Summary of Key Recommendations

I. It is critical that the financial system’s capacity and readiness to respond to climate change and other sustainable development priorities is enhanced, driving innovation across banking, insurance, investments and securities.

II. Developing a Sustainability Oriented Market Framework would require:
   a. Banking on Sustainability: Investing in sustainable infrastructure and increase the long term viability of infrastructure projects.
   b. Enabling the Institutional Finance Ecosystem: There is a need for skill enhancement of the financial sector.
   c. Incentivising Public Sector Investments: An enabling institutional framework for sustainable infrastructure financing requires financing decisions to take into account sustainability as a parameter.
   d. Catalysing Efficiency Gains in Small and Medium Enterprises: There is a need for capacity building in the SME sector for better energy use disclosure and also for soliciting funding support for bridging enterprise efficiency linked capacity gaps.
   e. Redirection of Cross Border Financial Flows: Stakeholders should be made aware of long term positive efficiency gains through evidence based awareness building.

III. Regulations and Incentives
   a. Incentives and initiatives which could lead to an increase in domestic equity investment through equity tax credits, production tax credits and development of energy service companies.
   b. Strengthening existing institution such as IREDA to become the green development financing institution in the country and enabling it to garner additional lines of credit and long tenor financing.
   c. Deregulations to increase external commercial borrowing funding of green projects by exempting withholding tax, replacement of construction finance and refinancing and innovative solutions for hedging.

Disclaimer

The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the United Nations Environment Programme (UNEP) or Federation of Indian Chambers of Commerce and Industry (FICCI) concerning the legal status of any country, territory, city or area or of its authorities, or concerning delimitation of its frontiers or boundaries. Moreover, the views expressed do not necessarily represent the decision or the stated policy of the United Nations Environment Programme (UNEP) or Federation of Indian Chambers of Commerce and Industry (FICCI), nor does citing of trade names or commercial processes constitute endorsement.
Summary of Key Recommendations

I. It is critical that the financial system’s capacity and readiness to respond to climate change and other sustainable development priorities is enhanced, driving innovation across banking, insurance, investments and securities.

II. Developing a Sustainability Oriented Market Framework would require

   a. Banking on Sustainability: Investing in sustainable infrastructure and increase the long term viability of infrastructure projects.

   b. Enabling the Institutional Finance Ecosystem: There is a need for skill enhancement of the financial sector.

   c. Incentivising Public Sector Investments: An enabling institutional framework for sustainable infrastructure financing requires financing decisions to take into account sustainability as a parameter.

   d. Catalysing Efficiency Gains in Small and Medium Enterprises: There is a need for capacity building in the SME sector for better energy use disclosure and also for soliciting funding support for bridging enterprise efficiency linked capacity gaps.

   e. Redirection of Cross Border Financial Flows: Stakeholders should be made aware of long term positive efficiency gains through evidence based awareness building.

III. Regulations and Incentives

   a. Incentives and initiatives which could lead to an increase in domestic equity investment through equity tax credits, production tax credits and development of energy service companies.

   b. Strengthening existing institution such as IREDA to become the green development financing institution in the country and enabling it to garner additional lines of credit and long tenor financing.

   c. Deregulations to increase external commercial borrowing funding of green projects by exempting withholding tax, replacement of construction finance and refinancing and innovative solutions for hedging
d. The renewable energy sector should be put under Priority Sector Lending (PSL) category and unutilized amount under PSL should be diverted to clean energy.

e. There is need to provide incentives in particular sectors such as output based support or result based financing for the waste management sector.

f. The existing guidelines of National Clean Energy Fund need to be amended in order to sharpen its operational framework and improve its effectiveness and performance. A separate window should be created to allocate funding for specific types of projects that improve energy access.

IV. Market Innovation

a. There is a need for credit rating and credit enhancement facility within the Government or Financial Institutions that would encourage the Pension Funds or Insurance Funds to invest in clean projects.

b. Green Bonds market is characterized by longer tenure and hence, it could be an attractive option of investment in the clean energy space. To grow the Green bonds market in India, the global bonds market and the savings in India or the private capital market could be tapped to address this agenda.

