Version 1 – October 2024

Fiji Rural Electrification Fund (FREF)

OPERATION AND FINANCIAL MANUAL FOR FIJI RURAL ELECTRIFICATION FUND (FREF)

Adopted by Board of Trustees for the Fiji Rural Electrification Fund in Meeting dated 7 October 2024

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Definitions

Unless the context otherwise requires, the following terms shall have the following meanings:

Developer	Entity (utility, private entrepreneur or Community Based Organization) that invests in infrastructure projects and companies
Electrification coverage	Percentage of national households living in an electrified area.
Environmental Assessment	The process of managing the environmental aspects (EA) of a policy, strategy, program, or subprojects from the earliest stages of identifying potential actions to their completion and evaluation. The process encompasses identification of potential adverse environmental impacts; assessment of these impacts and comparison to impacts of alternative approaches; design and implementation measures and plans to avoid, minimize, mitigate, or compensate for adverse impacts; and development of associated management and monitoring measures. Reference to be made to Fiji's Environmental Management Act (2005) and UNDP Social and Environmental Standards (SES).
Environmental Impact Assessment	Environmental assessment instrument for 'Category A' projects to identify and assess major potential environmental impacts of proposed projects, evaluate alternatives, and design appropriate mitigation, management, and monitoring measures (generally in the form of an environmental impact plan). Reference to be made to Fiji's Environmental Management Act (2005) and UNDP Social and Environmental Standards (SES).
Environmental Review	Environmental assessment instrument for (ER) "Category B" projects, in which the project is likely to have minimal impacts but should be reviewed with a simple and standardized checklist of possible impacts and appropriate mitigation measures.
Environmental Screening	The process of identifying as early as possible, the potential adverse environmental impacts of a proposed project, assigning an environmental category (Category "A": projects that potentially cause significant and possibly irremediable environmental impacts, "B": projects that cause lesser impacts, which often are essentially remediable or mitigable; "C": projects that can be expected to have little or no environmental impact); indicating the level of anticipated impact and corresponding level of EA required and identifying the most relevant EA instrument (ER, LEA or EIA) needed to address impacts and environmental issues associated with the project.;
Environmental and Social Assessment Framework	The frame document in Annex D of this Manual (and any amendments thereto) that shall: (i) enable to assess the environmental and social impacts of Projects; and (ii) where applicable, govern the preparation and environmental management plans, resettlement and rehabilitation plans and other appropriate mechanisms required to mitigate and monitor any adverse impacts from carrying out the Project
Executing Agency	Agency nominated in a Government-to-Government Agreement for a new donor-financed program as the nationally responsible counterpart institution for overall policy issues.
Financial Closing	The point in time when full agreement has been reached between equity investors and lenders; all conditions of lenders and investors have been

	met to finance the total financial package for the project, the loan agreements and shareholder agreements have been signed and financing disbursements can take place.
Free limit	Grant for an investment project below US$200,000. Subject to other eligibility criteria being fulfilled, grants below the free limit do not require the approval of IDA
Household electrification rate	Percentage of national households that are provided with an electricity service
Investment Subsidy	Performance based subsidy payments made in instalments during construction and until commissioning, with at least half of the payment amount disbursed after a target number of connections are completed to the satisfaction of the FREF board of Trustees (BoT).
Least cost technology	Technology with the lowest annuitized life-cycle economic cost among alternative options; taking into account environmental costs and differences in risks.
Project	Project proposal submitted to the FREF for investment subsidy support, which was identified, prepared and developed by a private project developer, NGO or community.
Project Management Unit (PMU)	The unit appointed appointed and housed with the United Nations Development Programme to administer the FREF program on behalf of the FREF Unit established as part of the Department Energy under the Government of Fiji.
Stakeholder	"Interested party": institution or legal person having a direct interest in the activity.

Abbreviations

APL	Approved Proposed List
BESS	Battery Energy Storage Systems
CBO	Community based organization
EFL	Energy Fiji Limited
EPCO&M	Engineer, Procure, Construct, Operate and Maintenance
FCCC	Fijian Competition & Consumer Commission
FREF	Fiji Rural Electrification Fund
FREF BoT	Fiji Rural Electrification Fund Board of Trustees
FREFS	Fiji Rural Electrification Fund Secretariat also known as the FREF Unit
FREF Unit	Also known as the Fiji Rural Electrification Fund Secretariat (FREFS)
FMC	Financial Management Committee
FMR	Financial Monitoring Report
FU	Finance Unit
GEF	Global Environmental Facility
IDA	International Development Association
ICB	International Competitive Bidding
MFI	Micro Finance Institutions
MoF	Ministry of Economy and Finance
MoPWMST	Ministry of Public Works, Meteorological Services, and Transport
NGO	Non-governmental Organization
NEP	National Energy Policy (NEP) 2023-2030
NOL	No Objection Letter
PAP	Project Affected Person
PCI	Participating Credit Institutions
PFI	Participating Financial Institutions
PPL	Preliminary Proposed List
REML	Rural Electrification Master List
RET	Renewable Energy Technology
REU	Rural Electrification Unit
SHS	Solar Home System
SLA	Service Level Agreement
SOE	Statement of Expenditures
TA	Technical Assistance
TDL	Tender Design List
VDC	Village Development Committee

CHAPTER 1: INTRODUCTION

1.1 Status of the Manual in its present Form (July 2024)

The BoT, as Board of the FREF, adopts the procedures for the FREF. The decision taking is solely subject to legal jurisdictions accorded to the BoT under the FREF Trust Deed/Constitution and the Fiji Charitable Trust Act 1945 (CAP. 67).

