

Central Renewable Energy Fund (Operation) Manual

2071

Central Renewable Energy Fund Investment Committee

Coat of
Arms of
Nepal

Government of Nepal
Ministry of Science, Technology and Environment
(Planning, Monitoring and Budget Coordination Section)

Date: 2071/9/21 (January 5, 2015)

Ref. No.

Dispatch No. 1526

M/s Alternative Energy Promotion Centre
Khumaltar, Lalitpur

Subject: Regarding approval of the Central Renewable Energy Fund (Operation) Manual

This is to request that as the Central Renewable Energy Fund (Operation) Manual, 2071 submitted by that office has been approved by the Government of Nepal (Rt. Honorable Prime Minister) on 2071/09/17 (January 1, 2015), a copy thereof is attached herewith for your reference.

Sd.

Binita Bhattarai
Section Officer

Central Renewable Energy Fund (Operation) Manual, 2071

Preamble:

Whereas, it is expedient to operate a central renewable energy fund with the financial arrangement through effective mobilization of subsidy and easy loan in the rural and renewable energy technology sector, the Government of Nepal has framed and enforced this Manual.

1. Short Title and Commencement:

- (1) The name of this Manual is "Central Renewable Energy Fund (Operation) Manual, 2071"
- (2) This Manual shall come into force after approval of the Government of Nepal.

2. Definition:

Unless the content and context otherwise requires, in this Manual:

- (a) "Program" means National Rural and Renewable Energy Program.
- (b) "Subsidy Policy" means the Renewable Energy Subsidy Policy, 2069.
- (c) "Fund" means the Central Renewable Energy Fund.
- (d) "Centre" means Alternative Energy Promotion Centre.
- (e) "Handling Bank" means the private sector bank entrusted with the main responsibility of financial management under the financial mechanism of the Fund.
- (f) "Partner Bank" means the financial institutions entrusted with the responsibility of retail lending of monies of the Fund.
- (g) "Consumer Loan" means the loan facilities to be provided to users, persons, households and communities requiring the renewable energy technologies.
- (h) "Business Loan" means the loan facilities to be provided to the supplier, installer, distributor and manufacturer of the renewable energy technologies selected by the Centre.

- (i) "Ancillary Industry Loan" means the loan facilities to be provided to the equipment manufacturing and processing industries relating to the renewable energy technology.
- (j) "Financial Intermediaries" means jointly Handling Bank and Partner Banks.
- (k) "Un-committed Amount" means the fund remaining in the Fund after distribution of subsidy and loan facilities.
- (l) "Steering Committee" means the steering committee formed pursuant to the agreement signed between the Government of Nepal and the development partners for the Program, and the Program Documents.
- (m) "Investment Committee" means the investment committee formed pursuant to Clause 7.
- (n) "Secretariat" means the secretariat of the Fund.
- (o) "Unit" means the advisory support unit established pursuant to Clause 11.
- (p) "Compliance Unit" means the program compliance unit pursuant to Clause 22.
- (q) "Ministry" means the Ministry of Science, Technology and Environment.
- (r) "Mechanism" means the Renewable Energy Subsidy Delivery Mechanism, 2070.
- (s) "Service Centre" means the Regional Service Centre pursuant to Clause 2(7) of the Mechanism.
- (t) "Section" means the District Environment, Energy and Climate Change Section pursuant to Clause 2.4 of the Mechanism.
- (u) "Program Documents" mean the program documents of National Rural and Renewable Energy Program.

3. Objective of the Fund:

The objectives of the Fund shall be as follows:

- (a) To provide the subsidy and loan for the development, promotion and expansion of renewable and rural energy technology;
- (b) To provide the Consumer Loan at concessional rate through the Financial Intermediaries;

- (c) To develop and promote the renewable energy technologies through the private-public partnership;
- (d) To encourage the private sector in the development and promotion of renewable energy technologies.

4. Fund Operating Principles:

The following principles shall be adopted to operate the Fund regularly and effectively:

- (a) The Fund shall be an autonomous mechanism/institution with its own mandate and management structure as the chief financial mechanism in the renewable energy sector.
- (b) The Fund and the Centre shall work in coordination with each other by maintaining their independence.
- (c) The subsidy shall be replaced by the loan facilities in the long run and the responsibility of management of the loan facilities shall rest with the Handling Bank and the Partner Banks.
- (d) The Fund shall be operated as semi-endowment fund, and the remaining amount of the Fund may be managed as to make investment in the secured and less risky sectors and to generate incomes therefrom.
- (e) The accumulated profit shall be re-invested within the Fund in entirety for the expansion, and to make the strong financial management, of the Fund.
- (f) The Fund shall have full independence to select the Financial Intermediaries.

5. Scope of Investment of the Fund:

The Fund shall make investment in the following sectors to attain the goals prescribed by the Government of Nepal from time to time:

- (a) Solar energy projects/systems;
- (b) Biogas plants/projects;
- (c) Biomass energy projects/systems;
- (d) Micro and mini hydropower projects;
- (e) Improved water mill;

- (f) Productive energy use;
- (g) Equipment manufacturing and processing industries relating to the renewable energy technologies;
- (h) To operate the bank accounts in the different banks and financial institutions as to receive the interest income under the norms prescribed by the Nepal Rastra Bank or other low risk bearing sectors suitable for making investment;
- (i) Sectors suitable for making investment such as bonds of "A" class banks; and
- (j) Other sectors relating to the renewable energy as prescribed by the Government of Nepal.

