REVISED STAP SCREENING TEMPLATE, OCTOBER 2022

GEF ID	**11758**
Project title	**Accelerating sustainable energy transition for decarbonization of micro, small and medium manufacturing enterprises in India**
Date of screen	**26 November 2024**
STAP Panel Member	**Ngonidzashe Chirinda**
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1. Summary of STAP's views of the project

This ambitious project focuses on interventions related to energy efficiency measures, renewable energy integration, finance, and capacity building. The proponents adopt a comprehensive approach to addressing policy, finance, technology, and capacity-building gaps in India.

A positive aspect of the proposal is that it targets high-emission industrial sectors to maximise impact through synergies across value chains. The proponents have recognized substantial data deficits regarding energy consumption and technology effectiveness, which may obstruct accurate impact assessments. The project's sustainability hinges on establishing strong stakeholder engagement and integrating decarbonization strategies into national policy frameworks.

The project theory of change can be further improved by showing a clearer causal pathway to achieving expected impacts and importantly, sharpening the underlying assumptions across each pathway. The current set of assumptions is broad. Furthermore, given that the project's objective hinges on scaling up interventions across MSME in India, STAP encourages the proponent to develop a specific theory of change focused on scaling up and systems transformation.

The risk assessment indicates moderate risks related to climate change and policy volatility, warranting proactive mitigation measures. Additionally, quantifying indirect emission reductions poses significant methodological challenges.

Overall, this project shows a high potential for GHG emission reductions (i.e. A total GHG reduction of 5,428,600 tCO_2e over 10 years). Specific STAP advice on enhancing the impact of the project are presented in Section 2 and 3 below.

Note to STAP screeners: a summary of STAP's view of the project (not of the project itself), covering both strengths and weaknesses.

STAP's assessment*

□ Concur - STAP acknowledges that the concept has scientific and technical merit

X Minor - STAP has identified some scientific and technical points to be addressed in project design

□ Major - STAP has identified significant concerns to be addressed in project design

Please contact the STAP Secretariat if you would like to discuss.

2. Project rationale, and project description – are they sound?

See annex on STAP's screening guidelines (400 words)

The proponents address the challenges that Indian MSMEs face in adopting sustainable energy practices, emphasizing their economic contribution and impact on GHG emissions. They outline current energy

consumption, obstacles like financial constraints and policy gaps, and demonstrate how these issues and environmental drivers hinder the transition to sustainable energy.

The proposal contains some elements of the systems the project intends to address, highlighting the MSME sector's projected growth and its impact on energy consumption and GHG emissions if sustainable practices are not adopted. Additionally, it discusses the risks of sole reliance on fossil fuels, emphasizing MSMEs' vulnerability to energy price volatility and environmental consequences.

The proponents adequately address India's stagnant transition to sustainable energy in the MSME sector and correctly predict increased energy consumption and GHG emissions without intervention. The project's objectives are well-articulated and relevant, effectively addressing the baseline issues in the MSME sector.

Whilst the proponents discussed drivers of change, including population growth, economic development, climate change, sociocultural and political influence, conflicts and technological advancement, it fails to analyse how these drivers interact and could change in the future. Such analysis is essential in determining whether the proposed interventions will be robust across different plausible futures. STAP encourage the proponent to do this during the PPG stage. STAP's primer on simple future narratives can be helpful in this regard.

The theory of change presented in the proposal outlines how project interventions are linked to intended outcomes and highlights the role of policies and stakeholder engagement in MSME decarbonization. There is a need for more explanations of resilience strategies and more detail on mechanisms for institutional and behavioral changes. The project theory of change can be further improved by showing a clearer causal pathway to achieving expected impacts and importantly, sharpening the underlying assumptions across each pathway. The current set of assumptions broadly addresses the several factors needed for the project impact to materialize. However, the proponents need to consider what happens if assumptions do not hold. Furthermore, given that the project's objective hinges on scaling up interventions across MSME in India, STAP encourages the proponent to develop a specific theory of change focused on how scaling-up and systems transformation would be achieved.