The purpose of this manual is to provide written procedures and guidelines for operating all aspects of the Fiji Rural Electrification Fund (FREF). Some details are defined by standard UNDP operational procedures for project management, financial procedures and procurement rules. During operation, further adjustments can be expected in response to lessons learned from practical experience. This manual is a steadily evolving instrument.

1.2 Update and Revision

This operation manual shall be updated and revised when significant amendments are deemed necessary by the BoT.

CHAPTER 2: BACKGROUND

2.1 Government Rural Electrification Policies and Strategies

Fiji's National Energy Policy (NEP) 2023-2030 is the blueprint towards a highly sustainable, inclusive, reliable, and affordable energy services sector by the close of the decade. It sets a strong policy foundation for the transformational investments that are urgently needed to revolutionize Fiji's energy sector for the better. With a vision of developing and creating a resilient resource-efficient, cost-effective, accessible, reliable, and environmentally sustainable energy sector for all Fijians, the NEP reinforces Fiji's commitment to ensure that 100% of the population has access to affordable, reliable, safe, and clean energy services by 2030 and to achieve near 100% renewable energy generation by 2030. In this regard, the NEP sets the mandate for and mentions the FREF as a key delivery mechanism to enable remote communities to work with the private sector to cooperatively manage off-grid renewable energy systems (see policy objective 10.2.5 of the NEP).

2.2 Legal Recognition of FREF

The Government of Fiji established FREF in 2017 to provide affordable, reliable and renewable electricity for rural communities. Registered as a Charitable Trust under the Fiji Charitable Trust Act 1945 (CAP. 67), FREF is a Fiji government-run, multi-donor trust fund implemented by the FREF Unit housed with the Department of Energy and supported by UNDP. FREF has the ability to finance and on-grant capital investments to implement integrated mini-grid solutions to rural communities that either do not have access to or have sub-standard access to clean, affordable and reliable electricity. FREF is to be primarily finance using donor funds with an ambition to become self sufficient using a revolving fund user pay structure. As per the FREF Trust Deed/Constitution, FREF has two layers of administration – the first layer is an Advisory Committee that is mandated to provide technical guidance to FREF and the second layer is a BoT which is the main decision-making body of FREF. The day-to-day works of FREF are performed by the FREFS, which is the FREF Unit housed with the Department of Energy and supported by UNDP.

2.3 Mission of the FREF

The Government of Fiji has established the FREF as a Charitable Trust with administrative, managerial, technical and financial autonomy under the laws of Fiji. The objectives for which the REF is established are to promote equitable rural electrification coverage by facilitating the population's access to electricity at affordable price for economic, social and household uses. In its support of investment projects, the FREF will in particular promote the exploitation of the economic potential for the application of well proven, technically and commercially, of new and renewable energy technologies in rural areas.

The sources of funding for the REF may include various donors as well government sources. The REF will use its resources to co-finance on a grant basis the implementation of projects consistent with its objectives such as:

(a) Provide electricity to rural communities and households in Fiji;
(b) Manage and operate a fund supported in part by charitable donations that shall focus on providing renewable energy to off-grid rural communities by the following means:
    i. Engaging with rural communities to educate them on the potential for renewable energy in such communities;
    ii. Overseeing the training of local communities on the use of such renewable energy systems;
    iii. For such communities who voluntarily agree to participate in a program for electricity services subject to a rate for services to be established by the Fijian Competition and Consumer Commission, underwriting the initial capital cost of designing, engineering, constructing, installing, operating and maintaining renewable energy systems;

iv. Overseeing revenue collection for such electricity services;
v. Overseeing ongoing operations and maintenance of such renewable energy systems; and
vi. Utilizing the funds received to maintain the services for existing communities and expand the benefits of the program to additional communities.

(c) Reduce greenhouse gas emissions from Fiji's energy sector by focusing on the use of affordable, reliable and renewable energy resources for off-grid power generation and just transition in Fiji;

(d) Establish and support the functioning of a Fiji Rural Electrification Fund Unit within the Ministry responsible for energy to assist in the implementation of the Fund objectives;

(e) Cooperate with other charities, voluntary bodies and statutory authorities operating in furtherance of the objectives of the Fund;

(f) Raise funds and to invite and receive contributions in furtherance of the objectives of the Fund and shall at all times ensure that all fund-raising activities confirm to any relevant requirements of the laws of Fiji including the Charitable Trust Act 1945; and

(g) Do all such other lawful things as are incidental or conductive to the attainment of the above objectives or any of them.

2.4 FREF Unit

The FREF Unit, consisting of a FREF Manager and a FREF Accounts Officer, is established with in the Department of Energy to perform the functions of the FREF and facilitate its timely deliverables in coordination with the UNDP-FREF support team. The procedures of the UNDP-FREF support team are the same as for the FREF Unit. Roles and responsibilities of the FREF Unit are articulated under Section 9 of the FREF Trust Deed/Constitution.