c. Yield Company, an income oriented investment vehicle being adopted by the companies to unlock value of long-term contracted assets that may be undervalued in existing business, access broad yield focused public investor base and create a buyer/long-term owner for project developers. YieldCo enable access to low cost, liquid and repeatable capital source and generate predictable cash flows by bundling up renewable assets with long-term Power Purchase Agreements (PPAs).
Across the world, governments are searching for new policy measures to mobilise investment for long-term sustainable development. The UNEP Inquiry is working across 15 countries to identify practical policy options and in India is partnering with FICCI, which has formed a national advisory committee, chaired by Ms Naina Lal Kidwai, Chairman HSBC India and Executive Director HSBC Asia Pacific. The first report of the UNEP India Inquiry work was an Executive Briefing, which laid down the challenges faced in financing low-carbon, the barriers and options in deploying and mobilising credit for clean energy and developing sustainability policies for banks and financial institutions. This is the Interim Report of the UNEP India Inquiry work, a recommendatory report for developing a long-term sustainable financial system. It is critical that the financial system's capacity and readiness to respond to climate change and other sustainable development priorities is enhanced, driving innovation across banking, insurance, investments and securities. UNEP India Inquiry in partnership with FICCI is proposing practical options to meet this challenge. Three working groups under the UNEP India Inquiry are investigating solutions and looking at the larger context for transformation of Indian financial regulatory landscape, the regulations and incentives that will channel finance into sustainable development priorities, and innovative markets for clean energy financing.

With rapidly evolving economies it has been realised that an efficient system to allocate scarce economic resources is very important given the increasing social inequities, environmental impacts and other externalities. In the Indian context there is a need for developing a sustainable financing policy for banks and financial institutions, exploring the role of capital markets in India in efficiently allocating capital to key green economy priorities, and factors that enhance flow of finance into clean and green projects, including innovative mechanisms that could increase availability and accessibility of funds for clean energy, climate change mitigation and sustainability initiatives.

The nascent Indian capital markets have not yet begun to put a risk premium on...
large listed companies that are not efficient consumers of factor inputs. There are three factors in the current policy and market environment that open a window to do this:

i. The recent decline in global oil prices provides financial space to explore sustainability financing.

ii. The new government is looking at ways to scale up public investment in infrastructure finance.

iii. A number of market participants have begun to recognize that capacity to sieve investments through a sustainability lens needs to be created.

I. Developing a Sustainability Oriented Market Framework

In the Indian context, a strategy to incentivise a more robust and resilient 'sustainability oriented market framework' can be based on five pillars as outlined below:

1. Banking on Sustainability

The banking sector plays a critical role in financing infrastructure growth in India (approximately 15 per cent of Gross Non Food Credit by Scheduled Commercial Banks is deployed towards infrastructure). Indeed nearly all institutional lending towards the sector is through banks. At the same time there is an acute infrastructure deficit in the country. Estimates place the quantum of funds required towards bridging the infrastructure deficit in the next five years at around USD 1 trillion.

Investing in sustainable infrastructure increases the long term viability of infrastructure projects. However, infrastructure credit protocols do not take this into account. This can be secured by incorporating the returns from efficient sustainability enhancing investments in infrastructure into lending protocols. This would require collaborative actions at the international level to reform the international financial architecture. Nationally this process can be incentivised by
• Making certain efficiency benchmarks mandatory and instituting the requisite monitoring and contract enforcement frameworks.

• Reworking the Priority Sector Lending (PSL) policy towards facilitating identification of ‘sustainable’ businesses and business models, thereby improving the viability of priority sector lending.

2. Enabling the Institutional Finance Ecosystem

To meet the evolving financial needs of India, there is a need for skill enhancement of the financial sector. There are a number of factors that are extraneous to the financial system including accuracy and predictability of certain data - like resource data and performance data of various projects. The existing commercial and technological ecosystem has made lenders risk averse, in an economy where rapid credit expansion is required for growth. Growth in gross bank credit has declined from 23.5 per cent in September 2011 to 9.5 per cent in September 2014.

The Ministry of Environment, Forest and Climate Change and Ministry of Finance need to meet the challenge of building skill sets to further enhance sustainable finance. Ways in which could be done include

• Incentivize the evolution of market instruments based on frameworks such as the National Voluntary Guidelines, or the extant energy disclosure formats in Form A of the Companies Act.

• ‘Green flag’ investments into companies that are transparent and efficient. An example of such a mechanism, based on objective assessment framework, is the S&P BSE GREENEX, a benchmark financial and energy efficiency performance index on the Bombay Stock Exchange.

• Carry out Climate Public expenditure Review of Central and State budgets, to identify existing public expenditures that promote climate change adaptation and mitigation. Using this evidence, pipeline global climate finance to augment these activities through the budgetary mechanism rather than through fragmented projects as is presently the case with the GEF.