6. Steering Committee:

- (1) In addition to preparing the overall strategy, monitoring and providing guidance in the structure of financial mechanism as the apex and responsible body in the Fund, the works mentioned elsewhere of this Manual, the Steering Committee shall have following works, duties and power:
 - (a) To approve the annual program and budget of the Fund.
 - (b) To approve the preliminary, half yearly and yearly progress reports.
 - (c) To carry out the overall monitoring of the Program based on the fixed indicators and goals.
 - (d) To make decision in regards to the plan, program and strategy;
 - (e) To approve the terms of reference of the joint reviewers and their review recommendations.
 - (f) To approve the administrative and financial guidelines.
 - (g) To approve the policy, plan and procedures in regards to fulfillment of the required human resources.
 - (h) To approve the audit reports and the matters relating to the major implementation works.
 - (i) To approve the time and terms of reference of the joint program review and to ensure the examination whether the recommendations are implemented or not.

- (j) To establish the Investment Committee and the Secretariat, and to monitor whether works have been performed or not as per the instruction of the Secretariat.

7. Investment Committee:

- (1) An investment committee has been formed as follows for overall responsibilities of operation of Fund and the strategic management of the performance, planning and monitoring.
 - (a) Joint Secretary, Ministry of Science, Technology and Environment - Chairperson
 - (b) Representative from Ministry of Finance, at least Gazetted II Class – Member
 - (c) Executive Director, Centre – Member
 - (d) Chief Executive Office of "A" Class private bank as prescribed by Nepal Bankers Association – Member
 - (e) One Private Sector Representative nominated by the development partners – Member
- (2) The Chairperson shall call the meeting of Investment Committee.
- (3) The meeting of Investment Committee shall be held at least four times in a year.
- (4) The Chief of Secretariat shall work as secretary in the committee pursuant to Sub-clause (1).
- (5) The Chief of Secretariat shall be required to circulate the notice of the meeting along with the agenda items for discussion, to all members at least one week before the meeting date as per the instruction of Chairperson of the Investment Committee.
- (6) The presence of at least 50% members along with the representative of the development partners shall require fulfilling the quorum of the meeting.
- (7) The Chief of Secretariat shall be required to circulate the information of the decision of the Investment Committee within a week of the meeting.

- (8) The Chairperson of the Investment Committee and representatives of the development partners shall approve the minutes of meeting.
- (9) The decision of the Investment Committee shall be taken based on the consensus system and the matter which consensus could not be made shall be submitted in the Steering Committee.
- (10) The Chief Executive Officer of the Handling Bank and other persons may be invited in the meeting of the Investment Committee as observer, as per the need.
- (11) The meeting allowance and other service and facilities of officials of the Investment Committee shall be as prescribed by the Steering Committee.

8. Functions, Duties and Powers of the Investment Committee:

- (1) The functions, duties and powers of the Investment Committee shall be as follows:
 - (a) To manage the subsidy and the Un-committed Amount of the Fund;
 - (b) To determine the terms of reference of Secretariat, the tender process for selection of bank, the qualification and terms of reference for selection of consultant and the bank;
 - (c) To enter into the management contract with the Financial Intermediaries;
 - (d) To carry out the annual review of the financial management of the Fund, to prepare the strategic financial management structure, to determine the criteria of wholesale lending and to develop the monitoring system and processes;
 - (e) To provide the opinion in the plans, financial projection and reports of the Handling Bank and Partner Banks and to appraise their performance;
 - (f) To give approval for disbursement of necessary budget amount based on the financial projection and plan of the Handling Bank;
 - (g) To approve the program prepared by the Secretariat for capacity development of the Handling Bank and Partner Banks;

- (h) To carry out the public awareness and promotion related works in regards to subsidy and the loan mobilized through the Fund;
 - (i) To get report from the Compliance Unit and to monitor whether the recommendations have been executive or not;
 - (j) To establish, manage and monitor the Secretariat;
 - (k) To select the professional expert and to create position for the assistant level employees;
 - (l) To make necessary provision for transfer of biogas loan, micro hydro loan, which have been offered by the Centre before this Manual come into the force, to Partner Banks;
 - (m) To carry out other works as prescribed by the Steering Committee.
- (2) The Investment Committee shall be required to submit the report of its works to the Steering Committee on periodic basis.
 - (3) The Investment Committee may give instruction to the Secretariat to submit necessary report in regards to the budget, income statement, status of fund and situation of the Fund, capacity development and field monitoring.

9. Secretariat of the Fund:

- (1) There shall be a Secretariat for the day-to-day operation of the Fund as per the mandate of the Investment Committee.
- (2) The Secretariat will have two professional personnel viz. Management and Monitoring Expert and Capacity Development Expert and other support personnel as per the need.
- (3) The Management and Monitoring Expert shall be chief of the Secretariat and s/he shall do the coordination with the Financial Intermediaries, monitoring, preparation of capacity development programs and implementation of such programs through the Capacity Development Expert. S/he shall coordinate with the National Project Facilitation Advisor for providing access to subsidy and loan facilities, and for the development, and the arrangement of investment, of renewable energy projects.