CHAPTER 3: PROGRAM MECHANISMS AND PROJECT CYCLES

3.1 Governance and organizational structure

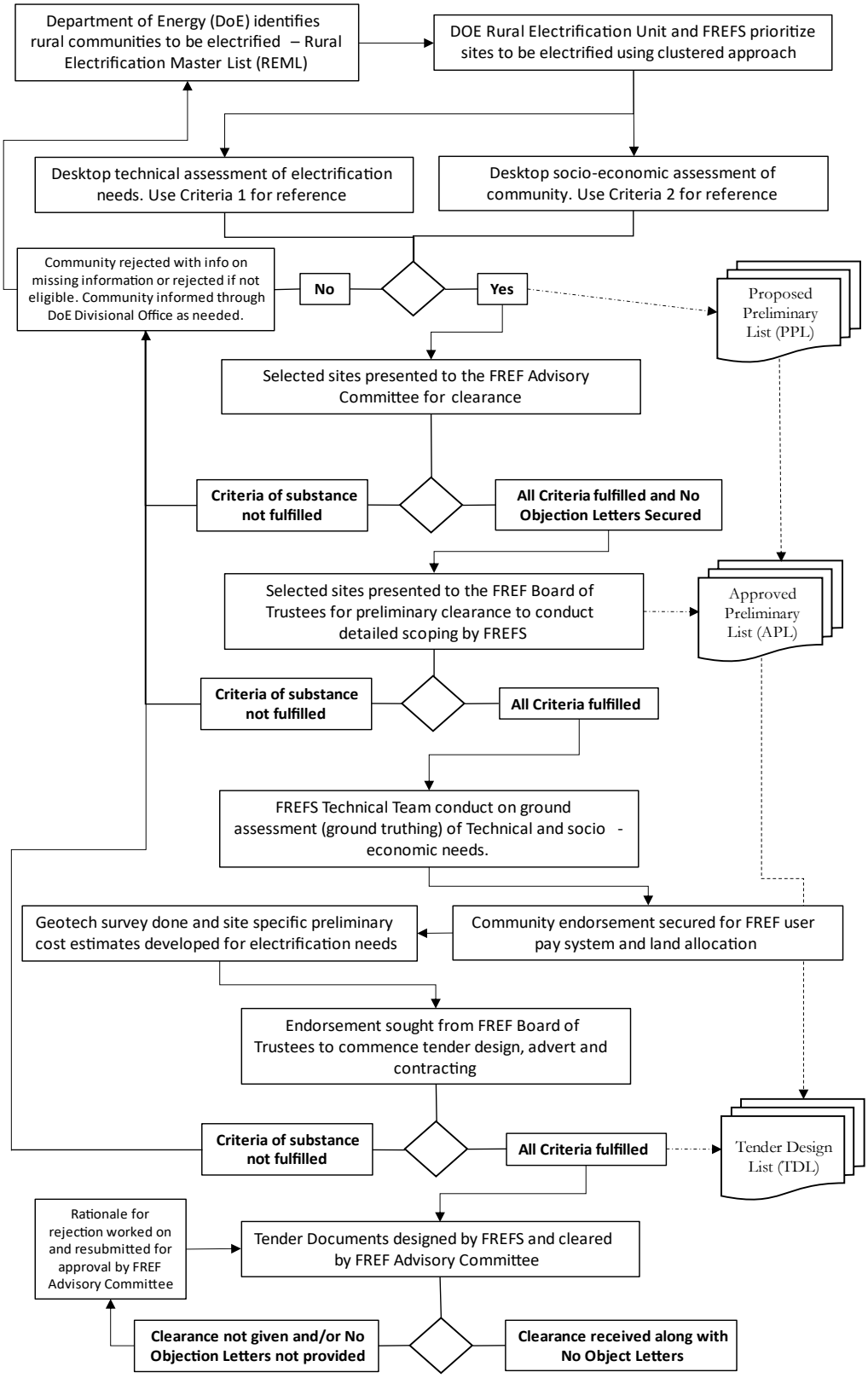
The FREF BoT will have policy oversight of the FREF. In particular, the Chair of the BoT will submit to the Minister responsible for Energy for appointment of nominated candidates for members of the FREF BoT. The BoT will monitor the compliance of FREF funding policies and strategies with the national objectives for rural electrification.

The BoT, through the FREF Unit, will be responsible for the mobilization of national and international sources of funding for the FREF Trust Fund.

