

Solar Off-Grid Refinance Scheme

**REFINANCE SCHEME FOR PROMOTION OF
SOLAR OFF-GRID (PHOTOVOLTAIC & THERMAL)
& DECENTRALIZED APPLICATIONS**

JAWAHARLAL NEHRU NATIONAL SOLAR MISSION



SOLAR OFF-GRID REFINANCE SCHEME

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1. Background

1.1 Providing adequate and quality power to domestic and other consumers remains one of the major challenges before the country. There is also an increasing concern to reduce reliance on fossil fuels in meeting power needs and opting for cleaner and greener fuels instead. With about 300 clear sunny days in a year, India's potential for producing solar power is far more than its current total energy consumption. However, presently the amount of solar energy produced in India is insignificant compared to other energy resources. As a major initiative to promote ecologically sustainable growth while addressing India's energy security challenge and also as a contribution to the global effort to meet the challenges of climate change, the Jawaharlal Nehru National Solar Mission (JNNSM) has been launched by the Government of India. The immediate aim of the Mission is to focus on setting up an enabling environment for solar technology penetration in the country both at a centralized and decentralized level.

1.2 The use of solar energy based systems, both Solar Photo Voltaic (PV) and Solar Thermal has remained low on cost considerations. The key challenge is to provide an enabling framework for entrepreneurs to develop markets with interventions to bring down costs. As part of its initiative in this direction, the Ministry of New and Renewable Energy (MNRE) has introduced a Scheme for the promotion of Solar Off-Grid (Photovoltaic & Thermal) & decentralized Applications in the country, with the aim of expanding the commercial market through financial incentives which would include interest as well as capital subsidy. The Scheme would be implemented by Indian Renewable Energy Development Agency Ltd. (IREDA) through the mechanism of this **Solar Off-Grid Refinance Scheme**.

2. Objectives

2.1 The **Solar Off-Grid Refinance Scheme** would make available subsidies provided by the MNRE, with the following objectives:

- i) To promote off-grid applications of solar energy (both SPV and Solar Thermal) for meeting the targets set in the Jawaharlal Nehru National Solar Mission for Phase-I.

- ii) To create awareness and demonstrate effective and innovative use of Solar systems for individual/ community/ institutional applications.
- iii) To encourage innovation in addressing market needs and promoting sustainable business models.
- iv) To provide support in flexible demand driven mode to channel partners and potential beneficiaries, within the framework of boundary conditions.
- v) To create a paradigm shift needed for commoditization of off-grid solar applications.
- vi) To support consultancy services, seminars, symposia, training, awareness campaigns, human resource development, etc.
- vii) To encourage replacement of kerosene& diesel, wherever possible.

3. Scope of the Solar Off-Grid Refinance Scheme

3.1 The Solar Off-Grid Refinance Scheme would be applicable to all parts of India and would, to begin with, be co-terminus with Phase-I (up to 2013) of the Jawaharlal Nehru National Solar Mission.

3.2 The coverage of the **Solar Off-Grid Refinance Scheme** would be as under:

- (a) Various off-grid solar photo voltaic systems / applications up to a maximum capacity of 100 kWp per site and off-grid and decentralized solar thermal applications as specified by the Government from time to time, to meet / supplement power, heating and cooling energy requirements would be eligible for being covered under the Scheme.
- (b) For mini-grids for rural electrification, applications up to a maximum capacity of 250 kW per site would be supported.
- (c) Soft loans for projects, including a component for working capital, will be available to SME manufacturers of solar thermal systems and Balance of systems manufacturers for Solar PV, in order to promote technology upgradation, improvement in technology, expansion in production facilities, etc.

4. Structure of the Solar Off-Grid Refinance Scheme

The manner of providing assistance in terms of the Solar Off-Grid Refinance Scheme is as under:

A] Refinance

In terms of the Solar Off-Grid Refinance Scheme, IREDA would provide refinance in respect of projects approved by the Project Approval Committee (PAC) of the MNRE, to eligible institutions at a rate of interest not exceeding **two per cent** per annum, subject to the condition that the rate of interest charged by the lending institution to the borrower in respect of the loan does not exceed **five per cent** per annum.

B] Bulk Funds

IREDA would make available bulk funds received from MNRE, to the National Bank for Agriculture & Rural Development (NABARD), National Housing Bank (NHB), Small Industries Development Bank of India (SIDBI) and any other institution as may be specified by the MNRE in this behalf, to enable them to provide refinance in terms of their own respective refinance schemes on the same terms as at paragraph 4.1 above, to Regional Rural Banks (RRBs), Housing Finance Companies (HFCs), or other primary lending institutions financed by them.