- (4) The Capacity Development Expert of the Secretariat shall determine the requirement of capacity development of the Financial Intermediaries and implement the capacity development programs in coordination with the Human Resources and Training Section of the Financial Intermediaries. The capacity development program shall include the following matters;
 - (a) Development of program for the required financial services;
 - (b) Appraisal and Supervision System of loan and procedures relating to the financial investment in the renewable energy;
 - (c) Training management of the personnel.
- (5) The office of the Secretariat shall be located within the premises of the Handling Bank.
- (6) The logo, seal, letter head, structural design etc. of the Secretariat shall be as prescribed by the Investment Committee.

10. Functions, Duties and Powers of the Secretariat:

- (1) The functions, duties and powers of the Secretariat shall be as follows:
 - (a) To prepare the annual work plan and budget based on the annual goals of the Program;
 - (b) To monitor whether the policy, rules and directives of the Fund have been complied with by the Financial Intermediaries or not;
 - (c) To work in coordination with the Unit for the effectiveness of objectives of the Fund;
 - (d) To prepare and implement the programs for capacity development of the Financial Intermediaries;
 - (e) To determine the need of support based on the annual appraisal and implement it;
 - (f) To monitor the investment portfolio of Financial Intermediaries based on the investment portfolio analysis report;
 - (g) To prepare report of the Fund on monthly, trimester, annual basis or as per the need, and submit it to the Investment Committee, Centre and Program Steering Committee.

- (h) To submit investment related disputes and grievances of the Fund to the Investment Committee.
 - (i) To carry out other works prescribed by the Investment Committee.
- (2) The Secretariat shall develop the management information system for getting information, preparing and analyzing the report and monitoring it.

11. Advisor Support Unit:

- (1) An Advisory Support Unit shall be set up in the Centre for liaising and coordinating with the Secretariat.
- (2) The Unit shall carry out the following functions:
 - (a) To conduct orientation program for the human resources working in the Centre, Service Centre, Branches and Projects in coordination with the Secretariat;
 - (b) To attend the meeting of the Secretariat to promote the priority matters of the Centre;
 - (c) To attend the management meeting of the Centre and to report on the subsidy and loan related matters;
 - (d) To facilitate the dispute relating to the application submitted for subsidy and the loan;
 - (e) To coordinate with technical section of the Centre for the promotion of renewable energy technologies;
 - (f) To provide support the Service Centre and Branches for the promotion of renewable energy projects;
 - (g) To provide necessary support to developers for the development of the bankable projects and to facilitate the negotiations with the Partner Banks;
 - (h) To verify the technical appraisal of the application submitted for subsidy and do the necessary management;
 - (i) To coordinate with the Secretariat to ensure whether the applications submitted for the subsidy and loan are approved by the Financial Intermediaries or not and if there is any dispute, whether the dispute has been settled appropriately or not.

- (3) The Unit shall carry out the works to make strong relationship of the Fund with the Centre, Service Centre and Branches.
- (4) There shall be a National Project Facilitation Advisor in the Unit to operate, coordinate, facilitate and promote the works pursuant to Sub-clause (2).

12. Handling Bank:

- (1) The Handling Bank shall be the financial institution with main responsibility for overall management of funds under the financial mechanism of the Fund.
- (2) The Handling Bank shall carry out the following four major works for management of the financial assets of the Fund:
 - (a) To facilitate for disbursement from the Fund based on the appraisal of the applications submitted to the Partner Banks;
 - (b) To carry out management of the approved subsidy amount based on the subsidy policy and procedures;
 - (c) To make investment of the amounts deposited in the Fund in line with the prescribed guidelines; and
 - (d) To carry out monitoring of the Partner Banks in regards to mobilization of Fund, on quarterly basis.
- (3) The Handling Bank shall be required to submit the report of its works to the Investment Committee through the Secretariat on monthly, trimester and annual basis.
- (4) The Handling Bank shall be required to comply with the instructions given by the Investment Committee in the matter relating to the Fund.
- (5) It shall be duty of the Handling Bank to implement the agreement entered into between the Handling Bank and the Fund, and the compliance report of such agreement shall be required to submit to the Investment Committee through the Secretariat on trimester basis.

13. Partner Banks:

- (1) The Partner Banks shall be responsible for retail lending of amount of the Fund, and the amount of the Fund shall be provided to the consumers through these Partner Banks.

- (2) The main functions of the Partner Banks shall be as follows:
 - (a) To provide the retail loan facilities to the consumers including the household and community recommended by the Centre for the subsidy and to the manufacturer, developer, distributor, installer and productive users qualified by the Centre;
 - (b) To work in coordination with the technical section of the Centre, Service Centre and Branches for getting bankable proposals;
 - (c) To carry out analysis internally in coordination with the Centre and Secretariat of the Fund for feasibility of the project, before approval of the loan amount; and
 - (d) To appraise for ensuring the financial feasibility of the project and appropriate productive end use of the loan amount.
- (3) The method, process and terms of service relating to the operation of the Partner Banks may be mentioned in detail in the agreement.