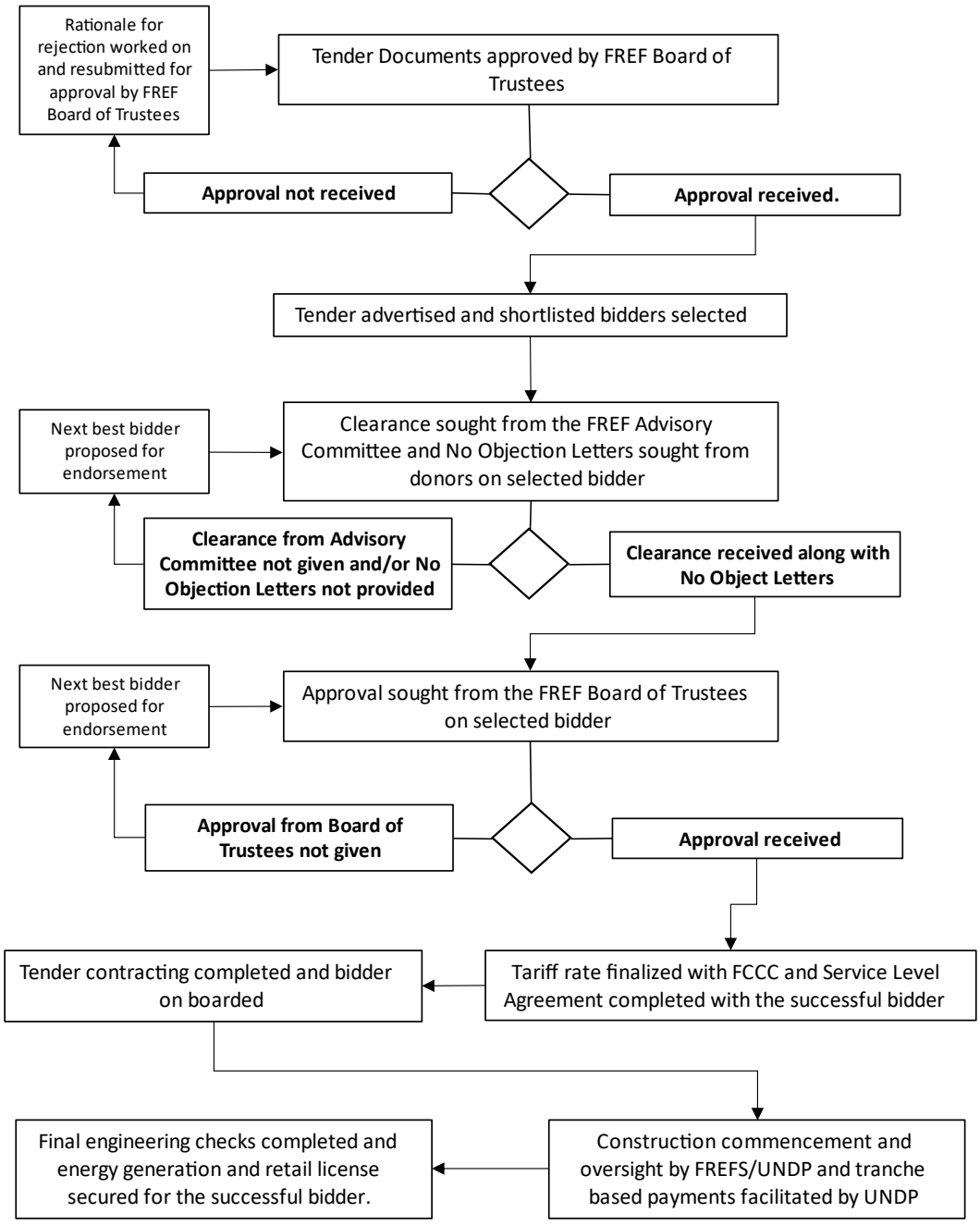
The roles and responsibilities of the FREF BoT, Advisory Committee and the FREF Unit are outlined in the FREF Trust Deed/Constitution along with frequency of meetings. To avoid duplication and restating guidance given by the FREF Trust Deed/Constitution, this manual will focus on the operational modalities of the FREF.

The FREFS shall establish and maintain a financial management system, including records and accounts, and prepare financial statements in accordance with international accounting standards to adequately reflect the operations, resources and expenditures related to the FREF. The FREFS shall, within six (6) months after the end of each financial year, submit the FREF's audited financial report to the BoT, to the Minister responsible for Energy, and to each donor of the FREF. Th BoT through the FREFS will ensure that the funds from the FREF Trust Account are used for intended purposes and procurement of goods, works and services under the rural electrification projects to be financed by the FREF funds are performed, pursuant to the laws and regulations on procurement of the Government of Fiji, in accordance with economy and efficiency principles, and in a competitive and transparent manner. However, from 2024 until the end of the implementation arrangement with UNDP, FREF will use UNDP financial regulations and rules to expedite its implementation plans.

3.2 Approval Process for Capital Investment



***See Next Page for Continuation of Flow Chart**


Rationale for rejection worked on and resubmitted for approval by FREF Board of Trustees
Tender Documents approved by FREF Board of Trustees
Approval not received
Approval received.
Tender advertised and shortlisted bidders selected
Next best bidder proposed for endorsement
Clearance sought from the FREF Advisory Committee and No Objection Letters sought from donors on selected bidder
Clearance from Advisory Committee not given and/or No Objection Letters not provided
Clearance received along with No Object Letters
Next best bidder proposed for endorsement
Approval sought from the FREF Board of Trustees on selected bidder
Approval from Board of Trustees not given
Approval received
Tender contracting completed and bidder on boarded
Tariff rate finalized with FCCC and Service Level Agreement completed with the successful bidder
Final engineering checks completed and energy generation and retail license secured for the successful bidder.
Construction commencement and oversight by FREFS/UNDP and tranche based payments facilitated by UNDP

The flow chart above provides a clear process overview of the roles and responsibilities of the Department of Energy, the FREF Secretariat, the FREF Advisory Committee and the FREF BoT to help identify and electrify sites to be supported by FREF.

