

Chapter 2

Existing Framework and Operation of NCEF: A Review

Objective of this chapter was to critically review the existing framework of NCEF, including its structure and proposed mode of administration, and identify the key gaps. The scope of this exercise has been limited by the identified objectives of the NCEF.

2.1 Existing Framework of NCEF

Subsequent to the announcement of setting up of NCEF, the Central Board of Excise and Customs (CBEC) issued a notification dated 22 June 2010 (CBEC 2010) to notify the Clean Energy Cess Rules, 2010.¹ In 2011, the Cabinet Committee on Economic Affairs (CCEA) approved the constitution of the NCEF under the Public Accounts of India along with the guidelines and modalities for approval of projects to be funded from the Fund.

The Fund has been set up to serve as a separate non-lapsable corpus. Plan Finance II Division of the Department of Expenditure, Ministry of Finance (MoF), Government of India, is the nodal agency for administering the Fund and has drafted the Cabinet note outlining the framework of the NCEF. In April 2011, the MoF issued the approved guidelines for appraisal and approval of the project/schemes eligible for funding under the NCEF along with an indicative list of such projects (MoF 2011a). Subsequently, in June 2011, the MoF issued a format to invite proposals under the NCEF for consideration (MoF 2011b). A summary of the main points in these documents outlining the objectives of the NCEF and salient features of how the Fund will be operationalized is as follows.

¹ The cess is levied as a duty of excise on coal, lignite and peat. It applies to the gross quantity of these raw materials raised and dispatched from a coal mine except on coal produced in Meghalaya. No deduction from this quantity is allowed for loss on account of washing of coal or its conversion into any other product or form prior to its dispatch from the mine. To avoid double levy, the cess is not chargeable on washed coal or any other form. Imported coal, including washed coal, also attracts cess in the form of additional duty of Customs.

2.2 Objectives of NCEF

As per NCEF guidelines, “The NCEF is created for funding research and innovative projects in clean energy technologies. Any project/scheme relating to innovative methods to adopt to clean energy technology and research and development shall be eligible for funding under the NCEF”.

While the objectives of NCEF seem to be in line with the critical needs of the clean energy sector in India, there is no guidance on the overall vision and the strategy that will be employed to realize these.

2.3 Projects Eligible for Funding Under NCEF

Para 2.1 of the NCEF guidelines provides an indicative list of projects eligible for funding.

These can be grouped broadly into the following categories:

- Advanced technologies in clean fossil energy.
- Advanced technologies in renewable energy including critical energy evacuation infrastructure, and integrated community energy solutions.
- Basic energy sciences.
- Projects related to environment management particularly in geographical areas surrounding the energy sector projects.
- Pilot and demonstration projects for commercialization.
- Projects identified in NAPCC and those relating to R&D to replace existing technologies under national mission on Strategic Knowledge for Climate Change (NMSKCC).

This list however, is too broad based and appears to encompass every possible action required to cope with climate change. This poses potential risk of diluting the focus of NCEF with adverse implications for research and innovation in clean energy sector in India. Especially so, in the absence of any identified targets and prioritisation.

2.4 Mode of Appraisal and Approval of Project Proposals

NCEF guidelines outline the process of appraisal of project proposals received for consideration for funding from the NCEF as follows:

- The project proposals can be submitted for seeking NCEF support only through a relevant central ministry/department. The first examination of the proposal is done at this level, and if deemed fit, the proposal is forwarded for comments

to the Planning Commission, MoF, and any other relevant ministry for review and comments. The third and final review is done by an Inter-Ministerial Group (IMG) which has been constituted to appraise the projects/schemes and make recommendations for approval.

- The IMG comprises:
 - Finance Secretary, MoF-Chairperson
 - Secretary (Expenditure), MoF
 - Secretary (Revenue), MoF
 - Principal Scientific Advisor to the Government of India
 - Representative of Planning Commission
 - Representatives of Ministry sponsoring the proposal and other Ministries concerned with that specific proposal.
- While projects under Rs. 150 crore can be approved by the Minister incharge of the project sponsoring/line ministry/department, projects of Rs. 150 crore and under 300 crore will need approval from both the Minister incharge of the project sponsoring/line ministry/department as well as the Finance Minister. Projects of Rs. 300 crore and above will require approval from the CCEA.
- The IMG may seek the assistance and views of technical experts from related organisations and individuals of repute in the area of clean energy to review, evaluate and recommend projects.
- To monitor the progress of the NCEF funded projects, the IMG will identify/appoint appropriate professional agencies.
- There will be a time frame specified under the scheme for processing of applications at each stage.

The requirement to apply through a Central government Ministry/department is faulty. Window for direct application should be there. Given the objectives of the Fund a dedicated team/mission will be required to administer it. The present structure does not seem adequate and the most appropriate.

