



Report and Recommendation of the President to the Board of Directors

Project Number: 47926
April 2014

Proposed Equity Investment ReNew Power Ventures Private Limited ReNew Power Investment Project (India)

This is an abbreviated version of the document approved by ADB's Board of Directors that excludes information that is subject to exceptions to disclosure set forth in ADB's Public Communications Policy 2011.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 13 March 2014)

Currency unit	–	Indian rupee/s (Re/Rs)
Re1.00	=	\$0.016395
\$1.00	=	Rs60.99

ABBREVIATION

ADB	–	Asian Development Bank
ESMS	–	environmental and social management system
GSW	–	Goldman Sachs Wyvern Holding Limited
GW	–	gigawatt
IPO	–	initial public offering
MW	–	megawatt
ReNew	–	ReNew Power Ventures Private Limited

NOTES

- (i) The fiscal year of all ReNew Group entities ends on 31 March.
- (ii) In this report, “\$” refers to US dollars.

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PROJECT AT A GLANCE

1. Project Name: ReNew Power Investment Project		2. Project Number: 47926	
3. Country: India		4. Department/Division: Private Sector Operations Department Infrastructure Finance 1	
5. Sector Classification:			
Sectors		Primary	Subsectors
Energy		√	Renewable energy generation
6. Thematic Classification:			
Themes		Primary	Subthemes
Economic growth		√	Promoting macroeconomic stability
Environmental sustainability			Eco-efficiency
Private sector development			Promotion of private sector investment
6a. Climate Change Impact:		6b. Gender Mainstreaming:	
Adaptation		Gender equity theme	
Mitigation		√	Effective gender mainstreaming
Not applicable		Some gender elements	
		No gender elements	
		√	
7. Targeting Classification:		8. Location Impact:	
General Intervention	Targeted Intervention		
	Geographic dimensions of inclusive growth	Millennium development goals	Income poverty at household level
√			
		Rural	Medium
		Urban	Medium
		National	Medium
		Regional	Not Applicable
9. Nonsovereign Operation Risk Rating :			
10. Safeguard Categorization:			
Environment		B	
Involuntary resettlement		B	
Indigenous peoples		C	
11. ADB Financing:			
Sovereign/Nonsovereign	Modality	Source	Amount (\$ million)
Nonsovereign	Equity	OCR	\$50.0 million
12. Cofinancing: Not Applicable			
13. Counterpart Financing: Not Applicable			
14. Aid Effectiveness: Not Applicable			

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed equity investment of up to the Indian rupee equivalent of \$50 million to ReNew Power Ventures Private Limited for the ReNew Power Investment Project in India.

II. THE PROJECT

A. Project Identification and Description

1. Project Identification

2. India is in chronic need of additional power generation capacity. The Government of India's Eleventh Five Year Plan, 2007–2012 targeted the creation of 79 gigawatts (GW) of additional conventional power capacity. However, actual realization was no more than 55 GW. The government in its Twelfth Five Year Plan, 2012–2017, has set a larger target of 100 GW including 24 GW of capacity which should have been completed in the previous plan. India also needs to diversify its energy mix, not only to combat climate change but also to ensure the country's energy security. The availability of indigenous conventional fuels is diminishing and India has to import increasing quantities of expensive coal and liquefied natural gas. The share of renewable power—including hydropower—in total installed capacity has declined from 44% in 1970 to 31% in 2011. The government intends to stop this decline and has set a goal of maintaining the proportion of renewable power at its current level (31%) until 2023.¹

3. The project team has sought to identify renewable energy developers suitable for financing support from the Asian Development Bank (ADB), which can make a material impact in alleviation of the power shortage in the country. ReNew Power Ventures Private Limited (ReNew) was identified as one such developer. The company and ADB initiated a dialogue in April 2013 and ReNew proposed an ADB equity investment of the Indian rupee equivalent of \$50 million to help finance the company's growing pipeline of wind projects.