3. Incentivising Public Sector Investments

An enabling institutional framework for sustainable infrastructure financing
requires financing decisions to take account of finance needs to take sustainability as a parameter. This requires many innovations in the financial ecosystem, particularly in the public sector institutions that account for about 23 per cent of the total capital stock of total investment in the Indian economy. Actions to this end include

- Enable financial sector participants to recalibrate extant risk assessment frameworks to account for business risks arising from inefficiency of resource use.

- Develop a strategy based on sustainable finance to attract long term investment funds around the world from long term investment funds like Government Pension Fund of Norway (USD 860 billion) and California's public pensions fund CALPERS (USD 296 billion) These have adopted proactive policies towards sustainable financing.

4. **Catalysing Efficiency Gains in Small and Medium Enterprises (SMEs)**

Multiple studies have shown that good energy governance is linked to good governance. There are performance gaps between leading Indian and global companies in energy consumption that holds true for the SME sector, where 95 per cent of companies do not have access to institutional credit. Sustainable growth of India has to be driven by the SME sector which would require encouraging new SMEs to move towards energy efficiency through benchmarking and soliciting funding support for bridging enterprise efficiency linked capacity gaps.

In this context, financial institutions such as Small Industries Development Bank of India (SIDBI) are helping in capacity building of MSMEs and are effectively working towards their resource transformation. SIDBI has extended subsidized lines of credit to MSMEs with bilateral support from the Governments of Germany and Japan. Sustainable development projects which have significant impact towards energy efficiency but not covered under the bilateral lines of credit are also assisted under a Sustainable Finance Scheme. Such initiatives must be studied, replicated and built up to scale.

5. **Redirection of Cross Border Financial Flows**

There is an incumbent need to redirect international financial flows to projects that are ahead of the curve on sustainability and also to allow laggard
companies to come ahead of the curve. The positive momentum generated for projects under the United Nation's Clean Development Mechanism (CDM) are indicative of the fact that India can attract significant global investment flows towards sustainable development. Between 2004 and 2012 India received close to one fifth of the total CDM related certificates issued globally. Replication of such success in the context of financial market flows requires evidence based awareness building. Stakeholders should be made aware of long term positive efficiency gains to the Indian economy and negative long term impacts of climate change and resource scarcity.

For this to happen, government, private sector and civil society need to collaboratively develop climate related risk indices to illustrate how firms encounter systemic and project risk from low-sustainability activities. The quantification of climate risk requires the deployment of a wide range of metrics and tools across sectors. In the context of the Indian economy, little work has been done on assessing such risk levels in various vulnerable sectors.

Flagship initiatives of the new government such as 'Make in India' offer an opportunity to project the country as a destination for sustainable investments, without government subsidy and which make geographical areas that face the largest investments deficits in the country today attractive destinations for such investments.

II. Regulations and Incentives

India has an extensive regulatory framework for the financial sector. The Indian banking regulations and RBI directives hold the power to direct credit to specific sectors and further influence the interest rates, exposure limits, incentives, security and other terms and conditions of lending to various sectors. There are, however, some bottlenecks and regulatory hurdles that may impede the flow of finance into sustainability sector. This may require some innovation and incentives or amending the regulatory framework. Some key suggestions are:

1. Incentives and initiatives which could lead to an increase in domestic equity investment
   - Equity Tax Credits: Tax credits are globally a significant source of equity support in project financed green projects. Equity tax credits support
initial investments in owned and third-party projects. Guidelines for this
need to be developed to take care of sale or switch-out from projects and
norms for project capital investment size.

- Production Tax Credits: Production tax credit is linked to the production of
renewable energy and not to the quantum of investment. It is availed over
the life of the project.

- Development of Energy Service Companies (ESCOs): With the support of
institutions like SIDBI, build ESCO as a viable tax efficient investment
opportunity and allow the rapid entrepreneurial development of the ESCO
market.

2. Building a stronger green development financing
   institution

- IREDA: Building on the financial strength and capability of IREDA to
increase the bank book size to the level of a development financing
institution.

- Lines of Credit: IREDA to garner additional lines of credit and innovative
financing to provide lower cost, long tenor financing in foreign and Indian
currency. Strengthen swap and hedging capabilities for IREDA with
Government support. Build in products for take-out, guarantees and loan
life extension.

- Channelizing global green funds: IREDA with a larger financial capability
mandate would be well positioned to deploy global green funding and
other financial institutions that would be available to India e.g. through
the Green Climate Fund (GCF).

