**CONCEPT NOTE**

As an emerging force in the global energy economy, it becomes imperative for a country like India to support its expanding economy by identifying energy as a cardinal determinant to achieving its developmental goals. The challenge before the energy policy-makers in the country today is to evolve a secure, sustainable and innovative energy sector that would also resonate well with the country’s commitment towards its climate pledges that resolves to follow a cleaner path towards economic development. Along with it, there is also an increased interest in the energy policies and related strategies of the Indian government at a global level owing to its influence over global energy prices, climate change and geopolitical permutations. Thus, India’s ties with the international energy system are only bound to deepen further in the coming days and this in turn would also heighten the country’s dependence and sway over international markets through channels like trade, foreign investments and clean energy cooperation measures. It is in this context that it becomes relevant and prudent to look in to India’s energy policy choices, the financial flows that facilitate the execution of such policy measures and the ramifications presented by these policy decisions; both for the country’s developmental objectives, environment and energy security and also for an international energy order where India continues to play a pertinent role.

Any transition to a process of sustainable development would invariably require the accompaniment of a judicious outlining of the energy policy that is compatible with the actual (and not projected) developmental needs of the country. Such a well-designed policy should also serve as the rationale behind the demand and supply of energy all across the country. Hence, along with the unbridled sanctioning of flow of foreign funds to the country’s energy sector in the bid to be a major driving force in the global energy market (which falters often on transparency or lender accountability) the government of the day also requires to primarily be committed to improving the living standards of its people. The quality of life of people can only be augmented by providing them a framework that guarantees not just energy security but its optimal utilization too. Amidst a projected exponential rise in the global energy demands in the coming years, India’s total energy demands are also expected to be on the rise as the continuous demographic expansions invariably makes it the world’s most populous country.

The liberalization of India’s energy sector post the introduction of the New Economic Policy in 1991 and the subsequent dependence on conditional loans from International Financial Institutions like the IMF and World Bank have brought in to spotlight the power and influence of foreign capital in the development of the global South. The numerous policy reforms that accompanied the liberalization process has essentially transformed the energy enterprise in the country from being a pre-dominantly government controlled system to one monitored and defined by market permutations. The increased dependence on inflows, both in terms of material and monetary resources, has consequently exposed the country to greater geopolitical risks globally. Coupled with this is also the risk of an internal systemic failure to sustain a well-functioning and financially viable energy sector within the country. For instance, the power sector in the country, which until 1991 was completely nationalized, moved over to private power generation projects which not just amplified the control of the corporates over foreign capital investments in the country but also contributed to a significant spatial realignment of the country to make it more foreign-capital-friendly.

The increase in demand for power generation in the country was coupled by a surge in the consumption of coal which at present makes us one of the larger consumers of coal in the world. Oil demand is also at an all time high in India with projections going up till 100 mb/d by 2040 which in turn makes it important for the country to step up its deployment of renewable sources. Solar, Hydro, Solid biomass, Wind energy are all leading the way towards a low carbon development pathway and are suitably presenting possibilities of transformational changes in the energy sector by creating new economic opportunities and accentuating energy access. However, the Renewable Energy Technology also requires the government to evolve such financial instruments that would turn over the greatest amount of private funding for the smallest amount of public funds, thus negotiating the maximum leverage.

The quest for a rapid economic growth in the country had to be simultaneously complimented by a boost in the energy supplies that in turn necessitated large scale investments cutting across sectors; from coal to renewable to energy generation and delivery mechanisms. In the case of India, the energy policies have largely remained steady and compatible with the liberalization guidelines of the government of the day. While the energy sector has experienced huge investments, from both public and private sectors, since the beginning of the economic liberalization of the country in the 1990’s, over the years the private investments have witnessed a considerable growth in various sectors; especially the power, oil, gas and mining sectors. The KPMG Report of 2016[[1]](#footnote-1) on investments in India’s energy sector estimated the total investments in conventional and renewable power generation, along with the transmission of power, from private equities and domestic and inbound M&A at around $15 billion for the period from April 2009 to May 2104 and this rose substantially to almost $25 billion by November 2016. The report also emphasized on the need for increased domestic and foreign investments in segments like renewable energy, oil and gas. Consequently, it also urged the government as a key stakeholder to resolve the challenges posed by the stressed assets in these sectors while also putting in place suitable regulatory systems.