The Department of Energy (DoE) receives requests for sites to be electrified through its divisional offices, through the office of the Divisional Commissioners, through the Ministry of iTaukei Affairs machinery, or through directly from communities/provincial councils. These sites are placed into a Rural Electrification Master List (REML). The REML is then sieved through buy the Rural Electrification Unit (REU) of DoE and FREFS by applying a Technical Criteria (Criteria 1) and a Socioeconomic Criteria (Criteria 2). Each site is first assessed against Criteria 1 and those that are selected are then assessed against Criteria 2 to help support prioritization of sites. It is to be noted that there may be few villages on a single island that are selected for electrification using FREF while other villages on the same island are not. Those that are not eligible for FREF electrification are then offered alternative solutions in the form of Solar Home Systems.

Those sites that are selected after being assessed against Criteria 1 and 2, known as the Preliminary Proposed List (PPL), are then put forward to the FREF Advisory Committee for technical clearance then to the FREF BoT for approval. Donors sitting on the FREF Advisory Committee will be required to give a No Objection Letter (NOL) as part of their clearance – this will be referred to as NOL 1. The list of sites approved are then referred to as the Approved Proposed List (APL). Sites not approved during this process are placed back on to the REML for consideration by DoE to be supported using other electrification programs or for reassessment by FREF team after all sites on the APL are electrified.

Sites on the APL then undergo on the ground technical and socioeconomic assessments to ground truth information ascertained during the PPL and APL phase. This includes seeking written community endorsement to be part of the FREF user pay system and endorsement from relevant land-owning units to deposit their land into the National Land Bank system it is deemed suitable for installation of FREF solar PV or any other electrification solution. Subject to these endorsements being secured, the APL sites will then undergo Geotech surveys and preliminary cost estimates will be determined by the FREFS to electrify each of the sites on the APL.

The costed APL will then be tabled to the FREF Advisory Committee for technical clearance to proceed to tender design, advert and contracting stage. This will then be tabled to the FREF BoT for approval. The list of approved sites will from this stage onwards be referred to as Tender Design List (TDL). The FREFS will work with the REU and technical partners such as the UNDP to design the tender documents. The tender documents will be tabled to the FREF Advisory for technical clearance then to the FREF BoT for approval. Donors sitting on the FREF Advisory Committee will be required to give a No Objection Letter (NOL) as part of their clearance – this will be referred to as NOL 2.

The tender process will be administered by the UNDP using its financial management and procurement systems until December 2028 to help expedite implementation capacity of FREF. Once the tender adverts are closed and bids are assessed using UNDP procurement guidelines, a shortlist of up to top 5 bidders will be provided to the FREF Advisory Committee for clearance of shortlisted bidders according to scored ranking. During this process, the Donors sitting on the FREF Advisory Committee will be required to give a No Objection Letter (NOL) as part of their clearance – this will be referred to as NOL 3. The list of ranked shortlisted bidders will then be submitted to FREF BoT for their approval. Depending on the size of the number of sites and clusters, the FREF Advisory Committee may recommend to the FREF BoT to select more than one successful bidder. It is to be noted that during the UNDP tender shortlisting process, senior staff from DoE and Fijian Competition & Consumer Commission (FCCC) will be part of the selection panel as observers ensuring transparency and accountability.

Once approval is received by the FREF BoT, the FREFS will work with the selected bidder(s) and FCCC to secure a reasonable tariff rate and agree to a Service Level Agreement (SLA) between FREF and the selected bidder(s). FREF will solely apply for an energy generation and retail license from FCCC for sites it will fully own. For sites that will be co-owned by FREF and the selected bidder (s), the joint venture will

apply for energy generation and retail license from FCCC. Subject to the tariff and SLA arrangements being finalized, FREF will enter into an Engineer, Procure, Construct, Operate and Maintain (EPCO&M) contract with the selected bidder(s) with tranche-based payment modalities.

The resulting sequence of events entail commencement of construction by the selected bidder(s) with oversight by FREFS/UNDP and tranche-based payments facilitated by UNDP.

