



Navigating compliance in the renewable energy sector

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Table of Content

Introduction	04
Where does India currently stand in the renewable energy sector?	04
Transforming compliance challenges into opportunities	05
Recommendations	06
Connect with us	08



Introduction

India, home to an aspirational population of 1.4 billion¹ and one of the fastest-growing economies among the G-20 nations, stands at a pivotal moment. As it emerges as a global manufacturer, the country must align its expanding ambitions with its increasing energy demands.

Per the Central Electricity Authority, India's power requirements are projected to reach 817 GW² by 2030. Meeting this substantial demand via traditional resources, such as petroleum and coal, will be challenging and unsustainable in the long run. Transitioning to renewable energy offers a promising alternative, positioning India to fulfil its energy needs while promoting environmental sustainability.

Where does India currently stand in the renewable energy sector?³

- Globally, India ranks fourth in renewable energy capacity.
- In the Union Budget 2022-23, the Indian government allocated INR19,500 (US\$2.57 billion) for a Performance Linked Incentive (PLI) Scheme to help boost the manufacturing of high-efficiency solar modules.
- The Pradhanmantri Suryoday Yojana seeks to equip 10 million households with rooftop solar panels.⁴
- In 2021, India launched the "Mission Innovation CleanTech Exchange," a global initiative to help accelerate clean energy innovation.
- Installed renewable power generation capacity increased over the past few years, registering a CAGR of 15.92 percent between FY16-22. India is a market with the highest growth

in renewable electricity, and by 2026, new capacity additions are expected to double.

With increased government support and significant growth potential, the renewable energy sector has gained attraction from investors. As India strives to meet its growing energy demand, projected to reach 15,820 TWh by 2040, renewable energy is set to play a pivotal role, with significant capital investments expected in the sector. However, these investments may be vulnerable to various risks, including corruption, making it essential to implement requisite risk mitigation strategies to safeguard these investments and ensure sustainable growth in the industry.

Transforming compliance challenges into opportunities

India's renewable energy sector has experienced significant growth and achievements but faces various challenges. The complex regulatory environment and the industry's evolving nature present opportunities for companies in the generation, transmission and distribution of renewable energy to innovate and adapt. While these factors may cause investors to be cautious regarding large-scale investments, a solid understanding of the associated risks can enable them to navigate the landscape and capitalise on the significant opportunities ahead.



Land acquisition

Land acquisition is a critical focus for renewable energy companies in India, providing both challenges and opportunities. While limited land availability and the need for consent from local communities can complicate the process, these obstacles also foster innovative solutions and enhance community engagement. Companies can develop more efficient practices by addressing issues such as aggregating fragmented land holdings, regulatory hurdles, land title complexities and converting agricultural land into non-agricultural use. Although the land acquisition process involves multiple layers of approvals and may present risks such as bribery, corruption and collusion between employees and vendors/third parties, these challenges highlight the necessity of robust compliance measures. A proactive approach can build trust and transparency, benefiting companies and local communities.



Local munity and stakeholder engagement

Engaging with local communities and stakeholders is critical to gaining social acceptance for renewable energy projects. By prioritising transparent and ethical practices, companies can prevent corrupt practices that may occur in some remote regions in India such as inappropriate payments to landowners and intermediaries for access to desirable locations, including Rights of Use (ROU) or Rights of Way (ROW). Many organisations also actively invest in CSR initiatives to strengthen their ties with these communities. Effectively using CSR funds is crucial for maximising their outcome, benefiting the communities and the projects involved.



Addressing conflicts of interest

Organisations in the renewable energy sector benefit greatly from a global supply chain for their equipment and components. By fostering strong ethical practices, companies can navigate challenges such as potential collusion between employees and vendors, ensuring vendor selection is based on clear and fair criteria. Encouraging negotiations can also lead to better pricing, even in remote locations with limited options. Promoting fairness in vendor relationships at local project sites can enhance collaboration and drive positive outcomes for all stakeholders.



Licences and permits

Establishing renewable energy projects involves multiple permits, licenses and approvals from government and regulatory agencies at local, state and central levels. These requirements, including construction and operational permits, environmental approvals and impact assessments, land use permits, power evacuation and labour and employment permits, are crucial for ensuring that projects meet regulatory standards and community needs. While navigating this intricate regulatory landscape, which involves multiple approvals from district authorities and local municipalities, can be challenging, it also presents a chance for developers to engage with stakeholders and foster collaboration, leading to more resilient and impactful projects.

¹Source: <https://www.livemint.com/news/india/14-billion-and-counting-how-did-indias-population-explode-and-get-so-big-11682848537103.html>

²Source: <https://www.ibef.org/industry/renewable-energy>

³Source: <https://www.ibef.org/industry/renewable-energy>

⁴https://www.business-standard.com/finance/personal-finance/pm-suryoday-yojana-all-about-household-rooftop-solar-power-scheme-124032700830_1.html



Identifying the right third parties/vendors

Due to the nature of this industry, engaging with third parties/vendors with questionable track records and inconsistent history poses significant risks. Companies must implement a thorough due diligence process to assess potential collaborators' capabilities, credentials and creditworthiness before onboarding them. Documenting the rationale for onboarding the specific set of third parties/vendors is advisable. Pre-emptive due diligence also enables companies to identify 'bad actors', safeguarding the ecosystem from potential threats.



Monitoring

Organisations must diligently track all engagements, whether conducted by in-house teams or through third parties/vendors. Continuous monitoring is vital in identifying unusual transactions or potential red flags, ensuring that internal controls function effectively. This proactive approach reinforces an organisation's commitment to strong governance and compliance and demonstrates a dedication to transparency and accountability in all operations.



Operations and maintenance

Companies in the renewable energy sector encounter unique challenges after project commissioning. Effective collaboration during joint metre readings, inspections and the timely release

of payments for electricity purchased is essential. Companies can enhance operational efficiency and ensure long-term success by fostering strong relationships and streamlining processes for equipment maintenance/replacement at project sites.



Payment isation

Government-owned distribution companies (DISCOMs) are the largest electricity customers generated from renewable sources. Once the electricity is supplied, invoices are issued at the agreed rates. Implementing effective controls and processes is essential to ensure timely payment realisation. Companies can streamline payment collections and promote financial stability by fostering strong relationships with DISCOMs and enhancing invoice management practices.

Apart from the abovementioned issues, the sector is exposed to additional challenges, such as intermittency and grid integration issues, lack of storage infrastructure, technical and technological challenges, policy and regulatory uncertainties and health and safety concerns. Addressing policy and regulatory uncertainties, as well as health and safety concerns, is crucial for building a resilient and sustainable industry. By proactively managing these challenges, companies can improve their operations and support the sector's long-term growth.

Strength in structure: Developing a robust compliance framework

Organisations work to create a culture of compliance that is essential to every decision and serves as the forefront, centre and foundation of their operations. This commitment involves a readiness to compete on a level playing field by demonstrating ethical business practices. In our experience, achieving this can be challenging for organisations without a robust and well-designed compliance framework tailored to all business aspects. Ensuring this framework communicates clearly to all stakeholders and is effectively implemented throughout the organisation is crucial.

A combination of the domestic (Prevention of Corruption (Amendment) Act 2018) and the US Foreign Extortion Prevention Act of 2023 (which criminalises the demand side of bribery) alongside the US Foreign Corrupt Practices Act of 1977, is likely to lead to increased scrutiny from regulators in this sector. We believe it is the right juncture for organisations to assess their readiness to prevent, detect and address bribery and corruption within their compliance programmes.

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