The proponents provide a good overview of the project components and their rationale. However, enhancing the component descriptions with further details on the robustness of solutions and detailed risk assessments would be beneficial. In particular, there is a need for more information on how finance will be attracted to facilitate the intended large-scale adoption of the solutions intended to be achieved through the project. For example, innovative financing mechanisms, including blended finance and risk-sharing instruments, were mentioned, but limited details were provided on how the project intends to actualize this in the component description. Similarly, the proposal needs to provide more details on how it aims to deliver policy coherence as part of component 1. Also, the aspects of circular economy practices indicated as one of the interventions intended in the project did not adequately come through. Some more information on what is being planned would be useful. STAP encourages the proponents to give these deeper thoughts as the project is further developed. Specifically, on the circular economy, the STAP paper on circular economy and climate mitigation could provide helpful background information on interventions that promote circular economy in different sectors, including those targeted in this project.

The proponents show a high likelihood of the project generating GEBs; however, a clearer counterfactual analysis that outlines conditions without GEF funding needs to be included. Additionally, the proponents need to detail the potential influences of national policies to ensure a supportive regulatory environment. In estimating the GEBs, the proponent should consider the likelihood that, apart from reducing CO_2 emissions, the proposed interventions could help reduce black carbon emissions, for example, in the bricks and foundry sectors. This should be included in the estimate of potential GHG emission reduction GEBs from the project.

Socioeconomic co-benefits of transitioning to sustainable practices, such as job creation, economic growth, and improved competitiveness, are discussed. The proposal also correctly mentioned air pollution as possible environmental co-benefits. STAP encourage the proponent to incorporate the achievement of these co-benefits

in the project design and put in place plans and modalities to capture and report on these co-benefits. This is essential since co-benefits, such as job creation, can be important prerequisites for achieving the targeted GEBs. Also, capturing and reporting on these co-benefits will help demonstrate a good return on GEF investments and the impact of GEF on the economy and society. Please see STAP paper on incorporating co-benefits into design of GEF projects for helpful guidance on this.

The project lacks detailed explanations of how the identified stakeholders will contribute to project implementation and benefit from it. Improvements are needed in articulating stakeholder contributions, co-benefits (see above), and mechanisms for ensuring lasting global environmental impacts post-GEF funding (importance of developing a specific theory of change for scaling and transformation). A structured engagement plan with clear roles and pathways for sustainability would be beneficial.

The proposal recognizes the importance of building on prior investments and incorporating lessons learned from previous GEF and non-GEF projects in India. However, there is a lack of depth in explaining how it will complement existing initiatives without duplication. Also, more in-depth discussion is needed on how this proposal will address the failure of past projects. This is particularly important given that the project seems to be presented as one that will finally decarbonize and transform MSMEs energy use in India.

One of the most significant weaknesses is addressing contradictory policies; the document provides little strategy for achieving policy coherence (see previous comment). A thorough plan for policy dialogue and alignment with national priorities is essential to enhance the proposal's feasibility and impact.

Regarding knowledge management, there seems to be a lack of clarity on how lessons learned will be integrated with specific feedback mechanisms and indicators. Additionally, the proponents should specify how knowledge generated will benefit future projects through effective dissemination strategies.

The proposal presents a reasonably good description of risks and some mitigation measures. Given that the proposal is expected to promote innovations (technology, finance, and markets), the proponent must consider the risks associated with implementing innovation solutions and plan accordingly to mitigate them. Overall, the proponent should consider providing risk management plans for addressing immediate and long-term challenges.

Note: provide a general appraisal, asking whether relevant screening guideline questions have been addressed adequately – not all the questions will be relevant to all proposals; no need to comment on every question, only those needing more attention, noting any done very well, but ensure that all are considered. Comments should be helpful, evaluative, and qualitative, rather than yes/no.

3. Specific points to be addressed, and suggestions

In addition to the points raised in Section 2, STAP makes the following suggestions:

- The proposal should address the inconsistencies in the number of MSMEs the project intends to target. The project summary says 80 pilot projects, expanding to 3200 in Phase 1, followed by an additional 11,000 enterprises during the second scaling. However, on page 14, the proponents mention that the project aims to reach at least 5000 MSMEs directly and 20,000 MSMEs indirectly.
- Consider enhancing the ToC by providing details on how the project interventions will lead to the desired outcomes and how those outcomes will contribute to enduring GEBs.
- The resilience of the project's impacts to future uncertainties and conflicting policies should be explicitly addressed (see STAP guidance on policy coherence).
- Provide more details on mitigation actions for each risk. Consider providing more detailed risk analyses (Please refer to STAP's guidance note on "clarifying risk in GEF projects" and the GEF risk appetite).
- Please include a detailed stakeholder engagement plan that clearly outlines each stakeholder group's specific roles and responsibilities and how their involvement in the project will benefit them.
- The proponents should provide more detail on what constitutes innovation and transformation (see STP guidance in innovation and transformation for inspiration).