3. Deregulations to increase ECB funding of green projects

- Withholding Tax: In order to increase debt service capability, exemption
from withholding tax payments on ECB interest payments.

- Replacement of Construction Finance and Refinancing: Relaxation of
guidelines to allow ECB route to take out 100% of rupee denominated
construction finance debt facilities. Refinancing of existing ECBs to be
freely permitted and new ECB loans allowed with greater average maturity
or higher cost.
• Hedging: Innovative hedging solutions are allowed for project net-worth above Rs 250 crores. This should be reviewed to a lower net-worth criterion for green projects.

4. **Priority Sector Lending for Renewable Energy**

The renewable energy sector should be put under Priority Sector Lending (PSL) category, specifically for off-grid and decentralised projects. Unutilised amount under PSL should be diverted to clean energy. Funding for manufacturing and project development should be accorded priority sector status to facilitate access to bank finances and on a longer term.

5. **Output based Incentives**

There is need to provide incentives in particular sectors such as output based support or result based financing for the waste management sector. Result based financing could be adopted for waste-to-energy projects and other new sectors in renewable energy space, where based on project evaluation money could be paid to project developers and contractors on successful completion of various stages under the project (details specified in Annexure 1A). Result based financing could be an effective mechanism to efficiently channel resources to this sector.

6. **National Clean Energy Fund**

National Clean Energy Fund aims to provide an impetus for the development of clean energy in India. The NCEF’s existing guidelines need to be amended in order to sharpen its operational framework and improve its effectiveness and performance. A separate window should be created to allocate funding for specific types of projects that improve energy access.

Some amendments to the existing guidelines in order to improve the performance of the Fund are needed in the context of revisions to the existing guidelines for appraisal and approval of projects/schemes eligible for financing under the National Clean Energy Fund; and establishing the monitoring and evaluation (M&E) procedures and processes for the fund as well as approved projects.
III. Market Innovation

Globally in several countries capital market is playing an important role in climate change and sustainability as a new opportunity for investment. While sustainability and climate change are areas of innovative financing needs as well as higher risk exposure, the role of pension funds, insurance and stock markets in these areas is becoming increasingly important. Market innovation is required with respect to credit enhancement as well as developing new thematic markets:

1. Credit Enhancement

There is a need for Credit Rating and Credit Enhancement facility within the Government or Financial Institutions that would encourage the Pension Funds or Insurance Funds to invest in clean projects. The regulator and the investor can closely work on developing a growth model where funding could be done through the investment trust or pure equity investment or some hybrid method with a bit of credit enhancement in it.

2. Linking corporate bond market with green agenda

In India's five year plan, it plans to develop the Corporate Bonds market for the country. India has huge capital resource to develop this market and it was suggested that the green agenda which is essentially about clean and sustainable infrastructure and which has a long term benefit for India could be linked with the Corporate Bond Market to have better access to funds in the clean energy space. To do so the Indian banks with capital constraints could use the refinancing pipeline with equity investors and if the bank lenders could refinance loans of the renewable energy projects faster, such a contribution would greatly benefit this sector. Asset Management Companies, Infrastructure Management Companies could put together portfolios of asset such as Renewables, Bio-Energy, Waste to Energy and these could be then scaled up to get a bond out of it.

3. Green Bonds

Globally, the scenario is such that due to the volatility of the oil prices there needs to be a paradigm shift into the alternative sources of energy to address India's long term goal for energy security and energy for all. A thematic
market should be developed so that large investors could be attracted to invest in this area. Also, investors across the world have shown acute concern about climate issues and green issues and believe that their portfolios are being impacted by these issues.

Green Bonds could be one such path towards gathering funds in this area as this market is growing rapidly across the globe. This market is also characterised by longer tenure and hence, it could be an attractive option of investment in the clean energy space. To grow the Green bonds market in India, the global bonds market and the savings in India or the private capital market could be tapped to address this agenda. In case of India, an attractive model needs to be developed for this market to work and particular benefit the investors or the issuer of bonds. There can be Green City Bonds where cities could issue these bonds to develop infrastructure. There is a need to create awareness among the investing entities. From retail and institutional investor perspective, the requirement would be a self-certification from the corporates. There is a need for a catalyst to identify set of projects through some international rating or some standard rating system and prepare them for International Equity Players to invest in this sector.

4. Yield Company

YieldCo, an income oriented investment vehicle, generates predictable cash flows by bundling up renewable assets with long-term Power Purchase Agreements (PPAs). YieldCo structure is being adopted by the companies to Unlock value of long-term contracted assets that may be undervalued in existing business, access broad yield focused public investor base and create a buyer/long-term owner for project developers (details of YieldCo in Annexure 1B).

