come to bankers after they have already decided the type of machines and investments required, so at that time it is not possible to influence his decision.

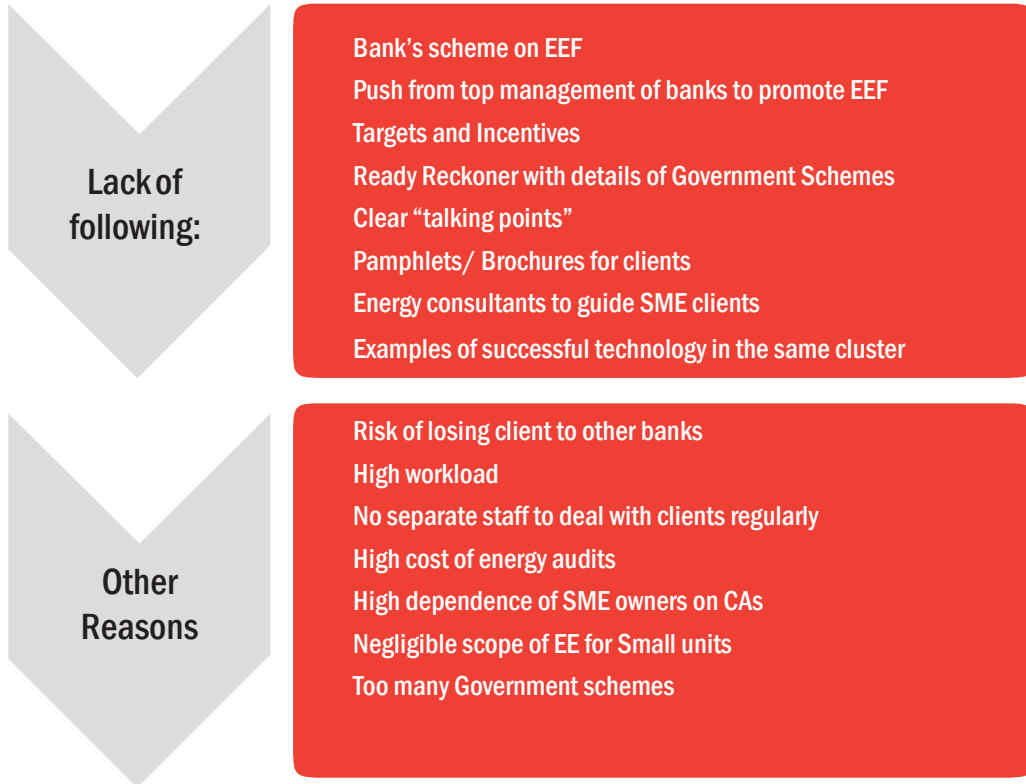
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Response from a banker in Ludhiana

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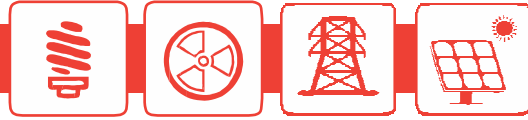
## Box 6: Reasons for not active interaction with clients on Energy Efficiency



## Recommendations

Majority of bankers have shown willingness to have general discussion with their clients on energy efficiency but they need clear guidelines from their banks to do so. Some of the suggestions are:

1. Formulate a bank scheme on EEF and communicate it through top management - As discussed in recommendations in Section 4.2, a scheme and a push from the bank will help the branch staff promote energy efficiency
2. Regular, Internal Trainings for all the branches – Many bankers whom the M2i team met had a different profile (non SME) at the time of the interview. They had attended the training when they were looking after SME portfolio but they were subsequently transferred from their branches or got promoted. Bankers suggested that this training should be made part of internal trainings of the banks. A discussion can be held with the trainers at the Staff Colleges of the banks to include a session on energy efficiency in the induction training and in other trainings like credit appraisal training



