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Strategic Innovative Financing Methods and Risk versus Return Map

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1. Introduction

This paper emphasis on the strategic innovative methods to raise finance for the companies from Group Captive, Loan Buydowns, Diaspora bonds, External Commercial Borrowings, Capex, Opex, Special Purpose vehicle, Global Solitary Levy, Currency Swap and Green Bonds.

As the world is emerging for Global economy we can consider innovative options for financing methods. The paper also describes organizational size, risk involvement and when can we prefer.

1) Captive Power Project for a Group

Unlike an individual captive power plant, a group captive power plant is a one - of - a - kind arrangement in which a developer builds a power plant for the collective use of several industrial customers who must own 26 percent of the facility and consume 51 percent of the power produced.

Gujarat, Tamil Nadu, and Rajasthan have all refused to allow any new group captive power units to be built in their states. The renewable captive groups, which intended to take advantage of the lowering cost of renewable energy, have been the hardest hit.

Captive plants and group captive power projects (GCPPs) are comparable. Theirs, on the other hand, There is no single user who owns the property. In this circumstance, numerous people may claim ownership. users, associations, co - ops, or Special Purpose Vehicles (SPV). Other As previously stated, the conditions for CPP apply to GCPP as well. While The GCPP, as an organisation, has met 51 percent of captive consumption standards. Power must be sourced in proportion to the number of people who own. Each During the given duration, the shareholder is prohibited from transferring the equity shares. as stipulated in the contract adherence to RPOs, sometimes it's appropriate.

2) Loan Buy Down

A buy down is a mortgage financing strategy in which the buyer tries to get a cheaper interest rate during the first few years of the loan. The seller of the property typically makes payments to the mortgage lender, lowering the buyer's monthly interest rate and, as a result, monthly payment. This is usually carried out for a period of one to five years. [requires citation] In a seller's market, the seller may raise the purchase price to balance the costs of the buydown, but in most markets, it would be counterproductive to use a buydown as an enticement if the benefit would be negated by raising the price.

3) Diaspora Bonds

Diaspora bond is a debt instrument that a country – or potentially a sub - sovereign organisation or a private enterprise – issues to raise funds from its overseas diaspora. These bonds have helped Israel and India raise $35 - 40 billion. The Indian government hand has used this instrument to help with balance of payments assistance and to raise funds during times when they couldn't get interbank loans. Diaspora bonds are frequently sold at a premium to diaspora members, resulting in a “patriotic” return. a reduction in borrowing rates. Diaspora Bonds are an inexpensive methods for governments to raise the funds. It can be called as “Patriotic discount” Diaspora communities tend to be loyal to their countries of origin. They can provide needed long - term deposits that can provide a stable source of funds for development projects. Many countries in Africa like Ethiopia, Kenya, Nigeria, South Africa, Egypt, Somalia and others gain immensely from the enactment of strong diaspora bond policy.

4) ECB

Indian companies both private and public sector can take out loans from banks outside of India, and in foreign currency. External Commercial Borrowing is the term used to describe this type of borrowing (ECB). the usage of the ECB is not restricted to borrowing from commercial banks; it may also be used to obtain buyer's credit, supplier's credit, and so on. In recent years, Indian corporations have been increasingly reliant on the ECB since these foreign funds, which are denominated in foreign currencies and matched to the prevailing interest rate abroad, make it easier for them to hedge against exchange rate fluctuations Commercial borrowing from abroad (ECBs) is the borrowing in foreign currency from non - residents to Indian borrowers. ECBs are widely used in India to facilitate access to foreign capital by Indian corporations and PSUs (public sector undertakings). Most of those loans are provided by foreign business banks and alternative institutions. throughout the twenty12, contribution of ECBs was between 20 and thirty five p. c of the entire capital flows into India. sizable amount of Indian company and PSUs have used the ECBs as sources of investment. For infrastructure and greenfield projects, funding up to fifty% (through ECB) is allowed. in step with a report within the Hindu in January 2013, the banking company of India raised the ECB limit "for non - banking finance corporations (NBFCs) classified as infrastructure finance companies (IFCs). . . from 50 per cent to seventy five per cent of owned funds, as well as outstanding ECBs". In medium sector too, up to 50% funding through ECBs is allowed. Recently Government of India allowed borrowings in Chinese currency yuan. Earlier, company sectors may mobilize $750 million via automatic route, whereas service sectors and NGO' for microfinance could mobilize $200