14. Selection of Handling Bank and Partner Banks:

- (1) The Investment Committee shall fix the necessary method and processes and select the Handling Bank and the Partner Banks through the bidding or negotiation.
- (2) The support of external consultant may be taken for selection of banks pursuant to Sub-clause (1).
- (3) In the event that the support of consultant has been taken, the Investment Committee shall carry out the necessary examination based on the recommendation of the said consultant and select the Financial Intermediaries.
- (4) The criteria of selection and qualification of the Handling Bank and Partner Banks shall be as follows:
 - (a) The bank is to be registered and located in Nepal;
 - (b) The banks must be "A" class private sector owned banks for Handling Bank and "A" class or national level "B" class banks for Partner Banks as classified by Nepal Rastra Bank.
 - (c) The Financial Intermediaries must meet the following financial criteria:

- a. Maintained 10% capital adequate ratio at least three past years;
 - b. Earned operating net profit in the past three years;
 - c. Not exceeded the non-performing loan by 2.5% of the total loan investment;
 - d. Have complied with the guidelines of Nepal Rastra Bank in regards to the statutory liquidity ratio (SLR) and cash reserve ratio (CRR) and deposit and investment ratios.
- (d) The provision relating to the ownership must have done as per the directives of Nepal Rastra Bank.
 - (e) There must be majority ownership and management of the private sector.
 - (f) The credit exposure limit shall be as per the rules of Nepal Rastra Bank.
 - (g) The corporate and financial governance and management practices of the Financial Intermediaries must be transparent.
 - (h) While selecting the bank, the priority shall be given for leverage to be done by the Financial Intermediaries in lending.
 - (i) The following particulars in the following matters approved the Board of Directors of the Bank should be submitted in Investment Committee.
 - a. Plan of utilization of amounts to be availed through the Fund and the business proposal containing the matters relating to the infrastructure supporting to the disbursement.
 - b. The method and basis for appraisal to be done by the Handling Bank in investment proposal submitted by the Partner Banks, and the method and basis for appraisal to be done by the Handling Bank in the loan proposals submitted by the consumers.
 - c. Provision for regular supervision and monitoring.
 - d. Business strategies and operating policies of the bank for attaining the objective of the Program;

- e. Planning of necessary human resources by the Handling Bank for mobilization of amount of the Fund and filed monitoring;
 - f. Particulars of the loan disbursing branches of the Partner Bank; if the partnership has been done with the local financial institutions, the matter relating thereto; and current credit services and the credit plants.
- (j) It has to be mentioned the basis that adequate attention has been given to minimize the operational/performance risk.
- (k) The proper attention has to be given for credibility of the bid proposals submitted by the banks.

15. Process of Planning and Budgeting of the Fund:

- (1) Attention has to be given in the following matters while preparing the plan and budget of the Fund:
- (a) To prepare the budget in line with the objective, goal and plan approved by the Steering Committee;
 - (b) To mention the actual income and expenditure of previous year and the status of retained amount;
 - (c) To prepare the budget based on the amounts available in the Fund;
 - (d) To comply with the budget ceiling and the limitation of financial investment.
- (2) The following processes will be adopted in the course of preparation of budget:
- (a) The Steering Committee shall prepare the policy priorities by maintaining coherency with objective of the Program and inform to the Secretariat;
 - (b) To give attention on the budget ceiling and limitation of financial assets, addition amount received from the development partners, utilization in the past, and suggestions of the Financial Intermediaries;
 - (c) The Secretariat shall prepare the consolidated budget based on the budget and estimated expenditures received from the

Partner Banks and Handling Bank and submit it to the Investment Committee for approval;

- (d) To carry out the adequate discussions and consultations to finalize the budget;
- (e) To approve the budget and program within 45 days after start of new fiscal year;
- (f) To submit for reallocation of budget in the Investment Committee if the head of the Secretariat considers of having adequate reason and basis for amendment in the approved budget and program.
- (g) To prepare the budget in the format prescribed in Schedule – 1.

16. Criteria for Consumer Loan:

The criteria for consumer loan shall be as follows:

- (a) The loan shall be provided to the consumer qualified for obtaining subsidy as per the subsidy policy.
- (b) There must be uniformity in the minimum terms and conditions of the Partner Banks while appraising the proposal for the credit facility.
- (c) To consider the matters including whether the installment of repayment of loan is based on the net cash flow or not, the status of other financial liabilities and the background of experiences in banking transaction.
- (d) To verify the consumers through the Centre, Service Centre and Branch.
- (e) To require obtaining documents ancillary to qualify the proposal.
- (f) The collateral of assets should be clearly recognised, and adequate documentation, establishing legal right on the collateral assets on default must be maintained as per internal guidelines of the Bank.
- (g) The insurance of collateral assets must be done to protect the interest of the Partner Bank as well as the Handling Bank and the cost thereof should be borne by the Partner Banks through their interest margin.

17. Criteria for Business Loan:

The criteria for consumer loan shall be as follows:

- (a) The credit facility shall be provided to the business user of the energy generated from the project receiving subsidy from the Centre.
- (b) The business user should not have involved in any kind of criminal and non-social activities.
- (c) In regards to the request for business loan, the technical feasibility must be appraised by the Centre and the financial feasibility by the Partner Bank before the disbursement of instalment of the loan.
- (d) The following matters shall be considered while carrying out the appraisal including appraisal of the financial feasibility, for the business loan:
 - 1. Environmental aspects;
 - 2. Management integrity and competence
 - 3. Experience in the relevant sector
 - 4. Financial parameters e.g. different current ratios, financial leverage, profit, debt servicing capacity etc.
 - 5. Viability and effectiveness of the business plans and future targets
 - 6. The loan transactions record in the past and the payment track record;
 - 7. The financial, physical and human resources of the applicant relating to the transaction and the status of distribution network.
 - 8. Assessment of the business plan and cost structure of the business.
- (e) The matters contained in Clause 16 sub-clause (d) to (g) apply equally in this Clause as well.
- (f) The project financing shall be highly encouraged.