C] Interest Subvention

The respective refinancing institution / primary lending institution may, at its option, choose to avail Interest Subvention instead of refinance. The mechanism for availing Interest Subvention instead of refinance is indicated in subsequent paragraphs.

D] Capital Subsidy

IREDA would make available credit linked Capital Subsidy in respect of the projects covered under the above Refinance / Interest Subvention / Bulk Finance mechanism, through the above financial institutions, for being made available to the respective borrowers on successful implementation of the projects.

A] REFINANCE:

5. Eligibility conditions for refinance from IREDA under the Scheme, are as under:

5.1 *Institutions eligible to avail refinance:*

Non-Banking Financial Companies (NBFCs) and Scheduled Commercial Banks (excluding Regional Rural Banks) would be eligible for refinance from IREDA under this Scheme. Grant of

refinance shall be at the sole discretion of IREDA. The availability and extent of refinance to a primary lending institution would be determined by IREDA, based on its internal credit assessment norms. The scheduled commercial banks and housing finance companies shall be required to satisfy, *inter alia*, the following parameters to be eligible for refinance under the Scheme:

- i) The Gross Non-Performing Assets as percentage of the Gross Advances should not exceed 5% for the entire portfolio of the primary lending institution.
- ii) The Capital Adequacy Ratio should be as per the norms prescribed by the Reserve Bank of India.
- iii) The primary lending institution should be profit making for the last three years and should have no accumulated losses.

5.2 Eligible loans:

- i) Loans for projects approved by the Project Approval Committee of the MNRE only would be eligible for being covered under the Solar Off-Grid Refinance Scheme.
- ii) Refinance can be availed only in respect of loans already advanced by the scheduled commercial banks and housing finance companies.
- iii) All loans covered under the Scheme should be Standard Assets as per the applicable regulatory stipulations.
- iv) Loans covered under the Scheme should be unencumbered while claiming refinance and during the entire term of refinance.

5.3 Eligible amount:

A primary lending institution may avail refinance from IREDA, only in respect of eligible loans granted by it and outstanding on its portfolio. Accordingly, the amount of refinance from IREDA shall at no time exceed the amount of eligible loans outstanding in the books of the primary lending institution.

6. Scale of refinance

Refinance from IREDA under the Scheme will be available to the extent of **100 per cent** of the eligible loans granted by the primary lending institution and outstanding on its books.

7. Rate of Interest

Refinance from IREDA will be made available at a fixed rate of interest, presently not exceeding **two per cent** per annum, subject to the condition that the rate of interest charged by the lending institution to the borrower in respect of the corresponding loan does not exceed **five per cent** per annum.

8. Term of Refinance

The refinance shall be repayable in a period not exceeding **five years**.

9. Security

9.1 *Security for refinance from IREDA:*

i) The credit risk of the loan to the consumer will be fully taken by the primary lending institution. Refinance from IREDA would be secured by charge on the book debts of the primary lending institution. Additional security such as charge on immovable properties / movable properties, guarantee of government, promoter, sponsor bank, etc. in favour of IREDA may be stipulated at the discretion of IREDA. The nature and extent of security will be determined to the satisfaction of IREDA on a case-to-case basis. The primary lending institution shall furnish to IREDA / execute in favour of IREDA such documents / undertakings, etc. in such form and content as may be prescribed by IREDA from time to time.

ii) Scheduled commercial banks availing refinance from IREDA will give an irrevocable authority to IREDA in the form prescribed, for debit of its current account with the Reserve Bank of India for the purpose of recovery of principal / interest / any other charges arising out of the refinance transactions, duly confirmed by the Deposits Account Department of RBI, in case of default. The banks will be required to sign the authority letter together with the execution of Memorandum of Agreement. Pending completion of formalities at RBI, the bank will be required to give an undertaking to furnish the above authority letter, duly confirmed by RBI, to IREDA within three months.

iii) If at any time IREDA is of the opinion that the security provided by the primary lending institution has become inadequate to cover the outstanding refinance, it may advise such institution to provide and furnish to IREDA, such additional security as may be acceptable to IREDA to cover such deficiency.