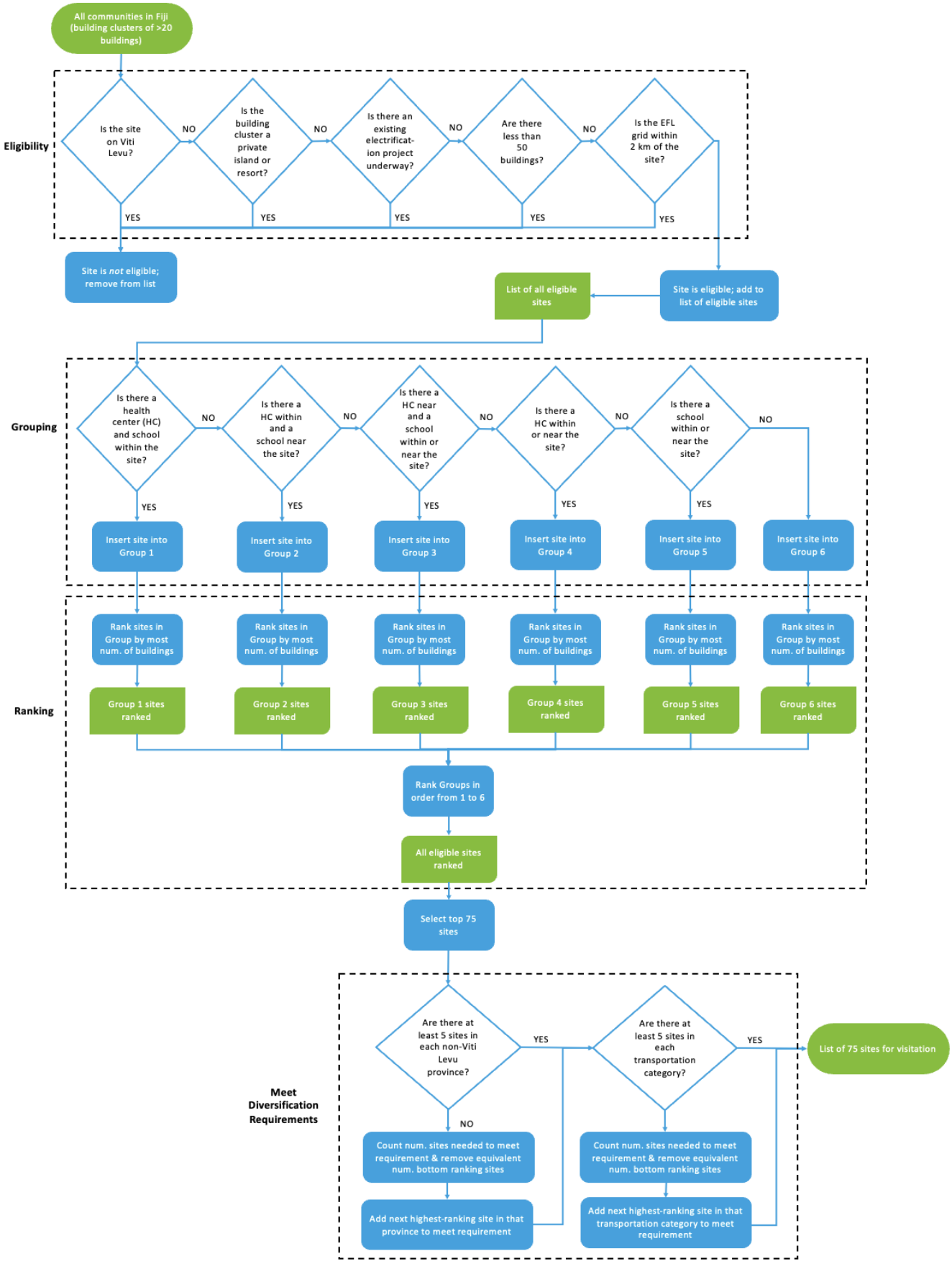
3.3 Criteria for Approval of Investment Grants

Criteria CI1: Criteria for Technical Assessment of Electrification Needs

Section	Information	Explanation
Site	Location ID	Unique identification number for building cluster.
	Village Name	Name of village if available.
	Island Name	Name of island building cluster is on.
Deselection Criteria	On Viti Levu	Department of Energy already has electrification project plans in place for all Viti Levu (main island).
	EFL Grid is within 2 km	Any buildings within 2 km of the existing Electric Fiji Limited (EFL) grid are under EFL electrification jurisdiction as outline in the National Energy Policy.
	Less Than or Equal to 50 Buildings	Building clusters with less than or equal to 50 buildings are not considered large enough for capital cost expenditure of a mini-grid and are rather covered via Department of Energy solar home system electrification efforts.
	Resort or Private Island	Resorts or privately owned islands are not within the scope of this project.
	Existing Electrification Project	Sites that have an existing or planned electrification project are not considered for selection.
Diversification Criteria	Province Name	Sites must be included from all provinces. At least 5 sites are chosen from each province that is not a Viti Levu province.
	Transportation Frequency	Sites must be evenly spread across difficult and easy to access locations (e.g. transportation to a location available weekly, bi-weekly, monthly). More difficult to access sites will result in different business models. At least 5 sites from each transportation category are selected.
Site Prioritization Criteria	Building Num.	Criterion is maximized. Number of buildings used as a proxy for population.
	Healthcare Centre	Healthcare centre is within a building cluster.
	School	School is within a building cluster.
	Healthcare Centre Near	Healthcare centre is within a 500 m of a building cluster.
	School Near	School is within 500 m of a building cluster.
	Eligible	False corresponds to ineligible. True corresponds to eligible.

