Central Renewable Energy Fund Nepal

Delivering Benefits for the Poor through Public Private Partnerships
(Session Three)

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Overview (1)

ADB’s Financial Intermediation Lending Policy

- Funds provided by Government and Development Partners
- Apex Financial Institution
- Second-tier Financial Institutions
- Project Borrowers (Mix of loan and subsidy)

- Market-based, demand driven, private sector focused institutional lending
- Increased outreach, efficiency and stability of financial systems
- Well-defined eligibility criteria
- Well-defined risk management systems
- Better Policy dialogue
Overview (2)

Financial Management Mechanism

Government of Nepal and Development Partners

NRREP Programme Steering Committee

AEPC

Development and Promotion of Renewable and Alternative Energy Technologies

CREF Investment Committee and Secretariat

CREF Handling Bank

Subsidy Fund Management

Investment Management

Wholesale Lending

Prequalified Partner Banks

Commercial banks – development banks – LFIs

End users

Households – communities – manufactures – distributors - installers
Overview (3)

Funds Flow Mechanism
Overview (4)

CREF Investment Committee & Secretariat

Investment Committee (specialized sub-committee under the Program Steering Committee)

1. Chairperson - Joint Secretary, Ministry of Science, Technology and Environment
2. Member - Under Secretary, Ministry of Finance
3. Member - Executive Director, AEPC
4. Member - CEO of “Class A” bank nominated by Nepal Bankers’ Association
5. Member - Representative from the Private Sector

Secretariat

1. Head of CREF Secretariat; Management & Monitoring Specialist
2. Capacity Building Specialist
3. Support Staffs
Current Status (1)

- CREF Investment Committee and Secretariat in place and functional; 19 CREF Investment Committee meetings already held
- CREF’s Financial Management Mechanism, Legal Status, Operational Guidelines approved by Government of Nepal, Ministry of Science, Technology and Environment
- CREF Secretariat office established at handling bank
- One handling bank (GIBL) and seven partner banks (BOK, CEDB, CIVIL, NIBL, SBL, HBL & TDBL) selected through GoN’s Public Procurement Act and Rules
- Handling bank has already processed about 50,000 subsidy application forms amounting to about NPR 1.5 billion; investment management being done by bank’s Treasury Department, and wholesale credit fund disbursed to seven partner banks
- Partner banks already utilizing CREF’s credit funds for investment in the RE sector
- Government of Nepal’s Urban Solar Program being initiated through the seven partner banks
Current Status (2)

- CREF business plan and vendor financing models being developed with assistance from UNCDF.

- Various financial instruments for RET developers, banks, end-users and community being designed and developed in conjunction with Rural Energy Rural Livelihood (RERL), UNDP/GEF.

- Capacity building activity – Credit Financing RETs under process; will be undertaken in 10 districts of Nepal over the next 2 years.

- CREF’s technical review planned for November 2015.

- GoN’s new budget for FY 2015/16 has top priority for RE sector with over 5 billion to be channeled in this sector; the budget speech specifically mentioned AEPC and CREF.

- With the government’s priority in the RE sector, donors and development partners more committed; emphasis on providing funds for credit lending through CREF’s partner banks.

- Subsidy Policy and Subsidy Delivery Mechanism being revised to accommodate both subsidy and credit mix in funding RETs.
Implementation of FMM (1)

General

- Contract signed with handling and partner banks – January 2015
- Operational guidelines and manuals developed and approved from the CREF Investment Committee for handling and partner banks
- Subsidy and credit funds transferred to handling and partner banks
- CREF Investment Accounts opened at the handling and partner banks
- CREF Business Plans (till end of NRREP 2017, and 5 years beyond NRREP; till 2022 along with Vendor Financing Models being developed with support from UNCDF
- Financial instruments and manuals for partner banks to invest in the RE sector being developed with support from UNDP (RERL/GEF project)
- Urban solar program of GoN being implemented through CREF partner banks
- GoN’s budget for FY 2015/16 has prioritized RE sector with over NPR 5 billion to be disbursed through CREF
- CREF Investment Committee has met 19 times to endorse and approve various decisions regarding the disbursement of funds through CREF; develop conducive environment for private sector commercial banks to invest in the RE sector
Implementation of FMM (2)

Handling Bank

Subsidy Administration

- All funds transferred to investment account carrying interest, and thereafter to respective subsidy and credit accounts when required.

- Separate individual sub accounts opened under the investment account; donor vs government, subsidy vs credit, and technology wise to ear mark each and every fund transferred and disbursed to maintain transparency and ease reporting.

- Physical verification of individual Subsidy Application Forms (SAFs) technically approved by AEPC prior to disbursement of funds from CREF.

- Periodical reporting; monthly, quarterly, half-yearly and annually as required by GoN and development partners.

Investment Management

- Treasury department of handling bank handles all investment management of CREF funds.

Wholesale Credit Fund Management

- Credit funds transferred to partner banks based on the business plan submitted by them with the RE projects technically appraised by AEPC.
Implementation of FMM (3)

Partner Banks

CREF Credit Fund Management

- All funds transferred to CREF investment account (call account) carrying interest, and thereafter to current account upon approval of business plan for investing in RE projects.
- Direct lending to end-users, households, pre-qualified companies, developers, etc. Wholesale credit lending to MFIs and LFI s for smaller RE technologies.
- Credit risk borne by partner banks; financial appraisals of RE projects done by the partner banks irrespective of these being technically appraised by AEPC; projects need to be bankable for partner banks to invest in them.
- Interest spread as mandated by the central bank (NRB); cannot exceed 5%.
- Periodical technology-wise reporting; monthly, quarterly, half-yearly and annually as required by GoN (in case of urban solar program) and development partners.
- Business plan to be prepared by partner banks; AEPC technically appraised projects need to be bankable.

Urban Solar Program

- Partner banks to implement GoN’s urban solar program; upfront subsidy of NPR 15,000 provided on installations of 500 WP and above; 75% and 50% interest subsidy for household and institutional installation respectively; interest rate not to exceed 9%. Investments to be done on EMI basis.
Thank you