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million and $10 million respectively. [4] additional recently, tally issued a suggestion stating that every one eligible borrowers will raise ECB up to USD 750 million or equivalent per fiscal year beneath the automated route. Borrowers can use twenty five per cent of the ECB to repay rupee debt and the remaining seventy five per cent ought to be used for brand new projects. A receiver cannot finance its entire existing rupee loan through ECB. the cash raised through ECB is cheaper given near - zero interest rates within the America and Europe, Indian corporations will repay a part of their existing costly loans

5) CAPEX

CAPEX Model: The CAPEX or the capital expenditure version, on the opposite hand, is a self - investment version wherein customers must endure all of the capital costs incurred in putting in a rooftop gadget upfront. These costs encompass budget used to installation, maintain, and perform the undertaking. They additionally encompass the price of the equipment, labor, upgrades, and different cloth prices. Consumers taking the CAPEX direction can method companies or installers to installation the rooftop sun gadget to lessen their strength prices. Any residual strength or extra era may be injected into the grid. “The CAPEX version is useful to groups or customers who've extra coins of their books and are inquisitive about availing GST and depreciation benefits. Aside from GST enter and multiplied depreciation benefits, customers additionally experience a decrease Levelized Cost of Energy (LCOE) withinside the CAPEX direction.

6) OPEX

The OPEX or the running costs version is a gadget wherein the developer owns the venture, and the customer has to pay for the power generated. This version is likewise known as the Renewable Energy Service Company (RESCO) model Rooftops established beneath Neath the OPEX or RESCO version require the customers to go into right into a long - time period, legally binding settlement for the roof on which the sun gadget is established. They have to additionally signal a long - time period energy buy settlement (PPA) for the deliver of energy. PPAs may be signed for up to twenty - five years, and the customer is predicted to pay a pre - decided tariff for this duration. Any extra energy generated can be injected into the grid. In this version, all capital costs and dangers are completely borne via way of means of the developer. The developer could be the gadget’s proprietor for its complete lifetime and have to offer operation and protection offerings throughout. The tariff for electricity varies relying at the country and the guidelines well - known on the time.

Electricity at a reduced price. No funding from Consumer side. No hassles: We will control the permits, construction, protection and operations. No dangers: Plant protection and existence isn't always a burden. customer will pay best for the consumption. Transfer of possession to customer after stipulated period. Plant protection and existence isn't always a burden. Consumer will pay best for the consumption. Go inexperienced at no extra cost. OPEX Model:

7) Special Purpose Vehicle

Special purpose entities are especially attractive to companies developing large investment projects. This mechanism makes it much easier to win the support of banks and the interests of outside investors. Another goal is to split the project into another company and limit the potential claims that can only be submitted to that company. At the same time, all other companies in the group are busy with other tasks and are not responsible for SPV / SPE obligations. By forming an SPV, the project starter attracts lenders and investors by ensuring that its assets are separated from the project. However, the problem can be in the short life cycle of such a company, which is limited by the lifetime of the investment project. Despite the lack of a clear definition of project company, it has the following characteristics: • Contractual relationships with other companies. • Lack of unique non - financial assets and individual staff. Special purpose entities in the European Union's regulatory sense are primarily limited liability companies and public limited companies. They are assigned and isolate the founder's financial risk. Reasons for using SPVs in large projects Among the shortcomings of large companies, experts say they lack the flexibility and speed of decision making. This type of company tends to have a complex structure that integrates the interests of many shareholders and operates through complex bureaucratic procedures. Recognizing the limitations of these structures, executives are actively using SPVs as a highly specialized and flexible tool. Infrastructure projects, investment in the energy sector, and mining rights have long been the territory of SPVs. For companies outside the industry, this practice can question the legitimacy of capital separation. However, there is no doubt that the managers of capital - intensive projects. SPVs are business - critical in their case. The main reasons for raising funds through SPVs / SPEs are: • High Leverage: The financial structure of a typical project is 7090% leveraged. • Long - term implementation of investment projects. In some cases it could reach 2530. • The cash flow of the project is the source of the return on investment and the assets of the SPV are collateral. • Multiple legal and organizational forms of the project, depending on the needs of the participants.

8) Global Solitary Levy

With the gathering of world leaders at the Millennium Development Goals Summit on September 20, reports and speeches will be nearly predictable. To be sure, the world's approach to poverty is progressing to some extent. But especially in Africa, the international community can be well below the target year for 2015. And even if the goal of halving poverty is achieved, about a billion people will have to live on less than $ 1.25 a day. Developed countries make new pledges and reuse old ones, but the bottom line is that their pledge to increase aid is not being followed. The estimated funding gap is the need for unmet development assistance of US $ 180 billion annually. And it does not take into account the new efforts needed to combat the increasing impact of climate change and natural disasters such as Pakistan's floods. But this year's agenda proposal can fill a significant portion of that gap. A group of 60 countries, a leading group of innovative financing for development, is proposing new rates for currency transactions. This is called the global solidarity tax. At a proposed rate of 1/200 of 1

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percent, such a "currency transaction levy" could bring more than $ 30 billion annually, and potentially much more.

The proposed fees are so small that it will not be a pain for anyone doing large currency transactions. They were easy to collect. They will break the paradigm of voluntary "aid" that relies on changing political winds. And many economically strong countries have already endorsed this proposal. And since 2001, global transactions have more than tripled. More than 80% of these transactions are speculative, as financial institutions trade currencies to take advantage of price fluctuations. However, unlike almost all retail transactions, currency transactions do not provide income to public sources. A similar proposal by 1972 Nobel Prize in Economics James Tobin to tax such transactions has never been taken up in mainstream political debates, and all "global taxes" remain in the United States. It is a dislike in the political field of. However, the countries promoting this proposal include the G20, the world's economic powerhouse, including traditional financial powerhouses such as the United Kingdom, France, Germany, Japan, Brazil, India, Mexico, Saudi Arabia, South Africa, South Korea and Spain. Group 11 is already included. . . Expert research on possible market distortions and implementation feasibility has shown that the possible disadvantages are minimal.

9) Currency Swap

A currency swap involves exchanging a loan or asset principal and / or interest payment in one currency for an equivalent loan or asset principal and / or interest payment in another currency. . . Rates are based on common spot or given forward rates (in the case of forward start swaps) and are agreed upon at the time of trading. For example, Indian customers with long - term US dollar loans are typically exposed to foreign exchange risk between the US dollar and the Indian rupee and US dollar interest rate risk. Companies can eliminate risk by entering into a US dollar / Indian rupee currency swap with a bank (according to applicable regulations). Customers receive US $ variable interest payments and US $ capital amortization from the bank. At the same time, the client pays the bank a fixed interest rate on the INR and the corresponding repayment of the principal INR at an exchange rate based on the spot (or forward) rate at the time of the transaction and swaps