With the ambitious target for renewable energy the access to low cost, liquid and repeatable capital source becomes an imperative. In such a scenario, developers would want to have access to a source of capital that can be continuously accessed (liquid) and would not want to be stuck with large amounts of cash on their balance sheets for long periods. Equity markets are inherently more liquid than any fixed income capital sources, and are well suited to meet the capital requirements of the expanding sector. Yieldcos have the ability to continue to approach capital markets, without ever holding large amounts of cash 'war-chests' to fuel growth
Annexure 1A

A. Incentives required in particular sector such as output-based support for the waste management sector

I. Collection & Transportation (C&T)
   (a) Time bound targets for achieving at least 90% segregation at source (biodegradable and non-biodegradable).
   (b) Separate transportation of different waste streams.

II. Composting
   (a) Urban Local Bodies/Municipalities to make mandatory use of city compost (FCO compliant) produced within the city for internal consumption like horticulture, parks and garden maintenance and city landscaping.
   (b) Minimum support price for FCO compliant city compost.
   (c) Output based support as marketing subsidy for Fertiliser Control Order (FCO) compliant compost.
   (d) Fertilizer companies should be mandated to co-market city compost as per recommendation of Supreme Court.

III. Construction & Demolition Waste Management (C&D)
   (a) Wherever there are C&D waste management projects, minimum 10% procurement of the recycled products (kerbstones, pavement blocks, interlocking tiles, manufactured sand, recycled concrete aggregate) should be made mandatory for government departments and private builders/construction companies.
   (b) Exemption from Excise and VAT should be granted for processed C&D waste products (like compost produced from municipal solid waste).

IV. Waste to Energy (WtE)
   (a) The output based assistance in the form of higher tariffs for WtE plants shall be considered on the lines of the initial higher tariff for Solar projects to promote the sector.

V. Refuse Derived Fuel
   (a) Enforce a Renewable Fuel Purchase obligation on all Cement, Power plants and Steel manufacturing companies which should be atleast 5% of their fossil fuel requirement.
   (b) The State Governments to provide VAT exemption on sale of RDF.

Annexure 1B

1. What is a YieldCo?
   The term YieldCo stands for Yield Company and as per finance jargon, yield implies income and thus a YieldCo is an income oriented investment vehicle.

Conceptually, a YieldCo is similar to a Master Limited Partnership (MLP) in the oil and gas space and a REIT (Real Estate Investment Trust) in the real estate sector in that all three vehicles aim to give a stable cash flow stream back to investors. The YieldCo generates these predictable cash flows by bundling up renewable assets with long-term Power Purchase Agreements (PPAs).

A YieldCo is a sponsored investment vehicle wherein a sponsor / parent company (for e.g. a solar power developer) contributes select operating and under construction assets into the YieldCo. The parent must own a majority share of the publicly listed YieldCo.

2. Why are companies adopting the YieldCo structure?
   Unlock value of long-term contracted assets that may be undervalued in existing business
   The parent company can extract additionally value from selling assets to the YieldCo by incorporating more competitive operating assumptions in its valuation than it would upon selling it to a private investor - for e.g. post-PPA pricing, repowering, technology improvements (trackers, control systems, inverters, etc.), refinancing. Moreover, the private market is focused on after tax IRR over a defined asset life as per guidance by the debt community and/or independent engineers, whereas the public market assumes perpetual operations (going-concern business) / replacement of cash flows thereby providing a value uplift.

Access broad yield focused public investor base
Renewable energy projects face risks and uncertainties during the development stage but produce low-risk cash flows once the project is in...
Annexure 1B

Yield Company

1. What is a YieldCo?

- The term YieldCo stands for Yield Company and as per finance jargon, yield implies income and thus a YieldCo is an income oriented investment vehicle.
- Conceptually, a YieldCo is similar to a Master Limited Partnership (MLP) in the oil and gas space and a REIT (Real Estate Investment Trust) in the real estate sector in that all three vehicles aim to give a stable cash flow stream back to investors. The YieldCo generates these predictable cash flows by bundling up renewable assets with long-term Power Purchase Agreements (PPAs).
- A YieldCo is a sponsored investment vehicle wherein a sponsor / parent company (for e.g. a solar power developer) contributes select operating and under construction assets into the YieldCo. The parent must own a majority share of the publicly listed YieldCo.