9.2 *Security for loans to borrowers at the primary level:*

i) The scheduled commercial banks and housing finance companies should secure the loans extended by them to the primary borrowers by adequate security in accordance with their internal lending norms as approved by their Board of Directors / Competent Authority, in conformity with the applicable guidelines of the Reserve Bank of India (RBI) / other regulators. This may include primary security of adequate value in the form of hypothecation / other charge over the assets financed or, at the discretion of the primary lending institution, security of adequate value in the form of other assets such as receivables, property, Life Insurance policies, bank fixed deposits, or such other security as may be deemed appropriate to fully secure the loan.

ii) The loan agreement entered into by the scheduled commercial banks and housing finance companies with their borrowers shall, additionally, have a provision to the effect that the borrowers shall have no objection to the primary lending institution creating a charge, mortgage or other interest in that security in favour of IREDA.

10. Procedure for availing Refinance

10.1 *Application for sanction of refinance*

A primary lending institution desirous for availing refinance under the Scheme for the first time, will submit to IREDA an application for sanction of refinance in the form prescribed, along with the supporting documents as prescribed. The application should indicate the projected amount of refinance likely to be availed during the year, based on expected disbursements under the Scheme. The application shall also indicate the likely amount of Capital Subsidy likely to be disbursed in respect of the projects covered under the refinance. The primary lending institution shall provide to IREDA such necessary clarifications / further documentation as may be required for the purpose of granting sanction for the refinance.

10.2 *Legal documentation*

The primary lending institution seeking sanction of refinance from IREDA, shall also furnish:

- i) A resolution duly passed by this Board of Directors or any other Committee appointed for the purpose, to avail refinance from IREDA and to execute documents, etc. in favour of IREDA as may be required.
- ii) Specimen signature of the officials in this behalf

- iii) The primary lending institution will execute an Agreement for availing refinance from IREDA and disbursing Capital Subsidy under the Scheme and such other documents as may be required by IREDA in this regard.
- iv) Scheduled Commercial Banks availing refinance will, additionally, give an irrevocable authority in favour of IREDA, as indicated at paragraph 9.2 above.

10.3 *Application for disbursal*

Following the sanction and on completion of the legal documentation, the primary lending institution may apply for release of refinance in respect of eligible loans disbursed by it. The minimum size of such application shall be not less than Rs.50 lakhs. The application shall provide details of the individual eligible loans granted by the primary lending institution in respect of which Refinance is being sought from IREDA.

11. Mode of release

11.1 The refinance release will be by way of cheque or by credit (through RTGS or otherwise) to the bank account of the borrowing institution as specified to IREDA in writing.

11.2 After refinance has been sanctioned, IREDA shall endeavor to disburse the amount of refinance within a period of two weeks from the date of receipt of the duly completed application for disbursement. IREDA observes a five-day week and, accordingly, its offices remain closed on Saturdays and Sundays.

12. Repayment of Refinance

12.1 The refinance availed by the primary lending institution from IREDA shall be repaid to IREDA promptly on due dates, irrespective of whether or not the amount is actually recovered by it from its primary borrowers or the primary loan account remaining regular or otherwise and the credit risk of the loan to the consumer will be fully taken by the primary lending institution.

12.2 Repayment of **principal** shall be made by the scheduled commercial banks and housing finance companies to IREDA as follows:

- (i) The amount of refinance availed shall be repaid to IREDA within a period not exceeding five years by way of equal quarterly instalments, in accordance with the repayment schedule as may be specified by IREDA.

- (ii) The due date for repayments of quarterly instalments shall be the last day of each calendar quarter (i.e. 31st March, 30th June, 30th September and 31st December each year).
- (iii) Repayment of principal shall commence from the last day of the calendar quarter immediately succeeding the disbursement of refinance or as may be specified by IREDA. *For example, if refinance is disbursed on 15th June 2010, the first instalment of principal will fall due for repayment on 30th September 2010, i.e. the last day of the July – September calendar quarter.*
- (iv) The date of repayment will be reckoned as the date on which credit of the amount is received in the account of IREDA. However, if the repayment of instalment is made before the due date, credit will be given only on the due date.

13. Payment of Interest

13.1 Interest on refinance will accrue from the date of the cheque / date of debit of the amount to the account of IREDA, *whichever is earlier.*

13.2 Computation of interest will be made as under:

- (i) Interest to be paid to IREDA on refinance availed will be calculated on daily product basis and charged at quarterly rests.
- (ii) For calculation of interest, a 'year' will be taken as 365 days, irrespective of whether the year is a leap year or otherwise.

13.3 Payment of interest shall be made as under:

- (i) Payment of interest shall be made on quarterly basis.
- (ii) The due date for payment of interest shall be the last day of each calendar quarter (i.e. 31st March, 30th June, 30th September and 31st December each year).
- (iii) Payment of interest shall commence from the last day of the calendar quarter immediately succeeding the disbursement of refinance. *For example, if refinance is disbursed on 15th June 2010, interest on the refinance will first fall due for payment on 30th September 2010, i.e. the last day of the July – September calendar quarter.*
- (iv) The date of payment will be reckoned as the date on which credit of the amount is received in the account of IREDA. However, if the payment of interest is made before the due date, credit will be given only on the due date.

