Risk perceptions and debt financing terms have improved for solar PV and wind, suggests the 2019 ‘Clean Energy Investment Trends’ report from CEEW and IEA

New Delhi, 18 July 2019**:** The reduced risk perception of financiers funding renewable energy projects in India resulted in investments in the sector doubling over the last five years, according to a joint study released today by the Council on Energy, Environment and Water (CEEW) and the International Energy Agency (IEA). The report - the 2019 **‘Clean Energy Investment Trends’ -** was released at CEEW’s flagship conference – **Energy Horizons 2019** in Delhi.

The report maps out the evolution in the renewable power industry and investment landscape through tracking the risk perceptions of debt financiers towards solar photovoltaic (PV) and wind projects over the period from 2014 to 2018. The report also highlights recent developments impacting the pace of capacity addition. According to the report, investment in India’s renewable power sector has doubled over the past five years. At nearly USD 20 billion in 2018, it has surpassed capital expenditure in the thermal power sector. Ambitious targets, supportive policies, and falling technology costs have improved the attractiveness of financing utility-scale solar PV and wind projects. By May 2019, utility-scale installed capacity of solar PV was over 27 GW and wind was more than 36 GW.

In terms of the industry landscape, while market concentration in the solar PV and wind sector remains high, there has been a notable change in top players from year to year, indicated by a measure known as the churn rate. Even the best developers face limitations in continually financing projects. Increased consolidation in the wind sector was observed in 2018 with the churn rate dropping to 50 per cent from 90 per cent in 2017. The churn rate in the solar PV sector remained at 60 per cent from 2017 to 2018.

The analysis reveals five key trends:

- *The market concentration of developers sanctioning new solar PV and wind capacity remained high in 2018—**above 80% for the top ten firms in both markets**. Top companies that can access financing at favourable terms have an advantage in structuring competitive auction bids*
- *A maturing market along with reduced risk perceptions and enhanced bankability for renewables has contributed to improved availability and pricing of project debt finance over time, facilitating lower cost investment*
    - *Over the period from 2014 to 2018, **interest rate spreads for both wind and solar PV declined by 75 to 125 basis points.** This indicates declining risk perceptions*
    - *While the costs of debt and equity financing together accounted for close to 60% of the levelised cost of electricity for solar PV and wind generation in India, **improvements in the terms of finance for renewables projects have played an important role in lowering tariffs***

- *Data comparisons with thermal power projects were more challenging, but assets developed by integrated state government¬–owned utilities appear to benefit from some financing advantages*
- *The weak availability of long-term, fixed-rate debt remains a constraint for all power generation investments, raising uncertainty over future financing costs for new plants and the refinancing of existing ones*
- *The imposition of safeguard duties and persistent land acquisition and grid infrastructure related challenges under India's Solar Park scheme, represent near–term risks to the pace of capacity addition*

Link to report

On day two (19 July) of Energy Horizons, CEEW will also be launching the CEEW Centre for Energy Finance (CEF). CEEW-CEF acts as a non-partisan market observer and driver that monitors, develops, tests, and deploys financial solutions to advance the energy transition.

Dr Arunabha Ghosh, CEO, CEEW, said, "CEEW-CEF aims to help deepen markets, increase transparency, and attract capital in clean energy sectors in emerging economies. Responding to a growing need for enabling an efficient and timely energy transition in emerging economies, CEEW-CEF will focus on developing fit for purpose market responsive financial products."

Commenting on the launch of the report and the CEEW Centre for Energy Finance (CEF), **Kanika Chawla, Director, CEEW Centre for Energy Finance**, said, *"The cost and availability of financing, which depend on the investment risks as perceived by developers and financiers, significantly shape India's progress along the energy transition. The top companies that can access financing at favourable terms usually have an advantage in winning project capacity at competitive auctions. Several emerging markets are now seeing renewable energy markets of significant scale. However, these markets are young and prone to challenges that could inhibit or reverse the advances made in the recent past. Also, the absence of well-functioning markets in emerging economies make investment in clean technologies risky and prevent capital from flowing from where it is in surplus to regions where it is most needed. CEEW-CEF will address the urgent need for increasing the flow and affordability of private capital into clean energy markets in emerging economies."*

CEEW-CEF has a twin focus on markets and solutions. CEF's market analysis will cover energy transition-related sectors, both on the supply (solar, wind, energy storage) and demand side (electric vehicles, distributed renewable energy applications). It will create open source data sets, salient and timely analysis, and market trend studies.

CEEW-CEF's solution-focused work will enable the flow of new and more affordable capital into clean energy sectors. These solutions will be designed to address specific market risks that act as roadblocks to capital flows. These will include designing, implementation support, and evaluation of policy instruments, insurance products, incubation funds, etc.

IEA quote

"Financing India's energy future requires policy makers to better understand the risks faced by investors and design measures that allow for the efficient allocation and management of these risks, key determinants of the cost of capital, which is becoming more critical for investment decisions," said **Michael Waldron, Senior Energy Investment Analyst at the IEA**. "As the investment environment for renewables matured, the private sector has responded, but more effort is needed to address persistent risks pertaining to infrastructure, policy uncertainty and the financial viability of distribution companies."

More information on CEF here

About CEEW

The Council on Energy, Environment and Water (CEEW) is one of South Asia's leading not-for-profit policy research institutions. The Council uses data, integrated analysis, and strategic outreach to explain – and change – the use, reuse, and misuse of resources. It prides itself on the independence of its high-quality research, develops partnerships with public and private institutions, and engages with wider public. In 2019, CEEW once again featured extensively across nine categories in the '2018 Global Go To Think Tank Index Report'. The Council has also been consistently ranked among the world's top climate change think tanks. Follow us on Twitter @CEEWIndia for the latest updates.

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