

# Evaluating the Performance of the National Clean Energy Fund

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The National Clean Energy Fund has been created as a funding mechanism ostensibly for research and development in the field of clean energy technologies. So far, the fund has collected Rs 8,200 crore from the clean energy cess, but the processes of disbursement are mired with confusion. This note evaluates the fund's functioning by accessing, through Right to Information applications, the minutes of the first three meetings of the Inter-Ministerial Group, the highly empowered bureaucratic body responsible for determining guidelines, eligibility and appraisal criteria and recommending projects for final approval.

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The National Clean Energy Fund (NCEF), operational since the financial year (FY) 2010-11, has been primarily conceived as a separate non-lapsable corpus to support research and innovative projects in the field of clean energy technology, with the possibility of additional funds. It is specifically located under the Public Accounts of India.<sup>1</sup> The inflow into this fund has come primarily through the levy of a clean energy cess at a nominal rate of Rs 50 per tonne on both domestic and imported coal. The present architecture of the fund suggests that the Central Board of Excise and Customs (CBEC) collects the clean energy cess. The Plan Finance II (PF-II) Division of the Department of Expenditure, Ministry of Finance (MOF), is the agency which finalises the modalities of disbursing NCEF money to projects that promote "research and innovation in clean energy technologies". As per NCEF mechanics, the Inter-Ministerial Group (IMG) is conceived as a highly empowered bureaucratic body entrusted with determining the guidelines, the eligibility and appraisal criteria and recommending projects for final approval from competent authorities (Office Memorandum on Guidelines 2011a).<sup>2</sup> Though the NCEF has collected revenues to the tune of Rs 1,066 crore (actuals) in FY 2010-11, Rs 3,249 crore in FY 2011-12 (revised estimate), and Rs 3,864 in FY 2012-13 (budgetary estimate), the process of disbursing the fund is mired in confusion.<sup>3</sup>

This commentary hence attempts to meet the knowledge gap on the NCEF's functioning by accessing the crucial

minutes of first three IMG meetings through the Right to Information (RTI) Act (2005).<sup>4</sup> The documents reviewed for this assessment include guidelines for appraisal and approvals of projects/schemes eligible for financing under the NCEF, the application format for proposals, and the meeting minutes covering the proceedings of the three meetings of the IMG held prior to 24 February 2012.<sup>5</sup> Even recognising that basing the evaluation on just these documents has its own limitations, a fairly insightful assessment of the performance of the NCEF is possible and can throw light on its functioning.

## Decoding Inconsistency

It can be fairly observed from the assessment that the NCEF 2011 guidelines are too broad. There are inconsistencies between the stated objectives, operational guidelines and final approval of the projects. Although the core objective of the NCEF is to "fund research and innovative projects in clean energy technologies",<sup>6</sup> the guidelines permit projects having limited, if any, links to development of the field. For instance, the existing eligibility criteria allow "projects related to environmental management particularly in geographical areas surrounding energy sector projects".<sup>7</sup>

However it was found out in the second IMG meeting minutes, held on 11 August 2011 that this link has been compromised in the way guidelines have been executed. This is evidenced by the IMG approval for a Ministry of Environment and Forests (MOEF) project seeking funds for "remediation of selected hazardous waste contaminated dump sites".<sup>8</sup> By permitting projects of such varying scope, the guidelines have compromised the ability of the NCEF to achieve its stated objective. Hence, there is a need to revise the guidelines to only permit those projects whose focus involves research, development or adoption of clean energy technologies.

The most visible inconsistency can be found in the way the eligibility criteria for seeking funding support from the NCEF have been explained in the guidelines. As per the guidelines, projects are eligible to receive support in the form of loan or viability gap funding, which in no case shall exceed 40% of the total project cost. Setting a clause of 40% funding under NCEF guidelines seems arbitrary; it is not clear on what basis the benchmark has been agreed upon under the NCEF. Many projects with very innovative ideas, research and technology, particularly in promoting clean energy, may justifiably require higher public investments and necessary infrastructure. To cap funding just at 40% would endanger the viability of the project itself, given the fact that there are associated risks of high technological inputs and uncertain revenue projection in the process of actual implementation.

Further, even though the IMG has emphasised the importance of 40% financial support from the NCEF, there

are many instances when the approved funding exceeds 40% of the total project cost (Table 1). These include proposals by the Ministry of New and Renewable Energy (MNRE) for installation of solar photovoltaic (SPV) projects systems in Chhattisgarh, Jammu and Kashmir (J&K), Rajasthan, Sikkim, Uttar Pradesh (UP) and West Bengal, and for pilot projects of 5,500 community-size portable and fixed biomass cook-stoves, as well as the MoEF's proposal-seeking funds to support the Green India Mission. It seems the IMG is following a case-specific or ad hoc approach to approving various projects under the NCEF.