3. A system of incentives, targets and performance appraisal – Each branch of the bank gets targets for both loans and advances. The targets are further broken down for different sectors like agriculture, vehicle loan, priority sector etc. For faster uptake, separate targets can be provided to banks; energy efficiency can also be some compulsory proportion of priority sector lending. EEF can be made part of performance appraisal of staffs. Incentives can be provided to the staff for EEF
4. Clarity on Banker's role in promoting Energy Efficiency - Bankers should be provided clarity on their role in promoting energy efficiency. Expectations from bank staffs in different roles can be specific by adding:
  - a. What is expected of an Acquisition Manager or Branch Manager in promoting energy efficiency? To what extent s/he should discuss about it with the client? What could be a few quick wins which can immediately attract potential customers towards exploring more on energy efficiency?
  - b. What is expected of a Credit Manager? What extra analysis can s/he do? How can s/he analyse energy efficiency and what decisions s/he can make within existing policies of bank? What energy efficiency related questions should be asked during appraisal?
  - c. What is expected of a Relationship Manager? What advice on energy efficiency can s/he give? What potential sources of technologies, vendors, schemes, subsidies and related processes s/he should explain?
5. Communication material - Bankers were apprehensive that they do not have technical knowledge on energy efficiency and they would not be able to handle questions from the clients in case he shows an interest in the schemes. Communication materials that can be given to the bankers include the following:
  - a. A Ready Reckoner of 2-3 pages which is handy for them and it mentions about the benefits of the EEF schemes, how the client can avail it, what are the documents required etc
  - b. 1-2 page brochures and pamphlets can be given to the client
  - c. Banners and posters in the banks' branches to promote EEF schemes
  - d. List of "talking points" – points that the banker should consider while interacting with his clients on energy efficiency
  - e. Contact details of the energy consultants who can further guide the client
  - f. Clusters/ industry hubs wise brief document showing successful real case studies on energy efficiency. This can be shown as an example by the banker while talking to the clients
6. Sensitization of the Chartered Accountants who help the clients to make loan proposals.



#### 4 Objective 4 – Overall Analysis

The fourth objective of the training was that the “Financial institutions see business opportunities in EEF for MSMEs and after funding participation in EEF training, they will include the content in their bank internal training curriculum for SME Relationship Managers and SME Risk Managers”.

##### Objective 4 - Overall analysis

Willingness of the bankers to send their staff for similar trainings on EEF shows that they understand the importance of EEF. All the bankers mentioned that they had sent their branch staff for EEF training to understand about a new topic which would be useful in their work. Bankers found the idea of inclusion of a session on EEF in the bank’s internal training curriculum useful. Topic on EEF can be incorporated in the trainings only after a formal decision is taken by the top management of the banks.

Bankers felt that it is a good step to enhance knowledge of the bank staff on EEF as it can help them in their current or future role. All the bankers considered EEF training as a good initiative taken by GIZ. They were willing to send more staff for such trainings in future.

A session on EEF can be included in internal trainings given to the bank staff but this needs to be decided by the top management.

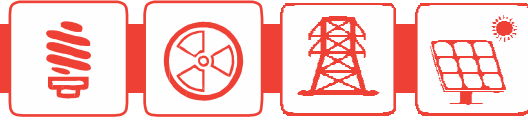
Motivation for sending staff for the training – All the bankers mentioned that sending staff for external trainings is a regular feature of the banks. Bankers wanted their staff to learn about EEF, which they considered a new topic for the staff, so that the learning could be applied in their work.

“ EEF is a very relevant topic in today’s scenario. There are many industries which consume lot of power and if they become aware, they can take measures to reduce it. Bankers should also know whether there is a scope of energy efficiency in such units or not. ”

Response from a banker in Mumbai

Willingness to send staff for the training – All the bankers mentioned that they were willing to send their staff for such trainings in future too. They consider the initiative by GIZ very relevant for the industry.

Inclusion of EEF in their bank internal training curriculum – Bankers mentioned that EEF can become part of the bank’s internal trainings but this needs to be decided by the top management of the banks.



## VI Recommendations at a Glance

Section provides a summary of recommendations which can help promote energy efficiency among the bankers and SME owners.

