

India and U.S. Sign Agreement on Renewable Energy

A Memorandum of Understanding (MoU) between India and the U.S. was signed in New Delhi on June 2 to enhance cooperation in energy security, clean energy, and climate change. It will most likely forge a US\$ 1 billion partnership for the Indian renewable energy sector, boosting global investor interest. Prime Minister Narendra Modi reiterated this need for U.S. support in his address to Congress on June 8. A partnership with the U.S. could be key to India's efforts in successfully tackling climate change, building sustainable urban infrastructure, and eliminating the country's power shortages.

Investment Mechanisms in the MoU

The deal enshrined in the MoU will be achieved through two investment channels, namely U.S.-India Clean Energy Finance (ICEF) and the U.S.-India Catalytic Solar Finance Program (ICSFP). Since the Indian government has shifted the focus from wind energy to solar energy, both the channels will primarily target the development of off-grid solar projects and rural electrification.

- ICEF will raise about US\$ 20 million, in the initial phase, in coordination with the Indian government, the Overseas Private Investment Corporation (OPIC), which is the U.S. government's development finance institution, as well as other agencies.
- ICSFP will pump in about US\$ 40 million targeting India's rooftop solar program under the National Solar Mission.
- Sources estimate that through OPIC's participation, the Indian solar program could leverage about US\$ 400 million.

Cumulatively, the investment mechanisms seek to generate capital of US\$ 1 billion from several U.S., Indian, and global agencies for the solar power sector. These in turn will facilitate flexible and innovative financing solutions to bring down the cost of solar power in India and promote entrepreneurship in the sector.

Priority Areas Highlighted in the MoU

The Indian Ministry of Power has explained the pivot behind the MoU as not being a one-time funding strategy but rather an alliance to enable healthy capital flows tackling specific priority areas. The following priority areas are highlighted in the MoU –

- U.S.-India partnership for Smart Cities India Mission
- Greening the grid
- Promoting Energy Access through Clean Energy (PEACE) expansion
- Energy efficiency including space cooling
- Renewable energy
- Energy security
- Clean energy finance
- U.S.-India partnership for climate resilience
- Air quality
- Forestry, landscapes, and REDD+ (Reducing Emissions from Deforestation and Forest Degradation)
- Fellowships
- Accelerating innovation on clean energy and climate change

Implications for India's Solar Power Sector

The MoU between the U.S. and India comes at an important juncture. The government has set itself an ambitious target of 100,000 MW by 2022 even as the total installed solar power capacity stands at a mere 7,564 MW (as of May 31, 2016). However, by 2022, it is proposed that 60,000 MW will be generated through grid-connected projects and 40,000 MW through rooftop and off-grid solar projects.

Nevertheless, India's pro-renewables mindset is showcased in the UN Environment Programme's (UNEP) 'Global Trends in Renewable Energy Investment 2016' report. It puts India among the top ten countries investing in renewable energy – having increased its commitment by 22 percent to US\$ 10.2 billion in 2015. India's performance also saw a leap in utility-scale solar financing by 75 percent to US\$ 4.6 billion last year.

The increased bilateral engagement with the U.S. therefore assumes importance as it will facilitate greater innovation through research and development, technology transfer, and the deployment of clean energy technologies. These will hold critical to the implementation of the sector's growth targets.

Challenges Facing the Solar Power Sector

Due to its lower tariffs, the central government earlier made it mandatory for state power utilities to buy a certain amount of solar energy from independent power producers (IPPs). However, many clean energy firms have recently reported non-payment of bills for as many as 10 months, racking up deficits of US\$ 360 million. This exposes the liability gaps in the sector and lack of oversight.

Further, while India represents a huge market with robust business potential, delays in grid evacuation and land acquisition are major concerns for investors and private players as they can derail returns on a project. Without addressing these deficiencies, the government cannot hope to sustain investor interest or attract sufficient private sector participation.

Observations: While India has embarked upon an ambitious green energy growth strategy, it cannot take root without having the fundamental infrastructure in place. Often times government plans and projections have superseded the rate of implementation on the ground. Given the solar power capacity target alone, progress has been at best slow and measured. India needs both technology investments and financial viability if it wants to jump growth in its renewable energy sector, develop domestic manufacturing capabilities, and fulfill energy needs.

In this respect, the increased partnership with the U.S. benefits India's case. However, regulatory oversight, ease of doing business, and transparency remain key deciders.

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