18. Fund Flow to the Partner Banks:

The Handling Bank shall avail the amounts of the Fund to the Partner Banks considering the following matters:

- (a) The matters contained in the agreement between the Fund and the Partner Bank;
- (b) The experience of the Partner Bank in regards to lending in the past; and

- (c) The capacity of the bank in terms of its capital adequacy, ratio of non-performing loan, deposit etc.

19. Credit and Subsidy Mechanism:

- (1) Out of the amounts deposited in the Fund, half of the same shall be mobilized towards the subsidy at maximum normally and half towards the loan.
- (2) The distribution of subsidy and credit facility shall be done as follows:
 - (a) Subsidy Mechanism:
 - (1) The Handling Bank shall be responsible for delivery of subsidy to the consumer and the Bank shall carry out said work with the support of the Centre;
 - (2) The delivery of subsidy and the management of the Fund shall be required to do in compliance with the subsidy policy and mechanism of the Government of Nepal;
 - (3) The fee for the Handling Bank shall be fixed and paid based on the agreement entered into with the Fund and this shall be reviewed annually.
 - (4) The subsidy delivery process shall be as follows:
 - (a) The works to receive, carry out technical appraisal and approve the application for subsidy shall be done by the Centre.
 - (b) The Handling Bank shall be required to designate the liaison for the purpose of contacting with Secretariat and the Centre as per the need.
 - (c) The Centre shall send the approved subsidy applications to the Handling Bank on weekly basis for payment of the subsidy;
 - (d) The works to prepare financial appraisal report and to review the application shall be done by the separate persons.

- (e) The subsidy amount shall be delivered based on the technical and financial analysis and appraisal as per the subsidy policy and mechanism.
 - (f) The Handling Bank shall carry out the filed monitoring of the Project operated in subsidy and submit the monitoring report thereof to the Centre and Secretariat. The Centre, Service Centre and Branches shall extend support in the said work.
- (b) Loan Mechanism:
- (1) The Handling Bank shall provide the amounts of the Fund to the Partner Banks in compliance with the principles and criteria of loan.
 - (2) The loan amount shall be lent to the Partner Banks based on the budget and viable project pipeline project submitted by the Partner Banks and if more than 50% amounts are not utilized, the Fund shall recover the commitment fee from the Partner Banks based on proportion of the said amounts.
 - (3) The Partner Banks shall be required to provide retail loans to the consumers as per the principles of loan delivery contained in the agreement.
 - (4) The Centre, Service Centre and Branches shall be required to avail the technical evaluated proposal to the Partner Banks and the Partner Banks may also evaluate such proposals from their sources.
 - (5) Interest shall be charged in the lent amounts of the Fund provided to the Handling Bank by the Fund and to the Partner Banks by the Handling Bank as contained in the agreement.
 - (6) The risk of the loan delivered to the consumers shall be borne by the Partner Bank itself, and the Partner Bank shall not get relief to repay the loan stating the reason that the loan in risk could not be recovered.

- (7) The maximization of benefits of loan investment shall be encouraged highly, and the priority shall be given to the banks wishing to invest their funds as well. A policy shall be adopted to increase the ratio of investment of the bank and Fund from 1:2 to 1:1 and 2:1 thereafter.
- (3) In the course of delivery of subsidy and loan allocated pursuant to Sub-clause (1), a policy to decrease the subsidy amount and to increase the loan amount gradually on periodic basis shall be adopted.

20. Application to be submitted for obtaining the Loan:

- (1) The consumer shall be required to fill up and submit the loan application form along with necessary documents for obtaining the loan.
- (2) The loan application form should contain the name of applicant, contract address, total cost of the project/system, subsidy amount, objective of loan, income statement and other particulars required as per the internal guidelines of the bank.
- (3) In addition to the other particulars, the applicant shall be required to submit the detail plan of the project for which loan is required, including the followings in the case of business loan:
 - (a) Project overview, objectives and targets
 - (b) Technology, product, and/or business model
 - (c) Project rationale
 - (d) Market study
 - (e) Cost structure
 - (f) Analysis of income flow and cash flow
 - (g) Environmental impact analysis
 - (h) Innovation
 - (i) Project management governance structure
 - (j) Potential risks mitigation measures

21. Approving the Loan:

The Partner Bank shall appraise the applications submitted by the applicants, and provide the loan based on the agreement entered into with the applicants containing the minimum following terms and conditions:

- (a) Type of loan;
- (b) Term of loan;
- (c) Interest rate;
- (d) Repayment period;
- (e) Repayment terms;
- (f) Penalty conditions, if any
- (g) Collateral terms and conditions
- (h) Payment arrangements