Suggestions
<b>Initiatives that can be taken by the banks</b>
Formalize EEF schemes
Include EEF in bank's training curriculum - Credit Appraisal or trainings on Advances
Roll out EEF schemes in all the branches with targets & incentives
Circulars to the branches to be sent by Head office to promote EEF
Issue formal guidelines for loan appraisal of EEF proposals - priority to positive NPV and cash flows
<b>Awareness Generation of Clients and their associates</b>
Conduct trainings for industry associations and SME clients
Make Industry specific information booklets for clients
Use e-mails, newsletters, brochures
Target Chartered Accountants who prepare proposal for the SME owners
Target suppliers who provide machinery to SMEs
Target existing SME clients having high energy bills
<b>Material for bankers for own use and sharing with the clients</b>
Cluster wise ready list of machinery providers to be given
Brochures & flyers with specific information to be given
Provide a ready reckoner with information on EEF schemes
<b>Training – Content, Material</b>
Clarity on expectations on EE from staff at different levels of the bank
Reading material to be provided in soft copy
Joint discussions to be organized for bankers and SME owners. Summary of the discussions should be shared with the Management of the bank who make the policies
Industry wise trainings with industry specific examples of machinery or technology
Content to include discussions on agencies conducting energy audit and their fees
Include examples of equipment relevant to small units rather than to heavy industries (which might not be even used by SMEs)
Updated examples to be given (avoid examples of very old technology which is rarely in use now)
Demonstration of successful examples can be given
Discussions should be held to inform about the risks associated with adopting new machinery or processes



# Annex 1 Questionnaire for EEF Training Participants

## PART I: Questions for all interviewees

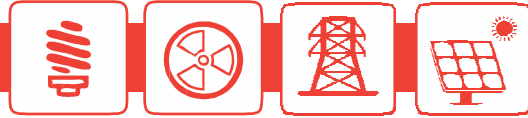
### 1. Staff details

Name of the staff	
Designation	
Bank name	
Please talk us through your role in the bank? a) years with the bank b) years in current role c) main responsibilities for SME and specifically for EEF	

### 2. Training

Explain to the interviewee that we would like to ask some specific questions on learning to know her/ his retention from training and to see areas s/he can recall. This will help us in improving training.

What EE means in the SME Context?		
Name an international credit line for EEF in India		
Which is the nodal agency for these credit lines?		
Name government schemes which support EEF.		
Name 3 energy intensive industry sectors		
What does BEE stands for? What is its role?		
What does NMEE stands for? What does it focus on?		



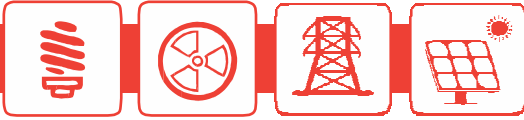
3. What do you think is a benefit in classifying a proposal under the energy efficiency category?

Take General response (and prompt on below list)		
Meet priority sector lending targets		
Meet demand of SMEs		
New revenue source for bank		
Environmental benefits		

4. Are there specific trainings organized within bank related to EEF or is EEF part of other trainings or there is no EEF training?
5. Was training conducted by D&B the first training attended by you on EEF or did you receive trainings earlier too? Provide details of those
6. Do you think the training is relevant for you? How? (Personally or professionally)
7. What is your key learning from D&B training? Are you able to apply learning from D&B training in your work? How?

Key learning- awareness on	Applicable (Yes/No)	How are you applying this?
General response		
Government schemes		
Benefits of EEF		
Websites on EEF		
List of technology suppliers		
Energy audit reports		
Cluster manuals on energy conservation		
Technology status (failed or successful)		
Cash flow analysis for financial appraisal		
NPV method for financial appraisal		

8. What are the challenges, if any, in applying the learning in your job?
9. Are you satisfied with the training, has it met your expectations? If not what were the key things that you were not satisfied with? Provide suggestion (training content, training methodology or any other aspect) to improve the outcome of the training EEF in the bank
10. Does your bank have any special mandate on EEF? Do you think there is attention of the senior management on EEF? Please explain



### 11. How does EEF form part of your SME business?

Key questions	Yes/ No	Since when	Details/ Reasons
General response	-----	-----	
Does the bank have any specific product/ schemes for EEF?			
Do you have specific targets for EEF loans?			
Are your incentives linked to EEF?			