It is to be noted here that as opposed to renewable energy sources, coal and especially the power sector have experienced a significant momentum in the investment flows of last many years. The power sector attracted well over USD 14.18 billion in the form of FDI between April 2000 and June 2018 thereby constituting 3.64% of the total FDI inflows in to the country[[2]](#footnote-2). The acquisition by Kohlberg Kravis Roberts & Co of Ramky Enviro Engineers Limited for a sum of US $130 million in August 2018 and the largest M&A deal undertaken by ReNew Power through the acquisition of Ostro Energy for US$ 1,668.21 million in April 2018 were the two major investment developments in the Indian power sector in 2018[[3]](#footnote-3). Similarly, the coal-based power generation capacity, which currently stands at 196.10 GW is also expected to reach 330-441 GW by 2040[[4]](#footnote-4). As coal is expected to dominate the Indian energy sector for at least another 2 decades, because of its cost efficiency and availability, the government is seeking more foreign funds to move towards its “clean coal” project and the world’s largest coal miner, Coal India, is gearing up to increase its production to about one billion tonnes by 2022.

However, along with a boost in the coal and power sector investments, the recent trends in the energy sector investments also clearly points to a lack of willingness on the part of the lenders to fund renewable energy projects in India. While the Power Minister himself urged the stakeholders concerned to address the issue at hand, the latter admitted that the lenders are indeed reeling under a shroud of general apprehension about investing in the renewable energy sector primarily due to the uncertainties surrounding the sector. The uncertainties are mostly related to the Non-Performing Assets (NPAs) in the thermal power sector, challenges pertaining to power evacuation and falling tariffs. In addition to this, the Ministry of New and Renewable Energy has only managed to install a renewable energy capacity of 71 GW in the country, onwards to fulfilling its target of 175 GW by 2022, and hence requires an additional investment of USD 100 billion to install the remaining 104 GW project capacity[[5]](#footnote-5). There is also an additional requirement of investments both for supporting the requisite infrastructure for energy projects within the country and for institutionalizing sustainable and clean energy projects like low-carbon technology. In the context of the vociferation for clean and sustainable technologies, it has to be stressed that the power push in the country is indeed threatening the environment with large tracts of forests facing the threat of a near total deforestation to make way for power plants and coal mining. In fact many of the proposed and existing thermal plants and coal-fired power stations are likely to displace large number of communities due to their unregulated pollution of the soil and ground water around residential areas.

The global trends in the energy market also clearly points to efforts world over to transition to sustainable energy resources by cutting down on the coal funding. As of February 2019, around 20 banks have stopped direct financing to both new coal mines and new coal plant projects world over. The list includes ING, Natixis, KBC, Deutsche Bank, BNP Paribas, Standard Chartered, Santander, Barclays and many others. The United Overseas Bank based out of Singapore, for instance, in its annual general meeting on 26 April, 2019 resolved to freeze all sorts of funding for coal power projects in response to the growing concern over the role of finance groups in lending to energy sources integrally connected to climate change. According to the Institute of Energy Economic and Financial Analysis, over 100 global financial institutions with a net worth of at least $10 billion in assets have announced coal finance restrictions around the globe, with China, Japan and Singapore leading the way in Asia. Sustainable finance at present occupies the fulcrum of energy debates in the international arena.

Thus, in the context of the rapidly growing demand for energy, which has set in to motion an ever increasing concern about the accompanying economic and environmental ramifications, it has to be spelt out that the need of the hour is an efficient and well-designed energy regime in the country. Such a systematized energy regime has to be mindful of the accessibility of the vast populace to energy resources, energy security of the poor and the repercussions on environment emanating from over projections of demands. As the energy policies of an incumbent government leave its mark on all sectors of the economy, there is the need for a larger dialogue on the need to judiciously maximise the security of energy supplies in the country to fuel development without burdening both man and the environment. The need to maintain a balance between the rationale and the motivations behind policy making in the Indian energy sector is hence at present at an all time high.

**The two day Energy Finance Conference, that seeks to bring together financial analysts, bankers, academicians, energy analysts and activists to initiate a dialogue on the Indian energy paradigm as it stands today along with also understanding the financial flows in to different energy sectors, is scheduled for August 16 and 17, 2019 at the IGCS Hall in IIT Madras, IIT P.O., Chennai.**

1. KPMG in India’s Annual Energy Conclave (November 2016), “Renewing Investments in the Indian Energy Sector”. [↑](#footnote-ref-1)
2. https://www.ibef.org/industry/power-sector-india.aspx [↑](#footnote-ref-2)
3. ibid [↑](#footnote-ref-3)
4. ibid [↑](#footnote-ref-4)
5. Saluja, Nishtha (September 2018), “Lenders Reluctant to Fund Renewable Energy Projects in India; Power Minister Calls Stakeholders Meet”, *The Economic Times*. [↑](#footnote-ref-5)