22. Compliance Unit:

- (1) There shall be a Compliance Unit to ensure whether the approved systems and mechanisms have been complied with or not, for suitability, effectiveness and quality of the project and programs.
- (2) The Compliance Unit shall carry out the following works:
 - (a) To provide quality assurance for all the financial management, planning and control systems of program and the Fund;
 - (b) To review in regards to compliance with procedures and other relevant policies contained in this Manual;
 - (c) To carry out the internal compliance audits of the subsidy and loan facilities delivered by the Financial Intermediaries;
 - (d) To provide the necessary suggestions to the Financial Intermediaries and Centre in regards to improve the system and procedures relating to the Fund.
- (3) The Compliance Unit shall be required to submit its audit report to the Steering Committee through the main development partner and the Investment Committee.
- (4) The Secretariat may carry out the monitoring in regards to the matter whether the Financial Intermediaries have provide the necessary notice, data or information or not to the Compliance Unit, and give necessary instruction.

23. May Suspend:

- (1) If it is found that as per the internal audit carried out by the Compliance Unit, the matter contained in the agreement has not been complied with by the Financial Intermediaries, the Investment Committee may suspend on the recommendation of the Secretariat.
- (2) While suspending pursuant to Sub-clause (1), the Financial Intermediaries should be given an opportunity to submit its clarification.
- (3) The Financial Intermediaries suspended pursuant to Sub-clause (1) may be given an opportunity for improvement by specifying the certain time limit.
- (4) In the event that the opportunity has been provided pursuant to Sub-section (3), if there is sufficient basis of remarkable improvement, the Investment Committee may remove the suspension or if there is no sufficient improvement or if the sufficient improvement could not be seen, it shall recommend to the Steering Committee for taking action up to the cancellation of the agreement by giving continuity for the suspension.

24. Amounts to be deposited in the Fund:

- (1) The following amounts shall be deposited in the Fund:
 - (a) The amounts to be received from the Government of Nepal;
 - (b) The support from the development partners;
 - (c) The income from carbon trading;
 - (d) The income received towards investment of amounts of the Fund; and
 - (e) The amount to be received from other sources.
- (2) In addition to the amounts to be deposited in the Fund pursuant to Sub-clause (1), the remaining amounts and liabilities of the Micro-hydro Credit Fund and Biogas Credit Fund shall be transferred in this Fund.

25. Account of the Fund and its Operation:

- (1) The amounts to be deposited by the development partners in the Fund shall be deposited as per the agreement entered into with the Government of Nepal, and the amount to be received from the Government of Nepal shall be deposited through the Centre, in the account of the Handling Bank.
- (2) The Handling Bank shall maintain the following accounts:
 - (a) Investment account:
 - (1) The amounts received from the Government of Nepal and development partners, the amount of the un-committed fund and the income received from the investment shall be deposited in the investment account.
 - (2) The amounts shall be transferred to the other accounts, which have been opened for subsidy, loan and program and administrative expenditures of the Secretariat, from this account.
 - (b) Subsidy account:
 - (1) Subsidy account shall be maintained for delivery of subsidy to the consumer.
 - (2) The amounts shall be transferred in this account from the investment account on trimester basis based on the projected payment of subsidy.
 - (c) Loan account:
 - (1) Loan account shall be maintained to provide the loan to the Partner Bank.
 - (2) The amounts shall be transferred in this account from the investment account on trimester basis based on the projected payment of subsidy.
 - (d) Secretariat account:
 - (1) Secretariat account shall be maintained for the program and administrative expenditures of the Secretariat.
 - (2) The amounts shall be transferred in this account from the investment account on trimester basis based on the approved budget.

- (3) This account shall be operated as normal saving account.
- (4) The Handling Bank shall transfer the amounts pursuant to Sub-clause (2) as per the approval of the Investment Committee.
- (5) The operation of investment account and loan account shall be operated by the Handling Bank.
- (6) The chief of Secretariat shall operate the secretariat account.

26. Distribution and Approval of Expenditure:

- (1) The expenditure of strategic planning and day to day operation of Investment Committee and Secretariat shall be borne from the amount supported by the development partners.
- (2) It shall be main responsibility of the Secretariat to ensure the compliance with administrative and financial guidelines including the administrative and book keeping requirements.
- (3) The meeting allowance of members of Investment Committee must be approved by the Steering Committee and the salary of professional staffs appointed in the Secretariat by the Investment Committee.
- (4) The expenditures up to the following limit must be approved the authorized person as per the following authority:

S. No.	Amount Rs.	Approving Official
1	Less than two lakh	Chief of Secretariat
2	Two lakh to ten lakh	Investment Committee
3	Above ten lakh	Steering Committee

27. To conduct the Promotion and Awareness Program:

The chief of Secretariat shall be required to support to the Centre, Service Centers and Branches to promote and create awareness of the renewable energy technologies, and shall implement different plan and programs to promote and create awareness of the following matters in addition to the other matters:

- (a) Renewable energy technologies available in the market;
- (b) Subsidy facilities available for products;
- (c) Loan facilities available for products.

28. To conduct the Capacity Development Program:

The Secretariat and banks may coordinate, prepare and implement the working plans relating to necessary training and capacity development program for the development of capacity of the human resources working with Secretariat and Financial Intermediaries.

