De-risking International Investments in Indian Solar Energy Sector

Role of, and Barriers faced by, Financial Institutions in Solar Financing

India has been consistently working towards increasing its renewable energy capacity, with a strong focus on solar energy. By November 2018, it had achieved a cumulative commissioned solar capacity of 26 GW.

Before the COP21 in Paris in 2015, Prime Minister Shri Narendra Modi announced India's ambitious target of generating 175 GW of renewable energy by 2022, which recently was raised to 227 GW for 2022. While setting these targets, he had highlighted the fact that they would be achievable only through foreign investment inflows with developed nations playing a huge role in enabling the transition to low-carbon pathways for development. But foreign investment inflows may not happen at the scale required to meet India's solar energy targets if investors perceive Indian solar projects to be risky. Therefore, India needs to put in place effective risk management mechanisms that would not only facilitate foreign institutional investors, but also uplift the sector and its actors, especially power distribution companies (DISCOMS) from financially difficult position.

The Indian government has estimated that investments to the tune of €79 billion are needed to reach India's solar energy commitments, which are part of India's climate protection plan. Hurdles for the envisaged solar expansion are quality shortcomings in solar technology, problems with the network infrastructure, and a lack of know-how. These obstacles represent central barriers to inflow of investments in solar energy generation.

Further, national and international investors are also concerned with the risk structure in an emerging country such as India. To address this issue, appropriate de-risking tools have to be developed, while the expectations of actors in the energy sector, especially political decision makers, investors and the civil society need to be harmonised and stabilised in order to move towards further development of solar power. . As there are differences in the nature of investments, be it generating power for the 300 million people without access to energy or covering the increasing power needs of the industries and urban households, diverse de-risking tools need to be designed.

Keeping this in view , The Energy and Resources Institute (TERI) and GERMANWATCH, in association with Climate Action Network-South Asia (CANSA), Vasudha Foundation, and the

Centre for Study of Science, Technology and Policy (CSTEP) are working towards "De-riskingForeign Investments in the Indian Solar Energy Sector" through a multi-stakeholder approach. The objective is to identify and formulate effective risk management instruments, with inputs from policy makers, financial institutions, civil society and sectoral stakeholders.

This event is the fourth in a series of workshops to be held in different parts of the country under this project. The objective of this thematic track is to focus specifically on financial institutions, especially Non-Banking Financial Companies (NBFCs), their roles, and the barriers and risks they face in generating desirable financial flows in the Indian solar energy sector.

NBFCs have played a key role in stimulating infrastructure investment in India, even when parts of the traditional banking sector have underperformed. NBFCs can potentially be more agile than traditional banks in deploying investment capital through creative financial instruments. However, NBFCs have faced their own set of challenges in India, especially when financing solar energy projects. Mitigating these challenges may unleash transformative financial flows into the Indian solar energy sector.

The broad questions to be addressed during the track will be:

- What have been the successes of NBFCs in financing solar energy projects in India?
- What are the most important barriers faced by NBFCs when generating financing for solar energy projects in India?
- What are the most important risks perceived by investors while raising capital?
- Is (solar) project viability and credit rating, significant obstacles?
- What are the most suitable risk mitigation mechanisms given the challenges faced by
- NBFCs and what are the roles of different stakeholders in implementing them?