14. Delayed payments

14.1 For any **delay beyond the due date**, the institution availing refinance will pay **additional interest** on the amount in default for the total period of delay, at the rate of **twelve per cent per annum** besides the applicable interest.

14.2 All repayments of principal and payments of interest & additional interest on delayed payments should be made to IREDA at New Delhi.

15. Prepayment

15.1 If the repayment of instalment and payment of interest is made before the due date, credit will be given only on the due date.

15.2 A primary lending institution availing of refinance from IREDA may repay the whole or any part of the amount earlier than the due date. No prepayment charge will be levied on such prepayments.

15.3 In case of prepayment, the primary lending institution will be required to furnish full details about the refinance account against which prepayment is being made. In the absence of such details the prepaid amount will be credited to the refinance released earliest and outstanding on 'first in first out' basis. The size of instalment as originally fixed at the time of release will not be altered. Consequently, the last instalment will be reduced and wherever necessary the period of repayment would get reduced.

16. Adverse Balance

16.1 Refinance from IREDA is required to be backed, at all times, by outstanding eligible loans totaling an amount not less than the amount of refinance availed and outstanding.

16.2 Scheduled commercial banks and housing finance companies availing refinance from IREDA shall furnish a certificate as at September 30 and March 31 every year, duly countersigned by their Statutory Auditors, confirming that the refinance outstanding from IREDA does not exceed the total outstanding eligible loans in respect of which the refinance has been obtained. The certificate shall be furnished within 3 months of the respective dates indicated above.

16.3 If at any time the total amount of refinance outstanding in the books of IREDA exceeds the total amount of corresponding eligible loans outstanding in the books of the primary lending institution, such excess constitutes '**adverse balance**'. Scheduled commercial banks and housing finance companies would be required to repay to IREDA, the amount of the adverse balance.

16.4 In case of adverse balance, the primary lending institution shall promptly repay the amount of adverse balance to IREDA. Credit in respect of such payment will be given on the date of credit of the amount to the bank account of IREDA. Scheduled commercial banks and housing finance companies will be required to furnish a list of refinance releases (i.e. loan accounts relating to each drawal of refinance) in which the adverse balance has arisen, along with the aggregate of outstanding loan in respect of each refinance loan account, to enable IREDA to adjust the amount accordingly.

B] Bulk Funds

17.1 In order to better utilize the available network of financial institutions for wider and faster dissemination of the incentives under the Scheme of MNRE, IREDA would make available bulk funds received from MNRE, to the National Bank for Agriculture & Rural Development (NABARD), National Housing Bank (NHB), Small Industries Development Bank of India (SIDBI) and any other institution as may be specified by the MNRE in this behalf, for providing refinance in terms of their respective refinance schemes on the same terms as at paragraph 4.1 above, to Regional Rural Banks (RRBs), Housing Finance Companies (HFCs), or other primary lending institutions financed by them.

17.2 IREDA would enter into a Memorandum of Understanding (MOU) with refinancing institutions like NABARD, NHB and SIDBI, in terms of which it would provide bulk funds to them for lending under the Off-Grid Solar Scheme of MNRE. These institutions would formulate refinance schemes for providing refinance to their primary lending institutions, for projects approved by the PAC at a rate of interest not exceeding **two per cent** per annum, subject to the condition that the rate of interest charged by the lending institution to the borrower in respect of the loan does not exceed **five per cent** per annum.

17.3 On commencement of the Scheme and at the commencement of each financial year thereafter, each refinancing institution shall advise IREDA of the projected amount to be lent by

it under the Scheme, during the year. Fifty per cent of the projected amount would then be disbursed by IREDA to the refinancing institution. Once the refinancing institution confirms having lent this, the balance amount would be disbursed by IREDA.

17.4 The term of the refinance shall be up to five years. The refinancing institution (viz. NABARD, NHB, SIDBI, etc.) shall repay the amount of the bulk funds to IREDA at the end of this term of five years, irrespective of whether or not the amount is repaid to it by the primary lending institutions.

C] Interest Subvention

18.1 A refinancing institution may opt to avail of Interest Subvention instead of receiving bulk funds as above from IREDA, for providing refinance under this scheme. Similarly, a primary lending institution may opt to avail of Interest Subvention in place of refinance from IREDA.