4. ReNew combines the presence of a credible sponsor, a proven track record, a strong project pipeline, and a high-quality management team, which position the company to become one of the leading renewable energy players in India. The project is consistent with PSOD's strategy of supporting high-potential private renewable energy developers in India through growth capital. ADB's assistance will improve ReNew's ability to attract other investors and enable the company to achieve its target of at least 1,000 megawatts (MW) of operating renewable power projects in India by 2015. Supporting a developer at the holding level instead of at a single project level will leverage ADB's funds and create greater development impact in terms of renewable energy capacity addition (more megawatts per ADB dollar invested)

2. Project Design

5. ADB's investment enables ReNew's equity injection in a portfolio of renewable energy projects at various stages of development with a total capacity in excess of 1,000 MW across India.

¹ Government of India. Central Electricity Authority. 2012. *National Electricity Plan*. Delhi.

3. The Sponsor

6. ReNew is an independent power producer and a leading renewable power developer in India. It was established in 2011 with a vision of developing a best-in-class company which will have a material impact in helping India meet its renewable energy target. Goldman Sachs is one of the key investors of ReNew. Since its foundation, ReNew has built a portfolio of over 300 MW of wind capacity with almost twice as much under early stage development. ReNew's management team consists of experts in wind power development, engineering, corporate finance, investment banking and accounting, with each individual having a minimum of 10 years of experience in their respective fields.

7. Goldman Sachs is a strong investor, but it is keen to partner with ADB because of the significant value which it believes ADB can add to ReNew in the long term. ReNew's ultimate goal is to become India's largest renewable energy player and, to this end, the company needs to diversify its capital base and partner with an entity which shares the same commitment to, and high profile in, renewable energy. ADB, as an additional shareholder, will strengthen ReNew by bringing in international best practices in areas such as safeguards and corporate governance, and share some of the knowledge which ADB as a bank has in the area of renewable energy.

B. Development Impact, Outcome, and Outputs

1. Impact

8. The project is expected to accelerate India's economic growth by providing additional large-scale power generation capacity to a country where chronic power shortage is a matter of widespread public concern and a constraint on economic growth. In particular, the project will contribute to the development of renewable energy generation for which the government has set an ambitious target, and help reduce global greenhouse gas emissions in line with the United Nations' Millennium Development Goals.² The project will help in preserving India's energy mix by increasing the level of reliance on indigenous renewable resources as opposed to imported fossil fuels.

9. ADB's assistance will also support private sector development by catalyzing private investment in India's energy sector. ADB's assistance will also support private sector development. It will help demonstrate that profitable investments are achievable in the renewable power subsector and, as such, will catalyze more private investments in renewable energy.

2. Outcome

10. The project outcome is addition of renewable energy capacity efficiently operated by the private sector. The project is expected to generate and sell at least 1,226 gigawatt-hours of electricity annually and avoid approximately 956,280 tons of carbon dioxide annually from 2015 onwards.³ The project will also add local employment and tax revenues.

² United Nations Development Programme. 2000. *The Millennium Development Goals*. <http://www.undp.org/content/undp/en/home/mdgoverview/>

³ Assuming 560 MW of additional capacity to be operational by 2015. The average plant load factor is assumed to be 25% and India's electricity emission factor to be 0.78.

3. Outputs

11. The project output is the development and commissioning of at least 560 MW of additional wind power capacity by 2015.

C. Alignment with ADB Strategy and Operations

1. Consistency with Strategy 2020 and Country Strategy

12. The project is consistent with ADB's Strategy 2020.⁴ It relates to two of the five core specializations of ADB: infrastructure and environment. In particular, the strategy calls for ADB's support for clean energy development to meet growing energy demands in a sustainable manner. The project will also contribute to ADB's operational goal of scaling up private sector development and private sector operations. The project is aligned with the India country partnership strategy, 2013–2017, which calls for "investments in renewable energy development."⁵

2. Consistency with Sector Strategy and Relevant ADB Operations

13. The project is fully aligned with ADB's Energy Policy.⁶ The policy states that support for renewable energy projects will be prioritized and broadened. To this end, ADB has set the target of promoting clean energy investments of more than \$2 billion annually and that support to the projects will contribute to this target. The policy emphasizes private sector participation as a tool to enhance energy sector efficiency by introducing increased competition and increased investable resources.