10) Green Bonds

Projects eligible for green bond financing are selected from International Financial Cooperation IFC's climate - related loan portfolio (stock investments and guarantees are not eligible for green bond financing). IFC's climate - related investment portfolio includes projects that meet IFC's definitions and indicators of climate - related activities. All projects comply with IFC's Environmental and Social Performance Standards and IFC's Corporate Governance Framework. In some cases, the climate - related elements of green bond support projects can be part of a larger investment. In such cases, the climate portfolio occupies only the share of the project's climate funds. The IFC's project selection criteria were reviewed by the International Center for Climate and Environmental Studies (CICERO) at the University of Oslo and a second opinion on the IFC's framework and guidelines for assessing and selecting projects suitable for green bond investment was developed. . . The IFC also participates in the Multilateral Development Bank's Joint Report on Climate Finance, using harmonious standards for climate - related eligibility. IFC - funded projects in Greenbond may include the following investments: Investing in equipment, systems, and services that reduce energy consumption per unit of product or service produced. B. Reduction of energy loss in waste heat recovery, cogeneration, building insulation, transmission and distribution Investment in equipment, systems and services that enable the productive use of energy from renewable resources such as wind, hydro, solar and geothermal. Investment to improve industrial processes, services, and products that increase the efficiency of converting production inputs (energy, water, raw materials) into sellable production. This includes mitigating the impact at the source. Invest in the manufacture of components used for energy efficiency, renewable energy, or cleaner production B. Solar power, turbine manufacturing, building insulation. Investing in sustainable forestry. When Lending to financial intermediaries, provided that IFC's investment is loaned to a specific climate project that meets IFC's Green Bond eligibility criteria

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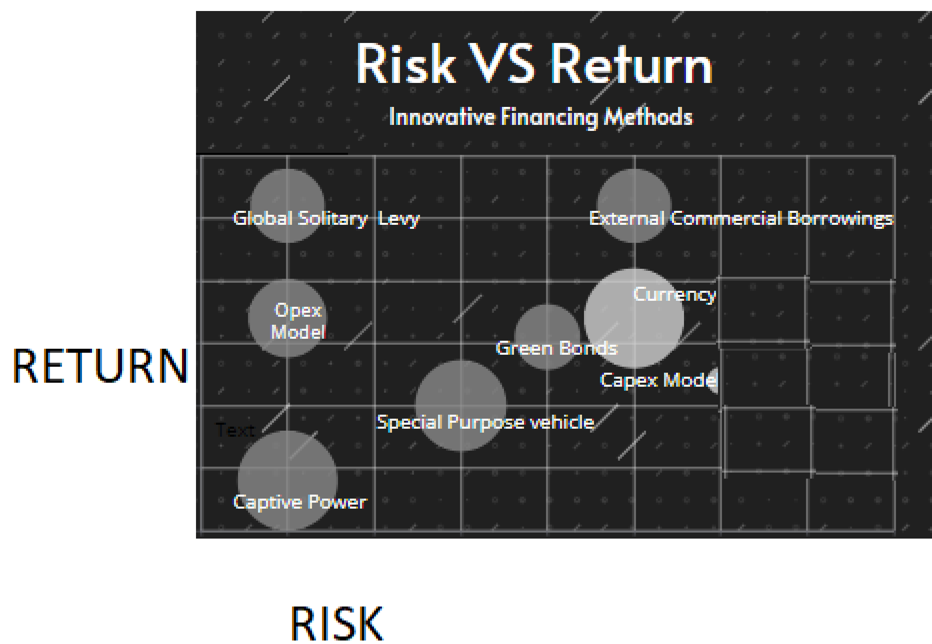

2. Conclusion

In the above mentioned methods Opex, Global Solitary Levy and Captive Power methods are having low risk and better return when compared with ECB and Currency Swap methods. Green Bonds can be used for Projects Environmental friendly and Currency Swap can be used effectively for International Banks to take advantage of fluctuation of Currency Prices. Global Solitary levy method can be implemented to eliminate Poverty. Group Captive method for energy and water resource projects. External Commercial Borrowings by Companies and bank for better International Loansrates. New methods of innovative financing will give better opportunities to face arising challenges in the global business environment.

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