While the application process is open to all and project proposals can be submitted by individual/consortia of organisations in the government/public sector or private sector, certain additional clauses in the eligibility criteria may make the participation of private players, including the involvement of Indian research institutes and industries, extremely difficult.

The clause that participating organisations must put in a minimum financial commitment of at least 40% of the project cost before seeking assistance from the NCEF, along with another qualification that projects funded by any other arm of the Government of India or those that have received grants from any other national/international body are ineligible for funding, seem intransigent. They overlook the prospect of public-private partnerships or effective collaboration with eligible partners to pursue research and innovation in the development of clean energy technologies; in turn, they deny the possibility of technology transfer. It can be fairly argued from these restrictive criteria that only ministry-sponsored projects would be eligible to funding from the NCEF.

### Adjunct to General Budgets

It clearly emerged from the assessment that the funds available under the NCEF are being allocated to meet the budget

**Table 1: Project Proposals Considered in the First Three IMG Meetings**

Projects Considered/Approved by IMG	Meeting	Project Cost (Rs crore)	NCEF Request (Rs crore)	Status of Approval	Approved (Rs Crore)/ (%Project Cost)	Sponsor Ministry
Small grid-connected solar power projects under Jawaharlal Nehru National Solar Mission (JNNSM)	14 June 2011	95	95	IMG requested proposal be resubmitted in approved format	-	MNRE
Off-grid subsidy-cum-refinance scheme under the JNNSM	14 June 2011	290	290	IMG requested proposal be resubmitted in approved format	-	MNRE
Installation of SPV power plants of capacity aggregating to 1.4MW, extension of localised grid, etc, in 50 villages of Gumla district, Jharkhand	14 June 2011 and 11 August 2011	72.67	53.49	Withdrawn by MNRE in June 2011, resubmitted in August 2011. In principle approval, but balance 60% funding to be identified before proposal will be considered by IMG	-	MNRE
Additional subsidy for solar lantern charging facility and for rice husk based gasifier system in left wing extremism (LWE) affected areas	14 June 2011	13.30	13.30	"In principle" approval by the IMG	13.30 [100%]	MNRE
Installation of SPV lights and other small capacity photovoltaic (PV) systems in rural, semi-urban and urban areas through the National Bank for Agriculture and Rural Development (NABARD) (JNNSM)	11 August 2011	117	Unclear	Approved, subject to revisions proposed by IMG in structure of proposal	Unclear	MNRE
Installation of solar thermal systems in 16 states	11 August 2011	178.03	64.14	Approved	64.14 [36%]	MNRE
Installation of SPV systems in Chhattisgarh, J&K, Rajasthan, Sikkim, UP and West Bengal	11 August 2011	204.92	85.88	Approved	85.88 [42%]	MNRE
Installation of 1,200 solar lanterns in 60 LWE- affected districts in eight states	11 August 2011	16.20	16.20	Rejected, 40% NCEF funding threshold exceeded	-	MNRE
Pilot projects – 5,500 community-size portable and fixed biomass cook-stoves	11 August 2011	6.55	6.55	Approved	6.55 [100%]	MNRE
Remediation of 12 selected hazardous waste contaminated dump sites	11 August 2011	805	563.50	Subject to several conditions, approved funding of Rs 60 crore to prepare DPRs for 12 sites	60 [scope of proposal revised]	MoEF
Financing a study to assess wind energy resource potential in seven states	25 November 2011	20.48	20.48	Rejected, proposed that MNRE seek GBS for financing	-	MNRE
To carry out preparatory activities in FY 2011-12 under Green India Mission	25 November 2011	200	200	Approved. MoEF clarified during meeting that only Rs 60 crore was required in current year	200 [100%]	MoEF
Installation of one solar heating system and 10 solar street lighting system at all the six advanced training institutes	25 November 2011	16.68	16.68	Rejected, proposal can be covered under existing scheme under JNNSM	-	Ministry of Labour and Employment (MoLE)

Source: Compiled from the first three IMG meeting minutes.

shortfalls in certain regular projects implemented by various ministries departments. The IMG, for instance on 11 August 2011, approved the Solar Thermal Systems Installation project of MNRE in 16 states, whose funding could have been met from the union budget. Further, the IMG meeting held on 25 November 2011 sanctioned Rs 200 crore from the NCEF to MOEF to carry out preparatory activities for the Green India Mission, one of eight missions under the National Action Plan on Climate Change, which could have received support from the FY 2012-13 sectoral budget of the ministry.