D. Implementation Arrangements

14. Table 2 summarizes the implementation arrangements.

Table 2: Summary of Implementation Arrangements

Aspects	Arrangements
Regulatory framework	The energy sector in India is regulated and administered through a multiministerial structure. The CERC is the central regulator. Individual states have a state ministry of power as well as SERCs. Renewable energy policies are embedded in the framework of the Electricity Act, 2003; the National Electricity Policy, 2005; and the National Tariff Policy, 2006 (and as amended in December 2010). The regulatory environment in India for the renewable energy subsector is under continuous development and aims to encourage further significant private sector investments.
Management	The management team comprises experts in wind power development, engineering, corporate finance, investment banking, and accounting, each individual having a minimum of 10 years of experience in their respective fields.
Implementation period	June 2014–December 2015
Construction arrangements	
Type of arrangement	Majority of the capacity has been developed under competitively bid, date-certain, fixed-price turnkey arrangements. As ReNew's team has gained more experience, the company has also gone into self-development to reduce costs.
Power generation equipment	Power generation equipment deployed for existing and under-development projects has been procured on a competitive basis and is world class, suitable to the local wind and weather

⁴ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

⁵ ADB. 2013. *Country Partnership Strategy: India, 2013–2017*. Manila.

⁶ ADB. 2009. *Energy Policy*. Manila.

Aspects	Arrangements
	requirements. The equipment suppliers include various international and national wind turbine suppliers all with successful operational track records in India.
Civil works	Civil works for the balance of the plant (including construction of common facilities, control rooms, and access roads) are normally subcontracted to local contractors who are competitively selected and have sufficient wind-farm-related civil works experience.
Transmission lines	Power evacuation facilities are made available by the respective state transmission companies once capacity has been booked and allocated, while short connection lines are either part of the EPC contract or subcontracted out in case of self-development.
Operation arrangements	
Revenue structure	The majority of ReNew's operational and under-construction wind power projects have entered into long-term PPAs with state utilities ranging from 10 to 25 years with varying tariffs depending on the respective state offtakers.
Operation and maintenance	In line with the prevailing industry practice in India and elsewhere, operation and maintenance of the wind power projects is outsourced to external contractors under a term contract (normally 10 years).
Performance monitoring	Key performance indicators will be reported on by ReNew and monitored by ADB.

ADB = Asian Development Bank; CERC = Central Electricity Regulatory Commission; EPC = engineering, procurement, and construction; MW = megawatt; PPA = power purchase agreement; SERC = state electricity regulatory commission.

Source: ReNew Power Ventures Private Limited.

III. THE PROPOSED ADB ASSISTANCE

A. The Assistance

15. ADB will invest up to the Indian rupee equivalent of \$50 million in ReNew in the form of common equity shares to partially fund the company's equity injection in the pipeline projects. ADB will sign a shareholder agreement with the company and other shareholders. ADB will have the right to appoint a director on the company's board. The equity investment has been structured to provide further growth capital to ReNew to expand its asset base.

B. Value Added by ADB Assistance

16. ADB's participation provides the growth capital for ReNew which it requires to develop the necessary scale to make a material difference in meeting India's renewable energy needs. While GSW is a strong investor, ReNew is looking to have additional investors as the company expands its asset base and requires more capital. ADB's investment suits this objective. Further, supporting a renewable energy developer with growth capital, as opposed to single project financing, is a way to achieve greater leverage of ADB's funds and greater development impact in terms of capacity addition. ADB's presence is also catalytic as it allows ReNew to successfully raise capital from other sources and eventually through an IPO where ADB's presence sends a very strong positive signal.