Eligibility & Rank	Grouping	Groups are prioritized in the following order: 1. Most buildings with a health centre and a school within the boundary of a site. (Group 1) 2. Most buildings with a health centre within the site and a school near* the site. (Group 2) 3. Most buildings with a health centre near a site and a school within or near the site. (Group 3) 4. Most buildings with a health centre within or near a site. (Group 4) 5. Most buildings with a school within or near a site. (Group 5) 6. Most buildings. (Group 6) *near to a site refers to within 500m
	Rank	One (1) corresponds to highest priority site.
Transportation Frequency Calculation	Government Subsidized Jetty on Island	Whether there is a jetty on the island visited by government subsidized ferries.
	Frequency of Jetty Visits	Number of weeks per month of visits from government subsidized ferries (0,0.5,1,2,3,4).
	Fiji Airlines Service on Island	Whether there is an airport on the island serviced by Fiji Airlines.
	Frequency of Fiji Airlines Visits	Number of weeks per month of visits from Fiji Airlines (0,0.5,1,2,3,4).
	Northern Air service on Island	Whether there is an airport on the island serviced by Northern Air.
	Frequency of Northern Air Visits	Number of weeks per month of visits from Northern Air (0,0.5,1,2,3,4).
	Jetty or Airport on nearby island for <2 hr skipper	If the island is not serviced through other means, whether the island can be reached by boat within 2 hours from a serviced island.
	Jetty or Airport on nearby island for <2 hr skipper	Number of weeks per month of visits from nearby island that is serviced (0,0.5,1,2,3,4).
Centroid Lat Long	Latitude	Latitude of the centroid to a building cluster.
	Longitude	Longitude of the centroid to a building cluster.
Notes	Brown Field Site	Whether there is a diesel generator located at the site. Status of operation is unknown.
	Notes	Other information on site NOT used for selection criteria.

The process map of how Criteria 1 is to be used is provided below.


All communities in Fiji (building clusters of >20 buildings)
Eligibility
Is the site on Viti Levu?
NO
Is the building cluster a private island or resort?
NO
Is there an existing electrificat-ion project underway?
NO
Are there less than 50 buildings?
NO
Is the EFL grid within 2 km of the site?
YES
YES
YES
YES
YES
Site is not eligible; remove from list
Site is eligible; add to list of eligible sites
List of all eligible sites
Grouping
Is there a health center (HC) and school within the site?
NO
Is there a HC within and a school near the site?
NO
Is there a HC near and a school within or near the site?
NO
Is there a HC within or near the site?
NO
Is there a school within or near the site?
NO
YES
YES
YES
YES
YES
Insert site into Group 1
Insert site into Group 2
Insert site into Group 3
Insert site into Group 4
Insert site into Group 5
Insert site into Group 6
Ranking
Rank sites in Group by most num. of buildings
Rank sites in Group by most num. of buildings
Rank sites in Group by most num. of buildings
Rank sites in Group by most num. of buildings
Rank sites in Group by most num. of buildings
Rank sites in Group by most num. of buildings
Group 1 sites ranked
Group 2 sites ranked
Group 3 sites ranked
Group 4 sites ranked
Group 5 sites ranked
Group 6 sites ranked
Rank Groups in order from 1 to 6
All eligible sites ranked
Select top 75 sites
Meet Diversification Requirements
Are there at least 5 sites in each non-Viti Levu province?
YES
Are there at least 5 sites in each transportation category?
YES
List of 75 sites for visitation
NO
Count num. sites needed to meet requirement & remove equivalent num. bottom ranking sites
Count num. sites needed to meet requirement & remove equivalent num. bottom ranking sites
Add next highest-ranking site in that province to meet requirement
Add next highest-ranking site in that transportation category to meet requirement

Criteria CI2: Criteria for Socio-economic Assessment of Communities

Section	Criterion	Explanation
Community Consent Criteria	1. Community Agreement	Community has been informed about the FREF and its user pay model. Community has given preliminary approval to partake in FREF electrification support. Extent to which the community supports and participates in the mini grid project. Scoring based on the proportion of households in community agreeing to be part of FREF user pay system as follows. • 0-20% agree = 1 • 21-40% agree = 2 • 41-60% agree = 3 • 61-80% agree = 4 • 81-100% agree = 5 Overall weight assigned to this criterion is 15%.
	2. Land Availability	There is enough land space available in the community to implement a centralised solar/renewable grid model and consent attainable from the landowners. Scoring based on number of suitable land sites identified in a community using geo-spatial mapping and solar irradiation services as follows: • No suitable land = 1 • 2 suitable land sites = 2 • 3 suitable land sites = 3 • 4 suitable land sites = 4 • 5 suitable land sites = 5 Overall weight assigned to this criterion is 20%.
Financial Capability Criteria	3. Digital Connectivity	There is digital connectivity in the form of internet and/or 4G network connectivity to enable remote payment solutions and remote system monitoring/diagnostics. Scoring based on availability and quality of digital infrastructure for managing and monitoring the mini grid as follows: • No digital connectivity = 1 • 3G mobile service in some parts of community = 2 • 3G mobile service in all parts of community = 3 • 4G mobile service in some parts of community = 4 • 4G mobile service in all parts of community = 5 Overall weight assigned to this criterion is 15%.
	4. Mobile Money Capabilities	Community has access to mobile money services via existing on-site digital connectivity solutions.