2. Why are companies adopting the YieldCo structure?

- **Unlock value of long-term contracted assets that may be undervalued in existing business**
  The parent company can extract additionally value from selling assets to the YieldCo by incorporating more competitive operating assumptions in its valuation than it would upon selling it to a private investor - for e.g. post-PPA pricing, repowering, technology improvements (trackers, control systems, inverters, etc.), refinancing. Moreover, the private market is focused on after tax IRR over a defined asset life as per guidance by the debt community and/or independent engineers, whereas the public market assumes perpetual operations (going-concern business) / replacement of cash flows thereby providing a value uplift.

- **Access broad yield focused public investor base**
  Renewable energy projects face risks and uncertainties during the development stage but produce low-risk cash flows once the project is in
operation. An investor who previously perceived investments in renewable energy projects as risky now has the opportunity to invest in low-risk operating assets in exchange for a 3% - 5% yield on investment as well as a 10% - 15% long-term dividend growth target implying a total return profile of 13% - 20%.

- **Create a buyer / long-term owner for project developers**

The YieldCo can source long-term capital at a more attractive cost than its parent company due to its lower cost of capital. In addition, when a parent company sets up a YieldCo to own operating assets, it establishes a reliable buyer due to straightforward negotiation process.

3. **Current YieldCo Landscape**

<table>
<thead>
<tr>
<th>IPR Date</th>
<th>NRGYIELD</th>
<th>TransAlta</th>
<th>Pattern</th>
<th>ABBNOSA YIELD</th>
<th>JPMorgan</th>
<th>LuminOSA</th>
</tr>
</thead>
<tbody>
<tr>
<td>IPO Capacity (MW / transmission miles)</td>
<td>2,545 / 0</td>
<td>1,112 / 0</td>
<td>1,044 / 0</td>
<td>1,010 / 1,018</td>
<td>980 / 0</td>
<td>808 / 0</td>
</tr>
<tr>
<td>Disclosed Growth Target at IPO</td>
<td>10-15%</td>
<td>None</td>
<td>8-10%</td>
<td>NA</td>
<td>12-15%</td>
<td>15%</td>
</tr>
<tr>
<td>FY1 / FY2 Distributable Cash Flow at IPO</td>
<td>$87 / $105</td>
<td>N/A</td>
<td>$55 / $80</td>
<td>$92 / $150</td>
<td>$86 / N/A</td>
<td>$86 / $107</td>
</tr>
</tbody>
</table>

**Increasing acceptance of technology risk**

**Increasing acceptance of geography risk**

**Increasing acceptance of structural complexity**

<table>
<thead>
<tr>
<th>IDRs</th>
<th>NRGYIELD</th>
<th>TransAlta</th>
<th>Pattern</th>
<th>ABBNOSA YIELD</th>
<th>JPMorgan</th>
<th>LuminOSA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction Risk (Capacity under construction / Total IPO capacity)</td>
<td>5%</td>
<td>0%</td>
<td>16%</td>
<td>28%</td>
<td>6%</td>
<td>25%</td>
</tr>
</tbody>
</table>

**Sources:** FactSet, Bloomberg, S-1 and F-1 registration statements and investor presentations.
14

An investor who previously perceived investments in renewable energy projects as risky now has the opportunity to invest in low-risk operating assets in exchange for a 3% - 5% yield on investment as well as a 10% - 15% long-term dividend growth target implying a total return profile of 13% - 20%.

Create a buyer / long-term owner for project developers

The YieldCo can source long-term capital at a more attractive cost than its parent company due to its lower cost of capital. In addition, when a parent company sets up a YieldCo to own operating assets, it establishes a reliable buyer due to straightforward negotiation process.