## PART II: Department specific questions

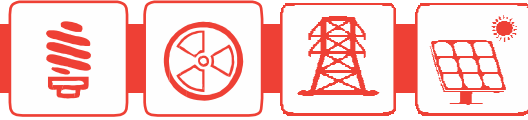
### Acquisition manager

1. Was the topic of energy efficiency included in your discussions with the new potential clients prior to D&B training? What are the additional points that you discuss now after receiving the training from D&B?
2. Does knowledge of EEF help in client acquisition? How? (Does the staff feel technically better equipped)?
3. What do you think is a key motivation factor for SME owners to apply for loans under energy efficiency?  
OR What do you think is a good way to drive the agenda of energy efficiency with the SME owners?  
(Prompt on: increases profit, competitiveness, technology, subsidies/ schemes, environmental impact, income from carbon credits)
4. Have you been able to acquire more clients on energy efficient projects after the training?  
Can you give us some comparative figures on clients that you have acquired under EEF- schemes before and after training?
5. Has there been any change in your approach to acquire clients after training (e.g. more focus on EEF application. Providing clients information on EEF schemes, encouraging clients to go for EEF technologies and availing scheme benefits)?

### Relationship manager

1. Do you receive enquiries from your existing clients on schemes/subsidy available for energy efficiency? How has your approach in responding to these queries changed after receiving training from D&B?





2. Do you proactively call/ meet your existing clients to discuss about EEF? What are the key areas on which you focus and why?
3. What do you think is a key motivation factor for SME owners to apply for loans under energy efficiency?  
OR What do you think is a good way to drive the agenda of energy efficiency with the SME owners?  
(Prompt on: increases profit, competitiveness, technology, subsidies/ schemes, environmental impact, income from carbon credits)
4. Do you think knowledge of EEF from training has helped you maintain better relations with your clients? How? (give some examples)

#### Credit officer /Risk Manager (Appraisal)

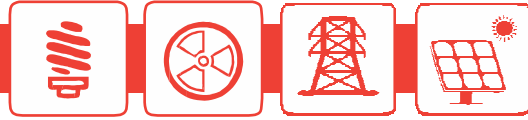
1. Has D&B training changed your approach towards EEF? How? (Prompt: considered it risky/ Non-bankable; not relevant for the bank earlier etc .)
2. What do you think are some of the risks in financing energy efficiency projects? Are these risks different than the risks which you face in appraising other SME loan projects?
3. Are there any additional parameters that you have started considering (after D&B training) while appraising a loan application for energy efficiency? Which are those parameters?  
(Prompt: look at available energy audit reports, understand the energy conservation measures by looking at cluster manuals, verify the technology/equipment to be used by seeing case studies available on BEE websites, conduct cash flow analysis etc)
4. There is a risk of non-qualified vendors supplying energy efficiency equipment/technologies?  
Where can you get information on qualified vendors? Have you used this in your recent appraisals?  
(Prompt: [www.Energymanagertraining.com](http://www.Energymanagertraining.com) or [www.BEEindia.in](http://www.BEEindia.in))
5. There can be a chance that the technology proposed in the energy efficiency loan application is not proven or tested. How do you check whether the technology proposed is successful anywhere else?  
Where can you find any industry benchmark data on this? Have you used this in the recent appraisals? (Prompt: BEE website)
6. Are there any new ratios/analysis that you have started using for loan appraisal after the training?  
(Prompt on: NPV, IRR, cash flow analysis)



7. There is a guidebook for energy auditor available on [www.BEEindia.in](http://www.BEEindia.in) website. Have you used this? How is it useful in your role as a risk manager?

