



Portfolio Level Debt Facility for Clean Energy Enterprises

Pooling funds to increase the uptake off-grid energy systems by empowering climate-smart enterprises



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Background

In India, there has been significant progress on the SDG 7 – affordable and clean energy. The access to electricity has been expanded to 87% of India's total population including many low-income communities and the share of renewable energy (RE) has been increased to 32% of the total energy mix¹. At the same time, important energy challenges remain: millions of people especially in rural areas of low-incoming states including Bihar, Uttar Pradesh, and Jharkhand remain without reliable access to electricity. At the same time, India's energy consumption is expected to at least double until by 2030² highlighting the importance to offer inclusive RE pathway to achieve climate change mitigation goals.

In the light of India's "trilemma to balance energy security, access and sustainability", the RE market lives a momentum³. Around in India, there is an increasing number of climate-smart enterprises that offer RE solutions such as solar home or other off-grid systems have proved as a valuable option to electrify last-mile communities. Yet off-grid solution requires high upfront investment to make it available to low-income households and RE enterprises commonly struggle to obtain the needed debt financing, including challenges typical for climate-smart enterprises: a **limited availability of "missing middle"-scale investments** or products; a **lack of monetary indicators** for returns on climate-smart business models, as well as longer **time horizon for green-climate investments** to capitalise.

Solution Overview

The **Portfolio Level Debt Facility for Clean Energy Enterprises** is targeted towards closing the debt funding gap in the RE sector by creating a corpus for a portfolio of clean energy social enterprises. This aims to create enhanced impact and an overarching ecosystem development for RE off-grid enterprises, catalysing the

Focus:	Climate change mitigation
Ecosystem Impact:	Access to finance; Infrastructure & technology
Lab Cycle:	Climate Finance, India 2018
Challenge Hosted by:	New Ventures

uptake of renewable energy in India and especially reaching last-mile communities.

Key Features

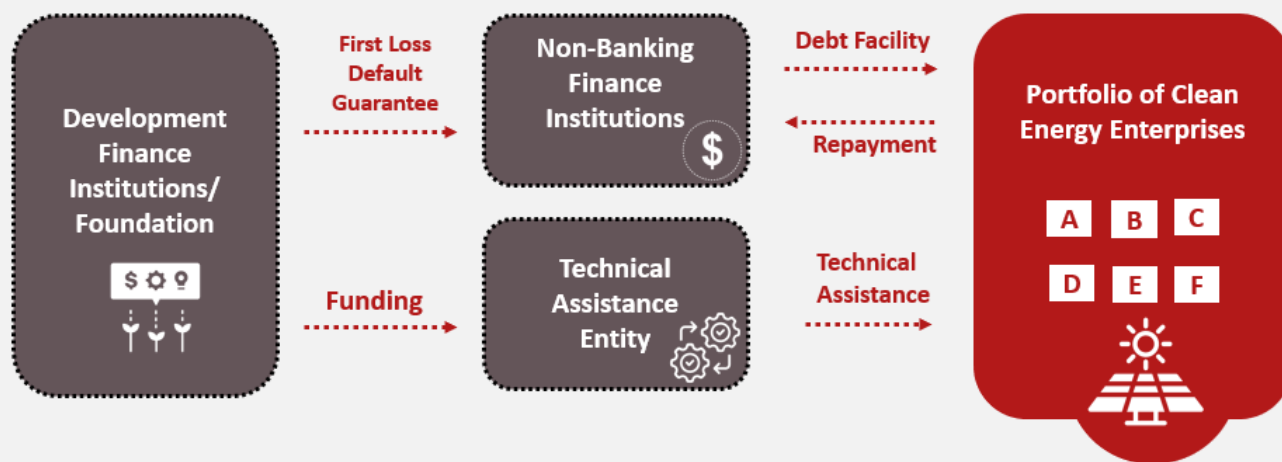
The Portfolio Level Debt Facility addresses this financing challenge by directing debt capital to RE-off-grid enterprises that are pooled together in a portfolio. A **Non-Banking Finance Institution (NBFI)** acts as an intermediary and carefully selects the enterprises through a due diligence process. Thereupon, the NBFI provides debt product to the RE enterprises that is hand-tailored to their needs ranging from revolving loans to bill discounting facilities. The interest rate for the enterprises will be at about 14-16%.

The debt product is accompanied by **technical assistance for the enterprises ensuring** the long-term impact of the project by building capacities and increasing the ability of the enterprises to repay the loan. The **capital provided is backed by a first loss default guarantee (FLDG)** by a foundation or development finance institution. This facilitates the provision of capital to enterprises that would need to pay high interest rates due to their high risk and limited collateral. Importantly, the FLDG can be leveraged to enable a larger facilitation of capital in comparison to one-on-one grants. As the portfolio debt facility expires, the FLDG amount could be re-used to facilitate further capital.

¹ [Energy progress report](#) n.d.: Country Reports India.

² [The Guardian 2017](#): How India's battle with climate change could determine all of our fates.

³ [The Economic Times 2019](#): India's Trilemma: Balancing Energy Security, Access and Sustainability:



Innovative Characteristics

- **Applying a portfolio level structure** securing access to capital for RE enterprises.
- **Creating a leverage effect through using a first cross default guarantee** by a development charity or finance institutions as guarantors.
- **Providing technical assistance to RE enterprises** that accompanies the offered debt at strengthening impacts and repayment capacities of associated enterprises.

the product ensuring long-term sustainable growth of the enterprises.

- **Supporting the transition to an inclusive and low-carbon economy** by expanding RE off-grid development to last-mile communities

Solution Developers



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Target Market

The instrument focuses on climate-smart enterprises in the solar home system (commercial, industrial, and residential) and agriculture-linked RE products (cold storage, solar pumps). During the two-year pilot phase for the Portfolio Level Debt Facility, the product will provide debt capital to **10-15 clean energy enterprises from a pool of funds of 10-15 million USD**. The due diligence process conducted by NBFO follows criteria such as: vintage, size, profitability, impact and participation in initiatives. This selection process allows to spread fund across all decentralized RE sub-sectors and Indian region to support a wider ecosystem development.

SEED Practitioner Labs Climate Finance empower participants during the hands-on and collaborative Labs process to turn major financing challenges into robust prototypes. SEED Practitioner Labs Climate Finance are part of the implementation of "Financing and capacity building for micro and small climate-smart enterprises: Filling the gap of the missing middle", a project supported by the German Federal Ministry for the Environment, Nature Conservation, and Nuclear Safety.

Impact Potential

- **Catalysing the uptake of RE** by extending the reach of RE enterprises in need of debt capital to scale-up.
- **Increasing capacities of RE enterprises** through the technical assistance component of