29. Monitoring and Evaluation:

- (1) Monitoring and evaluation mechanism shall be adopted to attain the following objectives to operate the amounts in the Fund systematically and effectively:
 - (a) To provide accurate information to the concerned institution and person on time;
 - (b) To present the overall financial status of the mechanism including the statement of income and balance sheet;
 - (c) To fix the performance as per the work and the budget;
 - (d) To carry out the annual performance appraisal based on the intended performance indicators and achievement;
 - (e) To determine the status of the Fund and the committed fund;
 - (f) To carry out the performance appraisal of the Financial Intermediaries;
 - (g) To assess the status relating to the capacity development measures;
 - (h) To carry out the field monitoring of the project and system;
 - (i) To cause for preparing report through the management information system; and
 - (j) To make the auditing and review works to be based on the works and activities of the Compliance Unit.
- (2) The following indicators shall be taken as the bases while carrying out the monitoring and evaluation of the Fund:
 - (a) Subsidy amount and disbursed loan;

- (b) Compliance with the policy and strategies of the Government of Nepal and attainment of goals fixed by the Government of Nepal in that sector;
 - (c) Capacity development of the Financial Intermediaries, which includes extension of branches, geographical expansion and loan proposals and distributed loans;
 - (d) Capacity development of the Financial Intermediaries, which includes improvement in the loan proposals processing time; subsidy delivery and infrastructure, which includes other improvements in information flow and the upgrading of physical situation;
 - (e) Number distributed development loans towards both demand and supply;
 - (f) Number of bankable project proposals evaluated technically by the Centre;
 - (g) Profit from the investment of the Fund;
 - (h) Number of renewable energy projects/systems installed and under operation.
- (3) The Handling Bank shall be required to submit the following reports to make the monitoring of works and activities of the Financial Intermediaries and same type of information must be collected from the Partner Banks:
- (a) Annual Budget Report:
 - a. The Partner Bank shall submit the annual budget to the Handling Bank.
 - b. The Handling Bank shall submit the consolidated budget prescribed by category and banks.
 - (b) Performance Report:

This report shall present the integrated mechanism in regards to the use of fund, budget and allocation of fund on trimester and annual basis.
 - (c) Account Report:

- (1) The Handling Bank shall be required to avail the details of the different accounts and following information on monthly basis:
 - a. Name of account and its use,
 - b. Ledger of the operating accounts providing the deposits and disbursements,
 - c. Calculated weighted monthly balance,
 - d. Interest calculations on the accounts,
 - e. The utilized funds, and
 - f. Exposure to each Partner Bank, and break-up of subsidiaries- component-wise, product-wise and location-wise.
- (2) The Partner Banks shall be required to submit the consolidated report including the following information to the Handling Bank and Secretariat on monthly basis and the trimester basis:
 - a. List of loans which has been provided to the consumers and for the business;
 - b. Project pipeline;
 - c. Break up of loans based on components and products;
 - d. Break up of loans distributed across the regions
 - e. The uncommitted funds
- (d) Field Reports:

If the Financial Intermediaries have done the field monitoring, they shall submit the field report thereof.
- (3) The reports shall be submitted in the Secretariat, on an assigned periodicity, which will be subsequently summarized and presented to the Investment Committee and the stakeholders as has been prescribed in the clause above.
- (4) The Secretariat may request for ad-hoc information from the Financial Intermediaries as and when required.
- (5) The Secretariat may carry out the field inspection to verify the following:

- (a) To monitor the project activities financed by the partner financial intermediaries, or funded by the Fund, and to provide feedback for corrective action.
 - (b) To assess the socio-economic condition of the people at the project area;
 - (c) To review the activities and the results of the component;
 - (d) To assess the requirement of promotion and marketing activities;
 - (e) To carry out the case studies both successful and failure project for the purposes of knowledge management.
- (6) While carrying out the field inspection pursuant to Sub-clause (5), it may be carried out in the following matters:
- (a) The Secretariat shall plan the number of visits and conduct ad-hoc visit in the target areas, which may be decided on the basis of following matters:
 - a. Significant change in the trend of loans/subsidies in a particular area;
 - b. Concentration of credit/subsidies to a particular area by partner Financial Intermediaries
 - c. Areas where there is lack of demand for credit/subsidy
 - d. Requests from Service Centre, Branches and partner Financial Intermediaries
 - e. Business users who have been provided high volume loans
 - f. Observations from the Compliance Unit
 - g. Any other issue or concern which is brought to the notice of the head the Secretariat
 - (b) The cost associated with the filed visits shall be incurred by the Secretariat in per the administrative guideline of the Program.
 - (c) The said expenditure shall be borne by the bank itself in the case of both types of banks, which shall be adjusted in the difference in the amount provided by the Fund and the interest earned from the investment.

- (d) The Secretariat may be accompanied by the Service Centres, Branches and partner intermediaries in the field visit. However their field visit costs shall not be borne from the fund of the Secretariat.
- (e) The Secretariat shall avail the detail filed visit report to the Investment Committee. The report may contain the followings:
 - a. Locations of the field visit;
 - b. Reasoning for selection of locations;
 - c. Size and number of credit/subsidies reviewed through the on-field visits;
 - d. Project results for that area – number of subsidies and credit facilities provided;
 - e. Detailed observations; and
 - f. Corrective action suggested, if any.

