

Investing in a Climate for Change

Engaging the Finance Sector

Highlights

20,000 systems financed
benefiting more than
100,000 people

More than 2000 bank
branches participated

New banks have entered
the market

A reducing interest rate
subsidy provided a key
motivation for banks to
lend

Energy Globe awarded in
2007



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Indian Solar Loan Programme

From 2003-2007, the Indian Solar Loan Programme worked with two of India's largest banking groups – Canara Bank and Syndicate Bank - to provide consumer financing for solar photovoltaic home systems. Major support was provided by the UN Foundation with additional backing from the Shell Foundation.

A Market Need

More than 60% of rural Indian households do not have access to a reliable electricity supply, and must often rely on kerosene for light and dung and wood for heat. These relatively poor quality energy resources create respiratory diseases impacting their health, and limit economic and social development.

Solar home systems can be an attractive alternative to relying on grid electrification, but without affordable financing options their high initial cost puts them beyond the reach of most households. Increased access to financing can enable rural households to secure a clean and reliable energy source and to pay for it with the money they are currently spending on conventional energy options. Prior to 2003, few banks were willing to offer loans for these systems, and those that did charged high interest rates that put the repayments beyond the reach of most households.

Innovative Support

To overcome this barrier, UNEP and its UNEP Risoe Centre initiated the Indian Solar Loan Programme, providing Canara Bank and Syndicate Bank with broad-based support for beginning to lend to solar home system market. This support included an interest rate subsidy, marketing support and a vendor qualification process.

Syndicate Bank and Canara Bank were chosen based on their extensive branch networks, reputations for progressive social banking and interest in developing dedicated loan products for the solar PV sector. Banks preferred the interest subsidy over loan guarantees or other support mechanisms because it enabled them to offer preferential banking terms to their customers in an efficient and transparent manner, even though they would not directly benefit.

The Indian Solar Loan Programme in essence paid the banks the difference between the commercial interest rate for equivalent loan types – about 12% - and the 5% interest rate the banks charged to customers under the Programme. This subsidy was progressively phased out over the four-year Programme, leaving the banks with a purely commercial, competitive, and affordable solar loan product.

The loans were offered through 1,115 Canara and Syndicate bank branches as well as 1,051 branches of 9 rural Grameen banks sponsored by Canara and Syndicate. Importantly for market development, the Programme also provided oversight of the loan process, including

- the vendor qualification process, which ensures that vendors have the experience

and service infrastructure to maintain the products they sell;

- compulsory product warranties and service contracts;
- customer satisfaction surveys;
- bi-annual bank and vendor audits; and
- the programme's overall evaluation component.

Results

Prior to the Indian Solar Loan Programme, only 1400 loans had been provided to the solar sector by a range of banks, mostly through relationships between solar vendors and individual banks that financed in the range of 100-300 loans. By the end of the UNEP Programme, almost 20,000 household systems had been financed benefiting more than 100,000 people.

Although Syndicate and Canara were the first major lenders, a number of other banks started to compete in this new credit market, financing an additional 4,000 loans by the end of 2005. Although the solar home sector was pretty much a cash-only business in 2003, today over 50% of sales are credit-financed, representing an strong response by the credit market to the impetus.

Indian banks are keen to develop new loan products and the partnership with UNEP allows them to do so in a growing clean energy sector. An interest subsidy helps them to build solar financing portfolios without distorting the credit risk - sometimes a problem with instruments such as loan guarantees - or the existing cash market for solar home systems. Five solar vendors were qualified under the Programme, making their customers eligible for financing.

Importantly, the Indian Solar Loan Programme provided a strong market signal, rather than the market distortion that often accompanies larger development projects. Even though the banks did not profit directly from the \$1 million interest rate reduction fund since the benefits were passed on to the customer, they still eagerly promoted solar lending because they saw the opportunity to develop a new credit market. Further, the economics of the solar systems changed only very slightly with the interest rate reduction, so the growth of the market had little to do with the lower cost of systems. The Programme provides an important access to finance, motivating banks to lend to a new sector, which helped overcome the barrier to developing the market.

In recognition of its success, UNEP, the UNEP Risoe Centre and the Indian Solar Loan Programme received the Energy Globe Award in 2007.

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