



Green Banks: A New Wave For Renewable Energy In India



As the country is pacing aggressively for renewable energy in order to curb the carbon emissions along with the efficient policies, we will still require huge amount of funds to achieve our ambitious goals. To overcome the financial barrier, many financial institutions has highly recommended Green Banking, Mr Satish Kumar Bhargava, Finance Director, IREDA talks about Green Banks and Bonds, challenges faced while introducing the project and its benefits to boost Renewable Energy sector of India.

By – Namrata Nikale Tanna, Editorial Manager, Oil Asia Journal.

Q - At first, we would request you to explain Green Banks and Green Bonds?

Bhargava: A **Green Bank** (sometimes referred to as a Green Investment Bank or a Clean Energy Finance Corporation) is a financial institution, typically public or quasi-public, that uses innovative financing techniques and market development tools in partnership with the private sector to accelerate deployment of clean energy technologies. Green Banks worldwide use public funds to leverage private investment in clean energy technologies that, despite being commercially viable, have struggled to establish a widespread presence in the consumer markets. Green banks focus on commercially viable technologies, which have been tested, therefore have less “technology risk” and can reliably produce revenues for its project owners / lenders.

Green Bonds are any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance new and / or existing eligible Green (Renewable) Energy Projects. All designated Green Project categories should provide clear environmental benefits, which will be assessed and, where feasible, quantified by the Issuer. The Green Bonds are required to be certified as such by the London-based Climate Bonds Initiative (CBI).

Q- According to analysis India's goal will intensely ramp-up for solar and wind energy capacities and could get a major boost through two fast-growing financing innovations – Green Bonds & Bank, could you please elaborate how it will boost the renewable energy?

Bhargava: A Green Bank receives zero or low-cost funding from the Central or State Governments which enables it to undertake the equity / quasi-equity financing of new and emerging Cleantech segments such as LEDs, Rural Micro Grids, Solar Rooftops, etc. which require higher risk appetite and generally provide lower / more uncertain returns for lenders / investors.

Green Bonds provide an alternative mechanism for the long-term debt financing of Renewable Energy projects for Lenders. The fact that the end use of the proceeds of Green Bond issue are strictly monitored and verified by independent verification agencies ensures that the Issuer cannot use its proceeds except for the stated purpose of financing Renewable Energy projects / technologies.

Hence, I expect both these innovations – Green Bank and Green Bonds – to play a key role in the development of the RE sector in India in the future.

Q- Boosting renewable energy – in keeping with the spirit of the Paris Climate Summit – has been tempered by the difficulties which are faced by project developers to secure inexpensive finance, what would be your advice in the current market scenario?

Bhargava: As a major Lender to these Renewable Energy projects, we at IREDA, can only advise the RE project developers to exercise a great deal of care in selecting the right states and in the reverse bidding for tariffs for the allocation of projects from the Central or State Government agencies, especially in the Solar Power sector. The Project Developers must also undertake extensive wind or solar resource assessment studies, and suitably address the land acquisition and power evacuation (transmission) risks. It would be a prudent policy to provide for adequate contingencies as a %age of the total project costs, as per the international norms, to mitigate the cost overrun risks.

Q- The renewable energy space has mushroomed in India in the past two years, adding capacity at an unprecedented rate; according to you will India be able to achieve the ambitious target set by the Hon'ble Prime Minister Shri Narendra Modi?

Bhargava: Yes, I believe that the RE target of 100 GW of grid-connected RE installed capacity by 2022 set by the Government of India is achievable and we are well on track towards that given the strong growth in the past two years in particular.

Q- How can the Green Banks and Green Bonds help to achieve India's ambitious clean energy goals while providing electricity for millions across the vast country?

Bhargava: Adequate financing is arguably the single most important factor in achieving the country's RE potential and both Green Banks and Green Bonds will directly contribute towards providing low-cost, long-term financing for the RE Sector projects and Clean technologies in India. They will go a long way in fulfilling the financing gaps at present.

Q- Last year, Indian Renewable Energy Development Agency (IREDA), the country's only Non-Banking Finance Company dedicated to clean energy funding, has commenced to convert it into a commercial bank – perhaps called ' Green Bank of India', could you share with us the challenges you came across while implementing the project?

Bhargava: All the relevant aspects for conversion of IREDA into the 'Green Bank of India' are being considered at present by the concerned Ministries in the Government of India as well as by our regulator, the Reserve Bank of India (RBI) and we are hopeful of a positive outcome in the coming months. However, in this context, it would be appropriate to mention that IREDA has effectively been performing (since its inception) most of the functions of a Green Bank without being named as a Green Bank. However, the Process to rename it is under consideration for higher visibility”