30. Auditing:

- (1) The Compliance Unit shall carry out internal audit of the Fund regularly.
- (2) In the internal audit process to be carried out pursuant to Sub-clause (1), the compliance with the overall framework, policy and guidelines shall be reviewed on the basis of planning, evaluation, reporting and monitoring.
- (3) The final audit of the Fund shall be done as per the joint venture agreement entered into between the Government of Nepal and the development partners and the final audit of the Program as per the approved administrative and financial guidelines.

31. Agreement to be entered into between the Fund and the Handling Bank and Partner Banks:

- (1) In the matter of operation and management of the Fund, agreements shall be entered into between the Fund and Handling Bank, Fund and Partner Banks or Handling Bank and Partner Banks.
- (2) In the agreement pursuant to Sub-clause (1), the financial limit of the funds and the management including other matters shall be contained.

32. To be as per the Policy and Manual:

- (1) The policy and procedures accepted/determined by the different stakeholders as per the agreements and arrangements of the Fund mechanism shall be integral part of this Manual and the fund shall be operated in line with these mechanisms.
- (2) The agreement pursuant to Sub-clause (1) shall be an integral part of this Manual.

33. To submit Report Regarding Use of the Fund:

- (1) The Investment Committee shall be required to submit the report regarding the status of use of fund and its operation in the format of schedule 2 every year to the Government of Nepal and the development partners each.
- (2) The Secretariat and the Financial Intermediaries shall support to prepare the report as per Sub-clause (1).

34. Power to Interpret:

If there is any confusion in regards to the use and compliance with this guideline, the Steering Committee shall resolve the issue by interpreting it.

Annexure-1

Related with Clause 15(2)

Format of the Budget

Central Renewable Energy Fund	Investment Committee and Secretariat Operational Manual	ANNEX NO: 01 DATE: PAGE NO:
--	--	---

Description	Approved Budget for the Previous Year in Rs.	Actuals for the Previous Year in Rs.	Approved Budget for the Current Year in Rs.	Actuals for the Current Year in Rs.	Total Budget for 5 Years in Rs.
Cash Inflows					
Government of Nepal					
Development Partners					
▶ Development Partner 1					
▶ Development Partner 2					
▶ Development Partner X					
Earnings					
▶ Earnings from disbursement of credit					
▶ Earnings from uncommitted funds					
Total					
Outflows					
Subsidies					
▶ Solar Projects/Systems					

	▶ Biogas Projects/Plants					
	▶ Biomass Energy Projects					
	▶ Micro/Mini Hydro Projects					
	▶ Improved Water Mill					
	▶ Productive Energy Use					
Credit Financing Support						
1	Handling Bank – Fund Facilitation					
	▶ Partner Bank 1					
	▶ Partner Bank 2					
	▶ Partner Bank 3					
	▶ Partner Bank X					
2	Partner Banks					
2.1	Partner Bank 1					
	▶ Solar Projects/Systems					
	▶ Biogas Projects/Plants					
	▶ Biomass Energy Projects					
	▶ Micro/Mini Hydro Projects					
	▶ Improved Water Mill					
	▶ Productive Energy Use					
	▶ Other Projects					
2.2	Partner Bank 2					
	▶ Solar Projects/Systems					
	▶					

	▶ Other Projects					
2.3	Partner Bank 3					
	▶ Solar Projects/Systems					
	▶					
	▶ Other Projects					
2.4	Partner Bank X					
	▶					
	▶ Biogas Projects/Plants					
	▶ Other Projects					
	Investment					
	▶ Government Securities					
	▶ Nepal Rastra Bank Bonds					
	▶ Organized institutions' bonds and debentures					
	▶ Multilateral Debentures and Bonds					
	▶ Fixed Deposits with financial institutions					
	Central Renewable Energy Fund Expenses					
	▶ Salary, benefits					
	▶ Transportation costs					
	▶ Outsourcing short term consultancy services costs					
	▶ Promotion and marketing costs					
	▶ Information technology systems					

▶ Communication expenses					
▶ Office and stationery cost					
▶ Other Expenses (Please mention)					
Uncommitted funds					
Total					

Revision No:	Prepared by:	Approved by:
Date:		

Annexure-2

Related with Clause 33(1)

Report of Investment Committee

Central Renewal Energy Fund	Investment Committee and Secretariat Operational Manual	ANNEX NO: 02 DATE: PAGE NO:
--	--	---

Description	Approved Budget for the Current Year in Rs.	Actuals for the Current Year in Rs.
Cash inflows		
Government of Nepal		
Development Partners		
▶ Development Partner 1		
▶ Development Partner 2		
▶ Development Partner X		
Earnings		
▶ Earnings from disbursement of credit		
▶ Earnings from Uncommitted funds		
Total		
Outflows		
Subsidies		
▶ Solar Projects/Systems		
▶ Biogas Projects/Plants		
▶ Biomass Projects		
▶ Micro/Mini Hydro Projects		
▶ Improved Water Mill		

	▶ Productive Energy Use		
	Credit Financing Support		
1	Handling Bank		
	▶ Solar Projects/Systems		
	▶		
	▶ Other Projects		
2	Partner Banks (Schedule 1)		
	▶ Solar Projects/Systems		
	▶		
	▶ Other Projects		
	Investments (Schedule 2)		
	Central Renewal Energy Fund Expenses (Schedule 3)		
	Uncommitted funds		
	Total		