Note: number key points clearly and provide useful information or suggestions, including key literature where relevant. Completed screens should be no more than two or three pages in length.

*categories under review, subject to future revision

ANNEX: STAP'S SCREENING GUIDELINES

1. How well does the proposal explain the problem and issues to be addressed in the context of the **system** within which the problem sits and its drivers (e.g. population growth, economic development, climate change, sociocultural and political factors, and technological changes), including how the various components of the system interact?

2. Does the project indicate how **uncertain futures** could unfold (e.g. using simple **narratives)**, based on an understanding of the trends and interactions between the key elements of the system and its drivers?

3. Does the project describe the **baseline** problem and how it may evolve in the future in the absence of the project; and then identify the outcomes that the project seeks to achieve, how these outcomes will change the baseline, and what the key **barriers** and **enablers** are to achieving those outcomes?

4. Are the project's **objectives** well formulated and justified in relation to this system context? Is there a convincing explanation as to **why this particular project** has been selected in preference to other options, in the light of how the future may unfold?

5. How well does the **theory of change** provide an "explicit account of how and why the proposed interventions would achieve their intended outcomes and goal, based on outlining a set of key causal pathways arising from the activities and outputs of the interventions and the assumptions underlying these causal connections".

    - Does the project logic show how the project would ensure that expected outcomes are **enduring** and resilient to possible future changes identified in question 2 above, and to the effects of any conflicting policies (see question 9 below).
    - Is the theory of change grounded on a solid scientific foundation, and is it aligned with current scientific knowledge?
    - Does it explicitly consider how any necessary **institutional and behavioral** changes are to be achieved?
    - Does the theory of change diagram convincingly show the overall project logic, including causal pathways and outcomes?

6. Are the project **components** (interventions and activities) identified in the theory of change each described in sufficient detail to discern the main thrust and basis (including scientific) of the proposed solutions, how they address the problem, their justification as a robust solution, and the critical assumptions and risks to achieving them?

7. How likely is the project to generate global environmental benefits which would not have accrued without the GEF project (**additionality**)?

8. Does the project convincingly identify the relevant **stakeholders**, and their anticipated roles and responsibilities? is there an adequate explanation of how stakeholders will contribute to the

development and implementation of the project, and how they will benefit from the project to ensure enduring global environmental benefits, e.g. through co-benefits?

9. Does the description adequately explain:

   - how the project will build on prior investments and complement current investments, both GEF and non-GEF,
   - how the project incorporates **lessons learned** from previous projects in the country and region, and more widely from projects addressing similar issues elsewhere; and
   - how country policies that are contradictory to the intended outcomes of the project (identified in section C) will be addressed (**policy coherence**)?

10. How adequate is the project's approach to generating, managing and exchanging **knowledge**, and how will lessons learned be captured for adaptive management and for the benefit of future projects?

11. **Innovation and transformation:**
    - If the project is intended to be **innovative:** to what degree is it innovative, how will this ambition be achieved, how will barriers and enablers be addressed, and how might scaling be achieved?
    - If the project is intended to be **transformative:** how well do the project's objectives contribute to transformative change, and are they sufficient to contribute to enduring, transformational change at a sufficient scale to deliver a step improvement in one or more GEBs? Is the proposed logic to achieve the goal credible, addressing necessary changes in institutions, social or cultural norms? Are barriers and enablers to scaling be addressed? And how will enduring scaling be achieved?

12. Have **risks** to the project design and implementation been identified appropriately in the risk table in section B, and have suitable mitigation measures been incorporated? (NB: risks to the durability of project outcomes from future changes in drivers should have been reflected in the theory of change and in project design, not in this table.)