Solutions Factory

Leveraging the Bond Market to Accelerate the Energy Transition

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Enabled by ambitious policy targets, the renewable energy (RE) market in India has been driving India's energy transition. Following suit is the budding electric mobility sector – marked again by ambitious intent from the government. The ongoing shift is fundamental. It also has a large capital requirement, which is not matched by existing sources of capital supply. RE investments have to grow to USD 30 billion per year to meet the 2030 target of 40 percent share of non-fossil fuel in India's energy mix. And, mammoth investments will have to be made to get electric vehicles (EV) to capture 30 percent by 2030 of auto sales from under one percent currently.

A lack of access to capital —both in terms of adequacy and affordability—could impede the pace and efficiency of the energy transition. Current sources of financing – mainly from banks and non-banking financial companies (NBFCs) – will be inadequate as they face inherent asset-liability mismatch and continuing stress on account of bad loans, with additional liquidity concerns in the case of NBFCs.

Green Bonds offer a promising complement to lending by banks and NBFCs. They offer the advantages of regular bonds like fixed coupon payments, potentially longer tenors, tradability, larger ticket size, access to a much more diversified pool of investors and the flexibility to issue domestically and offshore. The green feature adds transparent earmarked use of proceeds in low-carbon end uses making them well suited for RE and EV sectors.

In the last four years, India's public and private sector companies and financial institutions have successfully raised USD 7.6 billion, mostly through offshore issuances. Majority of these have been in the RE sector. They have all been oversubscribed two to three times reflecting a strong demand, a few issuers have ever been able to upsize their bonds, bring the coupon rate down, and price the deal better.

Despite the potential advantages of green bonds and the need for additional finance flows, this channel remains underutilised. A limited pipeline of investible issuances, risk perceptions around emerging economies, lack of cost-effective currency hedging options for INR issuances, shallow domestic bond markets and little domestic demand for green products are often cited as reasons.

Other emerging economies also face similar challenges even as China is among the top three issuers globally. There is potential both for investors and issuers to leverage green finance within emerging markets but raising capital locally is challenging due to high local currency yields, few long-term investors, and the lack of both strong domestic policy levers and a green-investor base.

This Solutions Factory, hosted as part of Energy Horizons 2019, CEEW's annual flagship event, will attempt, through the following questions, to locate the most effective actions, and the most suitable actors from among government, international and national market participants to carry out these actions, in order to ease the flow of capital to clean energy markets.

- Are sub-sovereign level issuances by state governments/provincial governments/cities the next frontier in scaling up the flow of green capital?

- What are the imminent bottlenecks that must be tackled in order to mobilise domestic institutional capital to make green investments? How are they similar/dissimilar in other emerging economies?
- What are the emerging asset classes in clean energy markets where bond markets could be successfully leveraged in the next two to five years?