

Appendix E

Description of Financing Approaches

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Access to financing is critical to getting solar projects off the ground. Being a relatively nascent solar market, as well as a maturing financial market, solar project financing in India has its unique characteristics. Table E1 below summarizes three of the more common approaches, their features and challenges.

Table E1: Common Financing Approaches and Associated Features and Challenges¹

Financing approach	Description	Challenges
Balance Sheet Financing	<p><i>Funding is generally done through existing equity that the company (developer) holds.</i></p> <p>Given the small size of projects and the nascent nature of the market (and subsequent difficulties raising bank finance) a number of developers in batch 1 of the National Solar Mission chose to fund their projects internally.</p>	<p>Most likely not an effective use of capital by the company. Not a sustainable model as project sizes increase.</p>
Bank Loan	<p><i>Debt is raised with banks (generally at a debt-equity ratio of 70:30).</i></p> <p>Interest rates and tenures vary between domestic and international sources of finance. Several companies operating as subsidiaries of larger companies were only able to raise finance with recourse back to the parent companies.</p>	<p>Requires a track record of project delivery, as well as collateral, which can stifle entrepreneurs.</p>
Off-Balance Sheet or Project Financing	<p><i>Bank finances a Special Purpose Vehicle (SPV) which re-pays the loan through revenues generated by the project.</i></p> <p>This is a preferred approach by a number of developers, as there is limited recourse on the loan (sometimes referred to as non-recourse loans). India, for some time, has been a lead arranger of project finance, driven by its need for investment in infrastructure.</p>	<p>Requires a great deal of confidence, on the part of the financier, in the project developers and the projected revenue stream.</p>

¹ Based mainly on interviews with various solar market stakeholders. Further details in the main report – “Laying the Foundation for a Bright Future: Assessing Progress Under Phase 1 of India’s National Solar Mission”, NRDC and CEEW, April 2012, <http://www.nrdc.org/international/india/national-solar-mission-ph1.asp>.