18.2 Interest Subvention will be offered to the refinancing institutions (viz. NABARD, NHB, SIDBI, etc.) at the FIMMDA notified Government Securities Rate for the term (not exceeding 5 years) corresponding to the period of the loans granted. For primary lending institutions, Interest Subvention would be provided at the respective FIMMDA notified Government Securities Rate for the term (not exceeding 5 years) corresponding to the period of the loans granted plus two per cent.

18.3 The interest rate structure for lending would not change and the refinancing institution may charge interest at a rate of up to two per cent per annum on refinance to primary lending institutions for PAC approved projects. The rate of interest charged by the primary lending institutions on the loans shall not exceed five per cent per annum (as in the case of refinance).

18.4 IREDA will release the subvention amount to the refinancing institutions based on demand received from them together with necessary details of the loans and projects, as may be prescribed, on quarterly basis.

18.5 The refinancing institutions will ensure proper end-utilization of the funds and submit utilization certificates in respect of the amount of the interest subvention released to them.

19. Capital Subsidy

19.1 Besides the Interest Subsidy available through the above refinance mechanism, the Scheme also provides for Capital Subsidy for the projects, at scales specified by the MNRE. IREDA will make available the Capital Subsidy to the scheduled commercial banks and housing finance companies in respect of eligible projects financed by them, for being passed on to the borrowers.

19.2 At the time of seeking disbursement of refinance from IREDA under the Scheme, the primary lending institution may also make an application for release of Capital Subsidy on behalf of its borrowers, supported by a list of the projects and the amount of subsidy claimed. The amount of subsidy will be transferred up front by IREDA to the primary lending institution, with a view to avoiding any delay in release of subsidy to the borrowers.

19.3 On receipt of the amount of Capital Subsidy from IREDA, the primary lending institution shall hold the same in a separate Capital Subsidy Account, pending disbursement of the same to the borrowers. Interest accruing on the amount in this account shall be held in a separate Interest Account to be maintained for the purpose and transferred to IREDA at specified intervals.

19.4 It may be emphasized, that the Scheme envisages release of Capital Subsidy to the borrowers only after successful implementation of the project. Accordingly, the primary lending institution would be required to confirm successful implementation of the project before releasing the Capital Subsidy to the borrowers. The primary lending institution shall also furnish a Certificate of Implementation in respect of each project to IREDA along with a periodic statement of account in respect of the Capital Subsidy.

20. Other Terms and Conditions

i) Loans eligible for refinance by IREDA: All loans covered/to be covered under refinance should be Standard Assets as per applicable / RBI guidelines.

ii) Earmarking of loans for IREDA refinance: The primary lending institution will be required to distinctly identify all loans for which refinance is availed and maintain a list of all such loans. All information pertaining to such accounts should be kept up-to-date. Individual loans once flagged against refinance cannot be changed without prior approval of IREDA. A list of such book debts would be required to be submitted to IREDA on demand.

iii) Periodical Returns: IREDA may call for information or returns on periodic intervals from the scheduled commercial banks and housing finance companies availing of refinance from IREDA. The primary lending institution should be prompt and regular in submission of the requisite returns.

iv) Inspection: The books of account, registers, and all other relevant records of the primary lending institution as also the sites of the project loans, can be inspected by or on behalf of IREDA.

v) Inspection / Audit Compliance: Action on any findings of inspection/audit should be taken promptly by the primary lending institution.

vi) Appraisal and Follow-up of Loans: The primary lending institution should have proper systems and procedures for appraisal and follow-up of loans, as also qualified staff for the purpose.

vii) Post-disbursal Discipline: There should be proper pre and post-disbursement supervision and follow-up of loans to ensure end-use of funds as also timely and regular repayment of the loans.

viii) Maintenance of Recovery Performance: Continuance of refinance facility from IREDA will be subject to maintenance of satisfactory performance by the primary lending institution and compliance with the conditions stipulated by IREDA from time to time.

ix) Refinance Assistance at Discretion of IREDA: Refinance assistance in terms of this scheme shall be available at the sole discretion of IREDA and cannot be claimed as a matter of right.

x) Recall of Refinance: IREDA reserves the right to recall the refinance in the event of diversion of the relative funds for purposes other than stipulated or for suppression of any material information by the primary lending institution or the happening of any such event, which may, in the opinion of IREDA, endanger the repayment of the refinance.

xi) IREDA's Right to Modify the Scheme: IREDA may, at its sole discretion, modify the Scheme either in respect of all scheduled commercial banks and housing finance companies or in respect of any one or group of scheduled commercial banks and housing finance companies.

