IFC-Backed Green Masala Bond Helps Scale Renewables

India, the world’s third largest country in terms of annual greenhouse-gas emissions, is gradually reducing its dependence on fossil fuel sources of energy. The goal is ambitious: to have cleaner energy sources account for 40 percent of total energy generation capacity by 2030. This means nearly 300 gigawatts of renewable capacity must be generated, of which solar is estimated to comprise 209 gigawatts.¹ To achieve these goals, a green bond market needed to be developed that could support the long-term financing needed for projects involving climate change. YES Bank, India’s fifth largest private sector bank and a local leader in climate financing, responded to the challenge and in 2015 issued a green bond with $50 million in IFC investment. With IFC’s support, YES Bank is scaling its investments in renewables, while including an added focus on expanding access to climate-related financing for women-owned small and medium enterprises (SMEs).

AT A GLANCE

• YES Bank’s investments in renewables are helping to avoid over 40,000 tons in greenhouse-gas emissions.

• YES Bank’s goal is to expand its SME portfolio to 50 percent by 2020. The bank is increasing its financing to reach women-owned SMEs which traditionally had difficulty obtaining loans because of a variety of socio-cultural restrictions.

• IFC brings its extensive experience working in infrastructure finance, small business lending, gender finance, and renewable energy finance to its partnership with YES Bank and is exploring deeper collaboration in capital markets.

• IFC’s long-term financing is supporting India’s renewable energy goals, building confidence and encouraging investors, particularly financial institutions, to develop a green market.

• Environmental Finance, an online news and analysis service, awarded the transaction the Special Award for Innovation. In 2016, the Climate Bond Initiative, an international investor-focused nonprofit active in mobilizing the $100 trillion bond market for climate change, awarded YES Bank the Green Bond Pioneer Award for its work in instituting an emerging market green bond — the first of its kind for both India and IFC.²

A GREENER FUTURE WITH GREEN BONDS

Developing countries are taking the lead in leveraging renewable energy such as solar and wind to power their growing economies. In 2015, developing country investments in renewables outweighed those of developed countries. India
led the way with a commitment increase of 22 percent ($10.2 billion) between 2014 and 2015. In 2015, India accounted for 10.2 percent of global new investments in renewables, and the country’s clear strategy and aggressive investments are making renewable-derived energy increasingly cheap, at around $1 million per megawatts (MW). This will be a key element in reaching the country’s goal of producing 100 gigawatts in solar and 60 gigawatts in wind by 2022. Private sector banks like YES Bank are playing an enormous role in sustaining this progress because the traditional lending channels they provide access to also support debt requirements and provide necessary capital.

YES Bank is rooted in responsible banking, and works tirelessly to support the Government of India in reaching the country’s sustainable development goals by catalyzing markets for green infrastructure. This dedication, combined with its presence in each of India’s 29 states and in seven union territories, positions YES Bank as an excellent partner for IFC in investing in an emerging-market green bond. Other factors leading to IFC’s presence in India were the country’s non-subsidy driven approach, a reduction of renewable energy costs, decreasing investment in coal-based projects, and signals from the market that it could support clean energy investments.

**IFC’s Value Addition**

IFC’s green bonds provide capital needed for investing in developing countries, but also contain specific requirements for the investments to be environmentally friendly. These bonds carry a guarantee for climate-smart development. This helps countries like India meet ambitious climate goals by funding renewable and energy efficiency development as well as taking adaptation initiatives. Furthermore, IFC’s local currency green bonds indicate that a market is viable to foreign investors — a high priority for both IFC and the government of India as they work to develop long-term growth in local capital markets.

A key component of the YES Bank project is a significant emphasis on knowledge sharing, particularly involving infrastructure finance, small business lending, gender finance, and renewable energy finance. Both YES Bank and IFC are learning from each other, creating better products that are meeting client needs. IFC’s engagement with YES Bank supports women-owned businesses. These businesses make economic sense, as women tend to attract more loyal customers, are more risk averse, and less sensitive to prices.

The future is bright for the YES Bank and IFC partnership. They are collaborating in capital markets and cleaning up India’s electricity sector one climate-smart investment at a time.

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