2.5 Funding Limit, Eligibility and Funding Mechanism

NCEF guidelines describe the extent and mechanism of funding to the eligible projects. The main provisions are summarized as below:

- Projects sponsored by a Ministry/Department of the Government and submitted by individual/ consortium of organizations in the government/public sector/private sector are eligible for support in the form of loan or viability gap funding, as the IMG deems fit on case-to-case basis.
- Government assistance under the NCEF shall in no case exceed 40 % of the total project cost.
- The proposals by individuals/consortiums are to be submitted to the line ministry first, which, after due consideration shall bring them before the IMG.

- Projects that are being funded by any other arm of the Government of India or have *received grants from any other national/international body will be ineligible for applying/funding under NCEF.*
- In respect of time and cost overruns, a suitable accountability mechanism on lines similar to the one being followed in EFC/PIB projects/schemes shall be enforced strictly.

The above mentioned funding mechanisms will not be able to realize the objectives at hand. A whole range of funding mechanisms will be required.

2.6 NCEF Activities: Based on Information in Public Domain

Information about the activities of the NCEF is not available in public domain (MoF 2012). A recent attempt by a Delhi-based organization in evaluating the Fund's performance under its present framework required filling a query, under the RTI Act, with the MoF. Information obtained through this route regarding the project proposals received and discussions in IMG meetings was available on this institution's Website (CBGA 2012).

According to a press report (ET 2012) based on the statement of the Union Finance Minister in the Parliament of India, the total tax revenue generated through "Clean Energy Cess" was Rs. 1,066.46 crore (actual) for the financial year 2010–2011 and Rs. 3,249.40 crore (revised estimates) for financial year 2011–2012. In respect of the current financial year (2012–2013), the budgetary estimates are of Rs. 3,864.20 crore. Till date, 15 projects envisaging total support of Rs. 1,974.16 crore out of the NCEF have been recommended by the IMG. During the financial year 2011–2012, the IMG recommended ten projects for NCEF support of Rs. 573.05 crore, while during the current financial year, as on date, five projects have been recommended for NCEF funding of Rs. 1,401.11 crore. This implies that more than 80 % of the corpus of NCEF is unutilized.

2.7 The Present Framework and Operation of NCEF: An Assessment

The launch of NCEF was welcomed because it raised the expectations that the Fund would help stimulate clean energy-related R&D, which also happens to figure high on the urgent needs of the clean energy sector in India. However, the allocations made from the Fund so far send out confusing signals. For instance, allocations for environmental pollution remediation projects and support to ongoing routine efforts on deployment of renewable energy (no disputes on the desirability and need for such initiatives) do not appear to be in line with the main objectives of the Fund.

Moreover, support for remediation of selected hazardous waste-contaminated sites supported by the Fund covers sites in industrial areas; whereas as per Para 2.1(iv) of the guidelines, “projects relating to environmental management particularly in the geographical areas surrounding the energy sector projects” is eligible. Given this, projects such as remediation of abandoned coal mining areas or affected areas near coal mines would be the obvious deserving candidates. Also, a number of approved projects under the NCEF constitute routine schemes and programmes of various ministries focused mainly on provision of clean energy for which technologies have been established and products identified. From the description available, there is no evidence of innovation in their delivery model either.

2.8 Key Findings from Review of Existing Structure and Operation of NCEF

A review of the NCEF shows that its present structure and framework for operation need to be sharpened and strengthened to improve its effectiveness and performance. The main points that emerge from review are as follows:

- The NCEF guidelines defining the eligibility of the projects for support are too broad based. This poses potential risk of diluting the focus of NCEF with adverse implications for research and innovation in clean energy sector in India. Especially so, in the absence of any identified targets and prioritization.
- The Fund lacks a vision, clearly defined targets, a road map to realize these targets, and a feedback mechanism to assess, learn, and improve.
- Innovative solutions (whether in technology, business models, and financial instruments) require a balance of actions along the innovation chain. Engaging with diverse stakeholders is critical in identifying such a balance in actions. Although the present framework provides for a mechanism to bring on board the experts and key stakeholders outside of Government systems, this opportunity has not been exploited.
- Funding limits and funding mechanism are not at all positioned to leveraging either domestic private investment or international resources and markets. Further, projects’ ability to garner funding support from other sources should be rewarded and not penalized by making it ineligible for support from NCEF.
- The type and design of projects received for consideration, and the nature of discussion on them in IMG meetings point to an outlook that NCEF can be used freely to fund routine projects and schemes of various ministries as long as they meet a few general requirements. For instance, the discussions have largely focused on what revisions need to be made to a project proposal such that it fits better into the scheme rather than on the merits of the project in terms of its contribution in achieving the objectives of the Fund.

- There has been no mention, leave aside a structured discussion that the Fund needs to be proactive so as to encourage/invite projects which would promote research and innovation thus contributing to sustainable development of the clean energy sector.
- The requirement to apply through a Central government Ministry/department is faulty. Window for direct application should be there. Given the objectives of the Fund, a dedicated team/mission will be required to administer it. The present structure does not seem adequate and the most appropriate.

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