17. ADB not only provides the growth capital but also allows ReNew to achieve its growth in an environmentally and socially responsible manner by adopting ADB's safeguard policies. Having ADB as a shareholder enables ReNew to tap into ADB's extensive network, knowledge, and experience in the field of renewable energy, especially in India where ADB has keen understanding of the country's renewable energy needs and has played an important role from both the policy and project perspective. The project will be an example of ADB offering

“finance++”, where ADB provides equity (“own finance”) with co-investors (“leveraging resource through partnership”), and also provides knowledge to its partners.⁷

IV. POLICY COMPLIANCE

A. Safeguards and Social Dimensions

18. In compliance with ADB’s Safeguard Policy Statement (2009), the project is classified category B for environment. The potential environmental impacts of the subprojects are generally site-specific, reversible, and mostly associated with construction activities. These typically include land clearing for site preparation and access roads, transportation of components and materials, excavation and construction of foundations, and installation of equipment. Issues may potentially include occupational and community health and safety, visual intrusion, noise and vibration, soil erosion, and threats to bird and bat populations. Effective measures to avoid, minimize, mitigate, and compensate for the adverse impacts will be incorporated in the initial environmental examination reports and environmental management plans. Information disclosure and consultations with affected people will be conducted in accordance with ADB requirements. Since the equity investment is considered as general corporate finance, a corporate audit was conducted on ReNew’s current environmental and social management system (ESMS) and its past and current performance against the objectives, principles, and requirements of ADB’s Safeguard Policy Statement. The audit included an assessment of ReNew’s environmental and social safeguard management capacity to address the risks and impacts of its business operations, and its compliance record with the applicable laws and regulations and ADB’s safeguard requirements.

19. While ReNew has existing environmental and social policies and procedures, these are mainly established to address national requirements and are not fully aligned with ADB’s safeguards and social requirements. Hence, ReNew will develop a new ESMS that will (i) integrate existing ReNew’s environmental and social policies with new ESMS; (ii) establish a screening, categorization, safeguard planning, and review procedure; (iii) enhance the organizational structure and staffing to manage environmental and social safeguards concerns; (iv) conduct continual training and capacity-building activities; and (v) expand monitoring and reporting regimes. ReNew will apply ADB’s prohibited investment activities list, ensure that investments using ADB funds abide by applicable national laws and regulations, comply with ADB’s Safeguard Policy Statement, and establish and maintain an appropriate ESMS satisfactory to ADB before subscription of the equity.

20. The project is classified category B for involuntary resettlement and category C for indigenous peoples. Land acquisition for wind farms in India commonly includes the three land types of (i) forest land under the management of the central government, (ii) revenue land under the management of state governments, and (iii) private land. ReNew or its contractors will lease land for the first two land types directly from the respective central or state governments; private land use is based on negotiated land acquisition. Land acquisition requirements are anticipated to be modest. In the unlikely event of land acquisition and involuntary resettlement, the required procedures for screening and preparation of resettlement plans (in accordance with ADB’s Safeguard Policy Statement) will apply. The audit also noted that there are no scheduled tribes residing in the subproject locations. Effective measures to avoid, minimize, mitigate, and compensate for the adverse impacts as well as procedures and policy for screening and

⁷ ADB. 2013. *Knowledge Management Directions and Action Plan (2013–2015): Supporting “Finance ++” at the Asian Development Bank*. Manila.

categorization of social risks and impacts, land acquisition, resettlement (including social impact assessment, planning, meaningful consultation, grievance redress, compensation criteria), and indigenous peoples will be integrated in ReNew's ESMS to comply with the Safeguard Policy Statement. The institutional capacity and commitment of ReNew to manage the project's social and environmental impacts are deemed adequate.