#### Technical Cell/ Trainer

1. Have you conducted any training for bank staff or SME owners after receiving training from D&B? Please provide details.
2. Have there been any changes in the bank's training modules that are done/ planned? Has there been any addition in training module on EEF? Take details of any such changes
3. What are some of the key areas that you focus on (after D&B training) while conducting training for the bank staff on EEF? (Prompt on: EEF projects are not unbankable, cash flow analysis is needed for appraisal, guidelines are available on technical appraisal etc)
4. Are training conducted for clients too? If yes, what do these trainings focus on? (Prompt on: energy savings, better technology, increased competitiveness, increased productivity, improved quality, increased profits etc)



## Annex 2 Questionnaire for Banks

### 1. Interviewee details

Interviewee name	
Designation	

### 2. Bank Profile

Bank name	
Type (Public/Pvt)	
No. of branches	
Total staffs	
Geographic outreach/Key operational areas	
No. of specialized branches for SME	
Approx. no. of staffs in SME business	

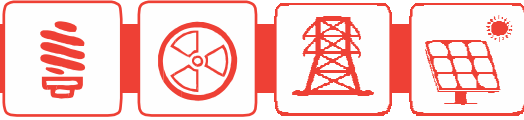
- How important is the SME business for bank?
- Does bank have specialized department/vertical for SME? What is its structure? What are roles and responsibilities of staff?
- What different initiatives, products or schemes does bank have for SMEs?

### Opinion on EEF training

- How did you get to know about the bankers training on energy efficiency finance?
- Why did your bank finance the EEF training? (Prompt on: funds availability, CSR agenda, business related plan on EEF) What were the key expectations from the training?
- What was the basis for selecting the participants for training?
- Under what budget line were you able to finance EEF training? Is it part of CSR or sustainability agenda?
- Has the training helped in any way? How has it added value for bank and staffs?

Value addition for bank (Prompt on business expansion under EEF, meeting CSR goals, help in reaching PSL targets, better equipped and sensitized staffs, better loan appraisal)

Value addition for staff (Prompt on- Awareness of Govt. & bank schemes on EEF, help in financial loan appraisal (e.g. cash flow analysis); help in technical loan appraisal (e.g. energy audit reports, list of genuine suppliers; reports on technologies etc)



- 11. Did the training fulfill your expectations? What are the key areas that can be improved?
- 12. Have there been any changes in practices in bank after the training? (E.g. change in internal training curriculum, changes in any processes, loan appraisal method, products, methodology etc).

**Understanding bank’s perspective on EEF**

- 13. Does your bank have any special mandate/focus on EEF?
- 14. Please talk us through bank’s approach on EEF? What key initiatives has bank taken so far in this regard?
- 15. Is your EEF initiative more business-driven and credit-linked or more like general support for energy efficiency or a CSR initiative? Is it part of sustainability agenda? (If EEF is more business-driven probe on following)

Key questions	Take details
Does the bank have separate department for EEF? What is its structure?	
Does the bank have separate targets for EEF?	
Does the bank have staff incentives linked to EEF?	
Does bank have dedicated products/schemes for EEF?	

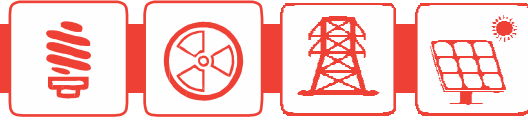
- 16. What are the key bottlenecks around EEF?

**Trainings**

- 17. Which staff structure and the process of training the staffs is available at various levels?
- 18. Are there specific trainings organized within bank related to EEF or is EEF part of other trainings or there is no EEF training? Who are generally selected for EEF trainings (Department and ranks of staff)?

**Way forward**

- 19. What are Banks future plans for EEF?
- 20. Would you like to finance EEF trainings in future or send your staffs for more such trainings related to EEF?