Considering NCEF as an adjunct funding mechanism to meet shortfalls of regular budgets of various ministry programmes is an area of concern highlighted in the IMG meeting. The then finance secretary, Sunil Mitra observed in the first IMG meeting:<sup>9</sup>

The NCEF was conceived with a specific purpose, namely, to support research and innovative projects in clean energy technologies. Any project/scheme relating to innovative methods to adopt to Clean Energy technology and Research & Development shall be eligible for funding under the NCEF...the

Fund cannot be treated as an adjunct to the general Budget, wherefrom shortfalls in meeting budgetary requirements of already approved Plan schemes can be met.

Hence, it is necessary to revise the guidelines to eliminate ambiguities surrounding the use of the fund to meet budgetary shortfalls by ministries. Funding to support a ministry's regular activities should be met from the appropriate sources available with the existing financing structure of the general budget.

A conservative estimate, based on review of relevant documents accessed through the RTI, suggests that nearly 80% of the corpus has remained unutilised. As per information provided by Budget Division of the MOF on 12 March 2012, only Rs 1,066 crore (actual) have been disbursed so far, even though approximately Rs 7,200 crore are still parked in the funds. This suggests that the sponsored ministries lack the capacity to develop quality proposals consistent with NCEF guidelines, to tap the full potential of the fund. The first three IMG meetings minutes suggest that nearly half of the proposals appraised by the IMG were either

rejected or not approved in their entirety as they were found ineligible. Hence, there is need to enhance the proposal generation capacity of sponsor ministries by institutionalising robust proposal development processes, through increased in-house technical expertise in ministries, greater access to external technical resources, and development of collaborative proposals with Indian research institutes and industry. Additionally, improving due diligence of sponsor ministries while developing and appraising proposals would substantially help in increasing the utilisation of funds in various projects.

### Operational Gaps

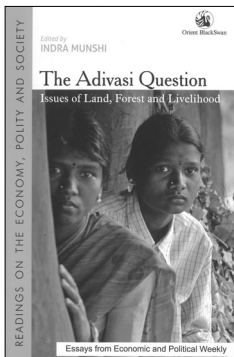
The present NCEF setting is marred with major operational drawbacks. The process architecture is skewed towards receiving projects proposals and appraising them through in-built mechanisms within relevant ministries, and finally getting the necessary go-ahead from the IMG. The mechanics of NCEF processes operate within three months from the entry of the project proposal till its final approval.<sup>10</sup> But in the absence of an

NEW

## The Adivasi Question

Edited By

INDRA MUNSHI



Depletion and destruction of forests have eroded the already fragile survival base of adivasis across the country, displacing an alarmingly large number of adivasis to make way for development projects. Many have been forced to migrate to other rural areas or cities in search of work, leading to systematic alienation.

This volume situates the issues concerning the adivasis in a historical context while discussing the challenges they face today.

The introduction examines how the loss of land and livelihood began under the British administration, making the adivasis dependent on the landlord-moneylender-trader nexus for their survival.

The articles, drawn from writings of almost four decades in EPW, discuss questions of community rights and ownership, management of forests, the state's rehabilitation policies, and the Forest Rights Act and its implications. It presents diverse perspectives in the form of case studies specific to different regions and provides valuable analytical insights.

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appropriate and robust screening framework, project suitability in access to NCEF comes under scrutiny.

At present, the NCEF has attached high priority to those projects which promote small-scale technology with demonstrative effects. Underlining the fact that micro-technology projects most often deliver benefits in catalysing development of clean energy technologies in backward and underdeveloped areas, financing of such projects through extra-budgetary support is an ad hoc option.<sup>11</sup> Given their small scale and use of relatively mature technologies, it can be further argued that demonstration projects will have minimal impact on increasing market demand for clean energy technologies or in bringing down the cost of such technologies. Hence, opportunities need to be explored to use the NCEF to attain greater impact by supporting research and development (R&D) in potentially breakthrough technologies and activities that facilitate commercialisation, leverage additional resources from the private sector, and create new institutions and mechanisms for deployment of clean energy technologies at scale.