3. Current YieldCo Landscape

<table>
<thead>
<tr>
<th></th>
<th>IPO Date</th>
<th>IPO Capacity (MW / transmission miles)</th>
<th>Disclosed Growth Target at IPO</th>
<th>FY1 / FY2 Distributable Cash Flow at IPO</th>
<th>Technology Mix at IPO by MW</th>
<th>Geography Mix at IPO by MW</th>
<th>Construction Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABY</td>
<td>7/16/2013</td>
<td>2,545 / 0</td>
<td>10 - 15%</td>
<td>$87 / $105</td>
<td>Hydro</td>
<td>U.S.</td>
<td>5%</td>
</tr>
<tr>
<td>NEP</td>
<td>8/9/2013</td>
<td>1,112 / 0</td>
<td>None</td>
<td>N/A</td>
<td>Wind</td>
<td>Canada</td>
<td>0%</td>
</tr>
<tr>
<td>TERP</td>
<td>9/27/2013</td>
<td>1,041 / 0</td>
<td>8 - 10%</td>
<td>$55 / $80</td>
<td>PV Solar</td>
<td>Other</td>
<td>16%</td>
</tr>
<tr>
<td>(SUNE)</td>
<td>6/12/2014</td>
<td>1,010 / 1,018</td>
<td>12 - 15%</td>
<td>$92 / $150</td>
<td>CSP</td>
<td>Other</td>
<td>28%</td>
</tr>
<tr>
<td></td>
<td>6/26/2014</td>
<td>990 / 0</td>
<td>15%</td>
<td>$86 / N/A</td>
<td>Gas</td>
<td>Other</td>
<td>6%</td>
</tr>
<tr>
<td></td>
<td>7/17/2014</td>
<td>808 / 0</td>
<td>100%</td>
<td>$90 / $107</td>
<td>Other</td>
<td>Other</td>
<td>7%</td>
</tr>
</tbody>
</table>

Technology Mix at IPO by MW

Geography Mix at IPO by MW

IDRs

Construction Risk

($ in mm, except MW and per share values)

Increasing acceptance of technology risk

Increasing acceptance of geography risk

Increasing acceptance of structural complexity

Sources: FactSet, Bloomberg, S-1 and F-1 registration statements and investor presentations.

4. Why are YieldCo's best positioned to scale up the renewable platform in India?

- Renewables will contribute 20% of India's total power generation mix in 2022 compared to the current contribution of 6% representing a c. 6x in total power generated by renewables from c. 62TWh in 2013 to c. 383TWh in 2022. This creates need for having access to low cost, liquid and repeatable capital source

- In such a scenario, developers would want to have access to a source of capital that can be continuously accessed (liquid) and would not want to be stuck with large amounts of cash on their balance sheets for long periods.

- Equity markets are inherently more liquid than any fixed income capital sources, and are well suited to meet the capital requirements of the expanding sector. Yieldcos have the ability to continue to approach capital markets, without ever holding large amounts of cash ‘war-chests’ to fuel growth

- Dividend growth in yieldcos is subject to expanding pipeline, hence, yieldcos with a strong developer can continue to feed projects to the vehicle, leading to meeting investor targets and the future expansion continues to be fueled by accessing additional equity capital by secondary raises

- Typically Yieldco's are not over leveraged, but lowering of debt costs by securitization and other means to lower debt costs is well suited to fueling growth. Thus, Yieldco's do not eliminate need to access fixed income markets, but rely upon them.

(1) Includes 1,098 net MW of steam and chilled water capacity from thermal assets.

(2) S-1 Registration Statement - FY2 represents "run rate."

(3) S-1 Registration Statement - FY1 represents year ending 6/30/2015 and FY2 represents CY 2015.

(4) S-1 Registration Statement - FY1 represents year ending 6/30/2015 and FY2 represents 6/30/2016. 605 of 2016 DCF in USD. More than 90% of CAFD is USD denominated.

(5) ABY MW by technology includes transmission and distribution lines as a % of CAFD.
Acknowledgements

- Ms Naina Lal Kidwai, Chairman HSBC India, Executive Director HSBC Asia Pacific, Chairman India Advisory Council, UNEP India Inquiry & Member of UNEP International Advisory Council on Design of a Sustainable Financial System, for steering the India Inquiry and her guidance for the Interim Report.

- Mr Nick Robins, Co-Director, Inquiry into the Design of a Sustainable Financial System, UNEP for his contribution and guidance.

- Members of the India Advisory Council of the UNEP India Inquiry and its working groups for their participation and support.

- Dr. Rathin Roy, Director, National Institute of Public Finance and Policy (NIPFP) and Member, Seventh Central Pay Commission, Government of India, Mr. Samir Saran, Senior Fellow & Vice President, Observer Research Foundation, Mr. Ardeshir Contractor, Managing Director, Kiran Energy, Mr. Krishan Dhawan, Chief Executive Officer, Shakti Sustainable Energy Foundation, Mr. Mahesh Babu, Managing Director, IL&FS Environment and Mr. Pashupathy Gopalan, President - SunEdison Asia Pacific, SunEdison for their specific contributions to the Interim Report.