## Annex 3 Interviews

### A. Interviews with Bankers who had attended the Training

#### Location 1 - Gurgaon

S.no	Name	Bank	Interview Date	Designation
1	Mr Ashish Prasad	South Indian Bank	2-Dec-13	Branch Manager
2	Mr Ashutosh Bajpai	Corporation Bank	2-Dec-13	Branch Manager
3	Mr Manmohan Mohal	Punjab National Bank	2-Dec-13	Senior Manager, Credit
4	Mr Vaibhav Goel	IDBI Bank	3-Dec-13	Assistant General Manager
5	Mr Manu Mishra	South Indian Bank	3-Dec-13	Credit Manager
6	Mr Vikram Sharma	ING Vysya Bank	5-Dec-13	Area Credit Manager
7	Mr Satyajit Patra	State Bank of Hyderabad	6-Dec-13	Branch Manager
8	Mr Ravish Sharma	United Bank of India	24-Dec-13	Chief Manager

M2i team: Rahul Bist, Kajal Arora and Lakshya Singh

#### Location 2 - Faridabad

S.no	Name	Bank	Interview Date	Designation
1	Ms Anita Bhatia	Oriental .Bank of Commerce	11-Dec-13	Chief Manager
2	Mr Ashish Kohli		11-Dec-13	Branch Manager
3	Mr Pramod Gupta	Indian Overseas Bank	11-Dec-13	Chief Manager
4	Mr Anil Seth	Punjab National Bank	13-Dec-13	Credit Manager
5	Mr V K Roy	Corporation Bank	13-Dec-13	Senior Manager
6	Mr Rahul Gupta	Corporation Bank	13-Dec-13	Credit Manager-CA
7	Mr T D Dhiman	Punjab National Bank	26-Dec-13	Chief Manager
8	Mr Gaurav	Punjab National Bank	26-Dec-13	Technical Officer

M2i team: Rahul Bist and Kajal Arora



### Location 3 – Ludhiana and Mandi Gobindgarh

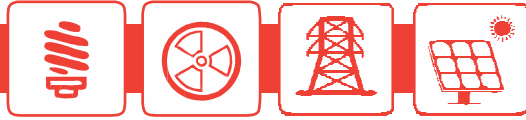
S.no	Name	Bank	Interview	Designation
1	Mr T K Sonny	Federal Bank	18-Dec-13	Chief Manager
2	Mr Ashok Lekhi	GIZ consultant	18-Dec-13	GIZ consultant
3	Mr Vinod Mahajan	Union Bank of India	19-Dec-13	Branch Manager
4	Nipun Gupta	SBI-SME branch, Mandi Gobindgarh	19-Dec-13	Customer Support Officer
5	Mukesh Bansal		19-Dec-13	Dymgr (SME)
6	Baljinder Singh		19-Dec-13	Assistant mgr
7	MrRanjeev Kumar	Canara Bank, , Mandi Gobindgarh	19-Dec-13	Chief Manager
8	MrNareshTangri		19-Dec-13	Senior Manager
9	MrSatwant Singh	Punjab and Sind Bank	20-Dec-13	Senior Manager
10	MrManoj Kumar	Jammu and Kashmir Bank	20-Dec-13	Branch Head
11	MrArunLalBector	Federal Bank	20-Dec-13	Branch Manager
12	Mr Pankaj	State Bank of India	20-Dec-13	Credit Manager

M2i team: Rahul Bist, Kajal Arora and Lakshya Singh

### Location 4 - Jamnagar

S.no	Name	Bank	Interview Date	Designation
1	Mr. JigarMonani	Axis Bank	15-Jan-14	Senior Manager
2	Mr. N D Sadarani	Bank of Baroda	15-Jan-14	Chief Manager
3	Mr. Bhavin Vyas	IDBI Bank	15-Jan-14	Branch Head
4	Mr. Anand N Agarwal	HDFC Bank	15-Jan-14	Relationship Manager
5	Mr. DhirajlalKodiater	Commercial Cooperative	15-Jan-14	Branch Manager
6	Mr. HarLalMeena	Dena Bank	16-Jan-14	Manager- Accounts
7	Mr. Rajesh S shah	Nawanagar Co- operative Bank limited	16-Jan-14	Senior Manager
8	Mr. Dharmesh J Seth		16-Jan-14	Officer- Loans