Significantly, the NCEF does not inspire private sector involvement, irrespective of the fact that certain guidelines allow project proposals to be developed by the private sector, both independently and in collaboration with government and public sector entities, by seeking 40% of funds as loan or viability gap funding. In the first three IMG meeting, not a single proposal from private players was discussed and passed. This suggests limited awareness amongst the private sector regarding this funding opportunity, which to some extent reflects on the limited efforts made to-date by sponsoring ministries to attract the private sector as an effective partner on potential projects. Given that sponsoring ministries can only play a limited role in clean energy technology R&D, strong private sector interest and good working partnerships with sponsoring ministries is essential if the NCEF is to realise its maximum potential. The recent awards announced under the Indo-United States (US) Joint Clean Energy Research and Development Centre (JCERDC) are indicative of the role that Indian industry and

research institutes can play in advancing clean energy technologies in this country.<sup>12</sup>

In the end, the guidelines are marred by the conspicuous absence of project monitoring mechanisms. The Office Memorandum (2011a) explicitly states that “to monitor progress of NCEF funded projects, the IMG will identify/appoint appropriate professional agencies”.<sup>13</sup> It seems the IMG has not acted upon this requirement as yet, even though it has started approving funding as per the guidelines. Additionally, review of the IMG meeting suggests that no discussions have taken place on institutionalising a monitoring framework, including measures that will be used for evaluating progress of projects. The application of such a framework is critical to monitoring progress and ensuring accountability in quality utilisation of the approved funding.

To sum up, the constitution of the NCEF through the levy of the clean energy cess can be still considered an innovative attempt by the union government to garner additional resources to support R&D in the field of clean energy technology. As the world’s second-fastest growing economy, India will see significant increases in energy consumption with concomitant effects on the rise of greenhouse gas emissions; even though the country’s carbon dioxide emission intensity per unit of gross domestic product (GDP) has fallen from 68.8 grams of carbon dioxide equivalent from 1994 to 56.2 grams in 2007.

Transforming from a traditional economy to a low carbon economy is a process of economic development emphasising high energy efficiency, an optimised energy structure and rational consumption of energy. This can be achieved by blending the economy achieved through changing public policies, with high investments in the energy-intensive sectors, technological innovation, and necessary institutional boundaries. Further, if the country aims to reduce emissions intensity by 20-25% by 2020, new economic and policy instruments must be evolved to increase the competitiveness of low-carbon technologies. Hereafter, the performance of the NCEF as a new fund mechanism, will be considered critically in broad public policy discourses on mitigating climate change in India.

## NOTES

- 1 There are three main accounts of the Government of India: (1) Consolidated Fund of India, (2) Public Account of India, (3) Contingency Fund of India. The Public Account of India as referred in Article 266 (2) of the Constitution consists of receipts and disbursements such as deposits, reserve funds, remittances, etc, which do not form part of the Consolidated Fund of India. Disbursements from the Public Account are not subject to vote by Parliament. See Budget Manual (2010), Ministry of Finance, Government of India.
- 2 The competent authorities in the NCEF have various final approval mechanisms which sanction funding on the basis of the recommendations of the IMG. For projects with budgets up to Rs 150 crore, the final approval authority rests with the minister-in-charge of the administrative ministry/department that has initially received the preliminary proposals. For projects with budgets between Rs 150 crore and Rs 300 crore, the approval authority is jointly managed by the concerned Administrative Ministry/Department and MoF. The Cabinet Committee on Economic Affairs (CCEA) takes the final decision regarding proposals with budgets of more than Rs 300 crore.
- 3 Receipt Budget, 2012-13, Ministry of Finance, Government of India
- 4 The authors received the minutes of the three IMG meetings held on 14 June 2011, 11 August 2011, and 25 November 2011 from the Plan Finance II Division, Department of Expenditure, MoF through the Right to Information Act 2005 on 24 February 2012, on an application received by the designated authority on 11 January 2012.
- 5 This is the RTI response date of Plan Finance II Division, Department of Expenditure, MoF. Meeting minutes were received as part of the RTI response.
- 6 See Office Memorandum (2011a: 2).
- 7 See note No 6.
- 8 See Office Memorandum (2011c: 5).
- 9 Excerpt from the first IMG meeting held on 14 June 2011, IMG meeting minutes accessed through RTI Act 2005.
- 10 See Office Memorandum (2011b).
- 11 Many of these demonstration projects are planned in backward areas and those affected by left-wing extremism. Provision of renewable energy solutions to such underserved communities is certainly a progressive measure. However, as observed by the IMG during its deliberations, several government programmes already exist to specifically support such projects in these areas.
- 12 The JCERDC award announcement, including a listing of winning organisations, is available at: [www.indoustf.org/doc/JCERDC\\_Announcement.pdf](http://www.indoustf.org/doc/JCERDC_Announcement.pdf) (accessed on 2 May 2012).
- 13 For full source, see note 2 above.

## REFERENCES

- Office Memorandum (2011a): “Guidelines for Appraisal and Approval of Projects/Schemes Eligible for Financing under the National Clean Energy Fund”, Plan Finance Division, Department of Expenditure, MoF, F No 16 (5)/PF-II/2010, 18 April.
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