

ACCELERATING CATALYTIC FINANCING SOLUTIONS IN INDIA

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Poonam Sandhu
NRDC



The Financing Challenge in India

- **Lack of access to Finance for Underserved Clean Energy Markets** (such as rooftop solar) due to high risk perception of lenders based on new business models, promoters without credit history, and small loan ticket size
- **Unavailability of Finance for Emerging Technologies** such as battery storage, electric vehicles, and offshore wind
- **Lack of access to Risk Mitigation Products** to address risk perception of lenders
- **Unavailability of Long-Term Fixed Price Debt** caused by mismatch between banks' liabilities and loan needs of the sector; with rising interest rates posing further risks

What is Catalytic Finance?

Catalytic finance leverages limited public and donor capital in a way that mobilizes a larger volume of commercial investment.

Because this approach positions public finance as an activator of greater commercial investment, it is “catalytic.”

Catalytic Uses for Public Funds

- **Credit Enhancement:** To mitigate risk perceptions of untested business models, small unrated projects/borrowers. E.g. loan loss pools, first loss reserves.
- **Co-investment:** To give confidence to less experienced lenders. E.g. subordinate debt/junior tranches, mezzanine debt.
- **Warehousing & Securitization:** Aggregation of small loans, standardized, credit enhanced for on-sale. Frees up capital for small lenders and enables participation of larger institutional investors
- **Capacity Development:** Information dissemination and training for lenders in clean energy technologies, business models and of borrowers in accessing loans, other sources of finance.

Proposal: Establish Green Windows or a Green Fund in India

Green Windows

- Ring fenced entities within specialist FIs (E.g. NABARD, IREDA, SIDBI) with a focus on serving “underserved segments” with catalytic solutions to crowd-in commercial capital
- Sector Expertise
- Can start as small as US\$20mm (\$5mm gov’t seed capital)

Green Fund

- Centralized catalytic fund similar to UK and Australia green investment banks
- Can start as small as US\$100-200mm (\$25-50mm gov’t seed capital)

Value Proposition of Green Windows and Green Fund

Value Proposition	Green Window	Green Fund
Strengthen market confidence - Diversify investor base and increase investments (domestic and international)	X	X
Increase access to finance for underserved markets and support emerging technologies to be market-ready	X	X
Create mission-driven institutional culture to “crowd-in” mainstream capital	X	X
Boost the Indian market’s reputation in finance innovations	X	X
Track and collect clean energy data for better analytics	X	X
Achieve climate targets	X	X

How will Green Windows/Green Fund be different from the status quo?

Status Quo	Green Window/Fund
Public financial institutions focus on providing debt capacity (40% of energy lending) but do little to crowd in other lenders	Through GW/GF, public FIs focus on crowding in lenders not currently in the market, increasing their impact
Public FIs are hesitant to use their balance sheet to take risks on underserved and emerging markets	Through ring fenced GW/GF, public FIs take on increased risks to grow and mature markets while protecting balance sheets
Concessional credit lines for rooftop mainly go to blue chip C&I customers that already have access to credit	Supported by deep market knowledge & expertise, and funds for pipeline development, concessional credit lines reach underserved rooftop markets
New technologies like storage are slow to become bankable due to commercial capital risk aversion	Strategic co-investments between the GW/GF and commercial capital, accelerates bankability
Banks reach sectoral lending limits and have asset-liability mismatch. NBFCs may not be able to sell down assets	GW/GF focus on facilitating refinancing by portfolio assignments, securitization and the bond market
Small, diverse projects are risky and costly to finance	GW/GF drive standardization and provide warehousing facilities to create homogeneity and scale
Foreign investors are funded in dollars or euro and add premium to loans for Fx risk	GW/GF increases availability of hedging products and strategies

Key Takeaways

1. More investment is needed in underserved and emerging technology segments of the clean energy market
2. Public institutions can more effectively mobilize commercial capital with **catalytic** solutions offered via “**green windows**” or a “**green fund**”
3. India has demonstrated its leadership in renewables. Indian FIs need to step up and demonstrate leadership in setting up Green Windows that can be ‘the’ institutions to ‘go to’ for investors who want to invest in the growth of the renewables market and the commercial lenders who are looking for risk mitigation measures to give them the confidence to lend to the ‘underserved’ segments .
4. Success of a green window in a diverse country like India will be good demonstration to other ISA countries

Framework for Catalytic Finance for Underserved Clean Energy Markets in India

Methodology:

- Primary and secondary research included consultations and workshops with over 70 experts from government, developers, financiers, and utilities.
- The aim of consultations was to better understand the financing market's constraints on providing capital and to identify incentives to make capital available for underserved and emerging segments of the clean energy market.