21. The project is classified as having no gender elements. Opportunities for creating jobs for women may be limited as the work will be conducted in remote locations. Additionally, certain jobs may require skills that women may not currently have because of the traditional gender segregation of the labor market in India. ReNew has implemented corporate social responsibility activities for the schools and local communities and will ensure that these activities include services and support that meet the needs of local women. ReNew will comply with ADB's Social Protection Strategy and report regularly to ADB on compliance (including that of contractors) with national labor laws and adherence to internationally recognized core labor standards.⁸

B. Anticorruption Policy

22. ReNew was advised of ADB's policy of implementing best international practice relating to combating corruption, money laundering, and the financing of terrorism. ADB will ensure that the investment documentation includes appropriate provisions prohibiting corruption, money laundering, and the financing of terrorism, and remedies for ADB in the event of noncompliance.

C. Assurances

23. Consistent with the Agreement Establishing the Asian Development Bank, the Government of India will be requested to confirm that it has no objection to the proposed assistance to ReNew. ADB will enter into suitable finance documentation, in form and substance satisfactory to ADB, following approval of the proposed assistance by the Board of Directors.

V. RECOMMENDATION

24. I am satisfied that the proposed equity investment would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the equity investment of up to the Indian rupee equivalent of \$50,000,000 to ReNew Power Ventures Private Limited for the ReNew Power Investment Project in India from ADB's ordinary capital resources, with such terms and conditions as are substantially in accordance with those set forth in this report, and as may be reported to the Board.

Takehiko Nakao
President

24 April 2014

⁸ ADB. 2003. *Social Protection*. Manila (adopted in 2001).

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and/or Indicators	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
<p>Impacts Continued development of renewable energy in India</p> <p>Greater private sector participation in the Indian renewable energy sector</p>	<p>Share of renewable power in India's total installed capacity maintained at 31% in 2013 until 2023 (end of Thirteenth Five Year Plan)</p> <p>Private sector investment in renewable energy increases from 33% in 2013 to 50% in 2023 (end of Thirteenth Five Year Plan)</p>	<p>ADB staff estimates based on capacity addition for the Twelfth and Thirteenth Five Year Plans, in Central Electricity Authority. 2012, National Electricity Plan.</p> <p>ADB staff estimates based on capacity addition for the Twelfth and Thirteenth Five Year Plans, in Central Electricity Authority. 2012. National Electricity Plan</p>	<p>Assumptions Continued macroeconomic and political stability at the central and state levels</p> <p>Regulatory incentives for renewable energy projects remain</p>
<p>Outcome Increased production of renewable energy</p>	<p>ReNew's subprojects collectively generate and sell at least 1,226 GWh of electricity annually from 2015 onwards</p> <p>956,280 tons of CO₂ avoided annually from 2015 onwards</p>	<p>Company financial statements</p> <p>Company progress and performance reports</p> <p>ADB's annual reviews</p>	<p>Assumptions PPAs honored</p> <p>Continuity of qualified company management</p> <p>Risks Wind risk</p> <p>Operational risks cause disruption in power production</p>
<p>Outputs Wind power projects developed and commissioned</p>	<p>560 MW of additional wind power capacity commissioned by 2015</p> <p>Locally purchased goods and services amount to \$700 million in 2014–2015</p> <p>700 people employed full-time during construction</p> <p>Satisfactory ESMS established prior to ADB equity injection</p>	<p>Company financial statements</p> <p>Company progress reports</p> <p>ADB's annual reviews</p>	<p>Assumptions The projects are executed in a timely fashion and within budget</p> <p>Projects are able to raise debt</p> <p>Risk The projects are delayed because of political risks, regulatory approvals, or external factors.</p>
<p>Activities with Milestones</p> <p>1. Audit and appropriate revision to the company's ESMS by August 2014.</p> <p>2. Share purchase agreement and ADB's equity financial close achieved by August 2014.</p>			<p>Inputs Equity ADB: \$50 million Other third-party investor: \$30 million equity</p> <p>Debt raised at a debt–equity ratio of 75:25 at individual project level</p>

ADB = Asian Development Bank, CO₂ = carbon dioxide, ESMS = environmental and social management system, GWh = gigawatt-hour, MW = megawatt, PPA = power purchase agreement.
Sources: Renew Power Ventures Private Limited and ADB estimates.