- Ms Rita Roy Choudhury, Senior Director & Head - Environment, Climate Change, Renewable Energy and Water, FICCI and Ms Ritika Sehjpal, Assistant Director - Environment Climate Change & Renewable Energy, FICCI, for their work under UNEP India Inquiry and its Interim Report.
Acknowledgements

Mrs. Naina Lal Kidwai, Chairman HSBC India, Executive Director HSBC Asia Pacific, Chairman India Advisory Council, UNEP India Inquiry & Member of UNEP International Advisory Council on Design of a Sustainable Financial System, for steering the India Inquiry and her guidance for the Interim Report.

Mr. Nick Robins, Co-Director, Inquiry into the Design of a Sustainable Financial System, UNEP for his contribution and guidance.

Members of the India Advisory Council of the UNEP India Inquiry and its working groups for their participation and support.

Dr. Rathin Roy, Director, National Institute of Public Finance and Policy (NIPFP) and Member, Seventh Central Pay Commission, Government of India, Mr. Samir Saran, Senior Fellow & Vice President, Observer Research Foundation, Mr. Ardeshir Contractor, Managing Director, Kiran Energy, Mr. Krishan Dhawan, Chief Executive Officer, Shakti Sustainable Energy Foundation, Mr. Mahesh Babu, Managing Director, IL&FS Environment and Mr. Pashupathy Gopalan, President -SunEdison Asia Pacific, SunEdison for their specific contributions to the Interim Report.

Ms Rita Roy Choudhury, Senior Director & Head - Environment, Climate Change, Renewable Energy and Water, FICCI and Ms Ritika Sehjpal, Assistant Director - Environment Climate Change & Renewable Energy, FICCI, for their work under UNEP India Inquiry and its Interim Report.
Federation of Indian Chambers of Commerce and Industry (FICCI)

FICCI, the apex industry organisation in India, is the leader in policy thinking and change and is in the vanguard of nation building. Established in 1927 and with a nationwide membership of over 1500 corporates and over 500 chambers of commerce and business associations, FICCI espouses the shared vision of Indian businesses and speaks directly and indirectly for over 2,50,000 business units. FICCI facilitates business-to-business linkages, promotes trade and investment linkages, creates awareness on key issues for the economy, provides inputs for policymaking, acts as a conduit for government-industry exchange and promotes bilateral ties.

FICCI’s Committees and Task Forces on Environment, Climate Change and Renewable Energy serve as platforms for policy deliberations and interface with the government on key policy and regulatory developments. Corporate Sustainability assumes an important dimension to focus on as FICCI realises the growing interest of Indian companies in building a sustainability paradigm. Conducive policy frameworks are extremely important to facilitate positive action and innovation by industry. FICCI therefore is deeply engaged in mainstreaming Indian Industry’s views in environmental policy areas such as waste management (municipal, electronic and hazardous waste management), environmental and forest clearances, biodiversity issues, etc. FICCI’s annual flagship platforms like the India International Cleantech Summit, India Sustainability Conclave and India Climate Policy and Business Conclave bring together stakeholders in all these spaces to exchange ideas and best practices so that collective actions can be explored to create a positive impact on environment and society.

United Nations Environment Programme (UNEP)

UNEP, established in 1972, is the voice for the environment within the United Nations system. UNEP acts as a catalyst, advocate, educator and facilitator to promote the wise use and sustainable development of the global environment. To accomplish this, UNEP works with a wide range of partners, including United Nations entities, international organizations, national governments, non-governmental organizations, the private sector and civil society.

UNEP work encompasses:
- Assessing global, regional and national environmental conditions and trends
- Developing international and national environmental instruments
- Strengthening institutions for the wise management of the environment

Mission

“To provide leadership and encourage partnership in caring for the environment by inspiring, informing, and enabling nations and peoples to improve their quality of life without compromising that of future generations.”

Mandate

“to be the leading global environmental authority that sets the global environmental agenda, that promotes the coherent implementation of the environmental dimensions of sustainable development within the United Nations system and that serves as an authoritative advocate for the global environment”

For India Inquiry and the India Advisory Council
Please Contact
Ms Rita Roy Choudhury
Senior Director & Head - Environment, Climate Change, Renewable Energy and Water
Tel: +91-11- 23325110(D), 23738760-70 Extn 354
Fax: +91-11- 23721504, 23320714
Email: rita.roychoudhury@ficci.com
Federation of Indian Chambers of Commerce and Industry (FICCI)
Federation House, Tansen Marg, New Delhi 110001, INDIA

For the UNEP International Inquiry
Please Contact
Mr Nick Robins
Co-Director
nick.robins@unep.com
www.unep.org/inquiry