M2i team: Rahul Bist and Lakshya Singh



### Location 5 – Bengaluru

S.no	Name	Bank	Interview Date	Designation
1	Mr. Sujit Kumar Sahoo	Central Bank of India	27-Jan-14	Chief Manager
2	Mr. Saurabh A Udas		27-Jan-14	Manager
3	Mr. P V Jithesh	Federal Bank Limited	27-Jan-14	Manager
4	Mr. Devinandan	State Bank of Mysore	28-Jan-14	Deputy Manager-Advances
5	Mr. Manish Jain	Bank of Baroda	28-Jan-14	Branch Manager
6	Mr. M Mohan		28-Jan-14	Assistant chief Manager
7	Mr. M R Ganesh	State Bank of India	29-Jan-14	Assistant General Manager
8	Mr. VirjinJawahar		29-Jan-14	Specialist- Technical Executive

M2i team: Kajal Arora and Lakshya Singh

### Location 6 – Pune

S.no	Name	Bank	Interview Date	Designation
1	Mr. Rakesh Nagalkar	Corporation Bank	30-Jan-14	Manager
2	Mr. Tanoy Dutta	Corporation Bank	30-Jan-14	Assitant Manager
3	Mr. Vinay V Dunakhe	Janata Sahakari Bank	30-Jan-14	Chief Manager
4	Mrs. SavitaKilledar	Central Bank of India	30-Jan-14	Manager
5	Ms. B S Prajakta	Canara Bank	30-Jan-14	Manager- Pune
6	Mr. Nikhil Subhash	Bank of India	31-Jan-14	Technical officer
7	Mr. Ashok Ahuja	Oriental Bank of Commerce	31-Jan-14	Branch Manager
8	Mrs. AmitaPanagale	Bank of India	31-Jan-14	Finance Assistant

M2i team: Kajal Arora and Lakshya Singh



## Location 7 – Kolkata

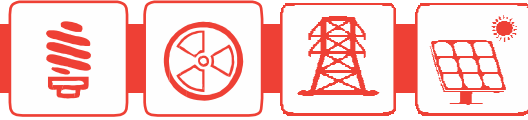
S.no	Name	Bank	Interview	Designation
1	SucharitaRoutray	State Bank of Hyderabad	13-Feb-14	Deputy Manager
2	Mr. Anil Kr	Indian Overseas Bank	13-Feb-14	Manager
3	Mr. Pawan Kumar Agarwal	Indian Overseas Bank	13-Feb-14	Assistant Manager - Financial Analyst
4	Mr. RajarshiBasu	Punjab National Bank	13-Feb-14	Senior Manager - SME
5	Mr. Santosh Kumar Singha	Corporation Bank	13-Feb-14	Relationship Manager - SME Loan Centre
6	Mr. Sunil Saha	Bank of Baroda	13-Feb-14	Manager - Credit
7	Mr. B C Dutta	UCO Bank	14-Feb-14	Chief Manager
8	Mr. Anirban Pal	Punjab National Bank	14-Feb-14	Branch Manager

M2i team: Kajal Arora and Atul

## B. Interviews with Bankers who had nominated staff for the Training

S.no	Name	Bank	Interview Date	Designation
1	Mr. Sanjay Agarwal	Allahabad Bank	02-Apr-14	Zonal Head
2	Mr O. P. Srivastava	Central Bank of India	03- Apr -14	Assistant General Manager – MSME
3	Mr Sandeep Dhall	Canara Bank	03- Apr -14	Deputy General Manager
4	MrMhaske	Bank of Maharashtra	04- Apr -14	Assistant General Manager





## Annex 4 List of Banks visited for the interview

### A. Interviews with Bankers who had attended the Training

Public	Private	Cooperative
Corporation Bank	South Indian Bank	Commercial Cooperative Bank
Punjab National Bank	IDBI Bank	Nawanagar Co-operative Bank
Indian Overseas Bank	ING Vysya Bank	Janata Sahakari Bank
State Bank of Hyderabad	Federal Bank	
United Bank of India	Axis Bank	
Oriental Bank of Commerce	Jammu and Kashmir Bank	
Punjab and Sind Bank	HDFC Bank	
State Bank of India		
Canara		
Bank of Baroda		
Dena Bank		
State Bank of Mysore		
Central Bank of India		
Bank of India		
UCO Bank		
Total = 15	7	3





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I : [www.giz.de](http://www.giz.de)