		Scoring based on proportion of households that have access to mobile money services for financial transactions and bill payments as follows: • 0-20% usage = 1 • 21-40% usage = 2 • 41-60% usage = 3 • 61-80% usage = 4 • 81-100% usage = 5 Overall weight assigned to this criterion is 20%.
	5. Productive Energy Use Case	Based on village level census data from the Ministry of iTaukei Affairs, the community has strong sources of livelihood that are scalable if supported with clean, reliable and affordable electricity. Scoring is based on expected use of energy for productive purposes such as agriculture, small businesses, or other economic activities as follows: • No productive use = 1 • Up to 2 productive uses = 2 • Up to 3 productive uses = 3 • Up to 4 productive uses = 4 • Up to 5 productive uses = 5 Overall weight assigned to this criterion is 15%.
Climate Resilience and Adaptation Criteria	6. Community Resilience	Community selected is not prone to sea-level rise, storm surge or earmarked for relocation – this to be verified using CommonSensing datasets, letter of confirmation from the Climate Change Division regarding community relocation and further verified during Geotech studies. Scoring is based on the following: • Community is vulnerable to sea level rise and earmarked for relocation = 1 • Community is vulnerable to sea level rise but not earmarked for relocation (there is room for movement to higher ground in existing community area/land) = 2 • Community not vulnerable to sea level rise and is not a brownfield site = 3 • Community is a brownfield site with electricity installed in the form of community owned diesel generators = 4 • Community has a functioning power committee that administers the community owned diesel generators = 5 Overall weight assigned to this criterion is 15%.

To calculate the overall scoring for Criteria 2, the scores for each criterion will be multiplied by the weighted percentage and the resulting weighted score will then be tallied to provide one single score. An example of this across the 7 criterions is as follows:

1. **Community Agreement (15%)**
    - Strong agreement = 4
    - Weight: 4 × 15% = 0.60
2. **Land Availability (20%)**

    - Adequate suitable land = 4
    - Weight: 4 × 20% = 0.80
3. **Digital Connectivity (15%)**
    - Good digital connectivity = 4
    - Weight: 4 × 15% = 0.60
4. **Mobile Money Capabilities (20%)**
    - Moderate mobile money use = 3
    - Weight: 3 × 20% = 0.60
5. **Productive Energy Use Case (15%)**
    - Significant productive use = 4
    - Weight: 4 × 15% = 0.60
6. **Community Resilience (15%)**
    - Good resilience = 4
    - Weight: 4 × 15% = 0.60

Total Score Calculation

Total Score = 0.60 + 0.80 + 0.60 + 0.60 + 0.60 + 0.60 = 3.8 (on a scale of 0-5)

The total score achieved by a community would be compared to other communities and ranked.

CHAPTER 4: PROCUREMENT

4.1 Procurement Procedures and Processes

For operational activities of the FREF Unit/FREFS, the Fiji Procurement Guidelines of the Fiji Procurement Office will be used under the ambit of the Fiji Procurement Regulations.

FREF will utilize UNDP financial management and procurement procedures for capital implementation works until December 2028 to help expedite the implementation of FREF sites. During this period, UNDP will support FREF to design and implement its own financial management and procurement procedures.

Goods, services and construction works can, as a general rule, be procured by developers in line with established local private sector commercial practices and under the overall guidance of the UNDP financial management and procurement procedures. FREF capital investment funding are fixed according to objective criteria independent of the cost of investment, and finance less than 80 percent of the total investment, giving investors strong economic incentives in procuring goods and services at least cost. However, in the electrification of the first 3 sites to be electrified by FREF in 2024, 100 percent financing will be funded by FREF through its trust fund to build market confidence have greater control over operational modalities of the mini-grids installed.

Since the cost of investment influences the level of electricity tariff, which the FCCC is willing to accept during negotiations leading to the award of the generation and retail license for the project, FCCC will require maximum cost-transparency.

4.2 Procurement Managed by UNDP

4.2.1 General Rules

Goods and works shall be procured in accordance with the governed by all the existing relevant policies and procedures in the Programme and Operations Policies and Procedures (POPP), particularly the Programme and Project Management (PPM) and Procurement.

All capital works in UNDP shall comply with the principles of sustainable development by using designs, methodologies, and technical requirements that make efficient use of resources and energy, protect people and ecological systems, maintain and improve the quality of life of the community and benefit their needs. UNDP shall exercise the highest level of due diligence in managing risks associated with capital works to ensure performance on its mandate in accordance with the Strategic Plan and that it adds value to all stakeholders.

The UNDP Policy against Fraud and other Corrupt Practices; Vendor Sanctions policy; and the UN Supplier Code of Conduct are applicable to the contractors for capital works, their personnel and sub-contractors. UNDP shall ensure due diligence in verifying that the contractors comply with these policies as part of the sourcing process. In particular, UNDP Construction Works Policy will provide granular guidance to all procurement works being undertaken to support FREF with its electrification plans.

UNDP will work in close collaboration with the FREFS, FREF Advisory Committee and the FREF BoT to develop an annual or biennial costed workplan that would be cleared by the FREF Advisory Committee and endorsed by the FREF BoT before funds are released from the FREF Trust Fund to UNDP for implementation of the workplan under a Cost Sharing Agreement. UNDP will play a dual role in the implementation of FREF, such that it will act as both the Lead Fund Advisor and the Lead Implementation Manager. Detailed scope and requirements of each of these roles is provided below. Further detail will be set out in an Cost Sharing Agreement between UNDP and FREF. A diagram illustrating the FREF – UNDP

relationship is provided as Figure 2 below.

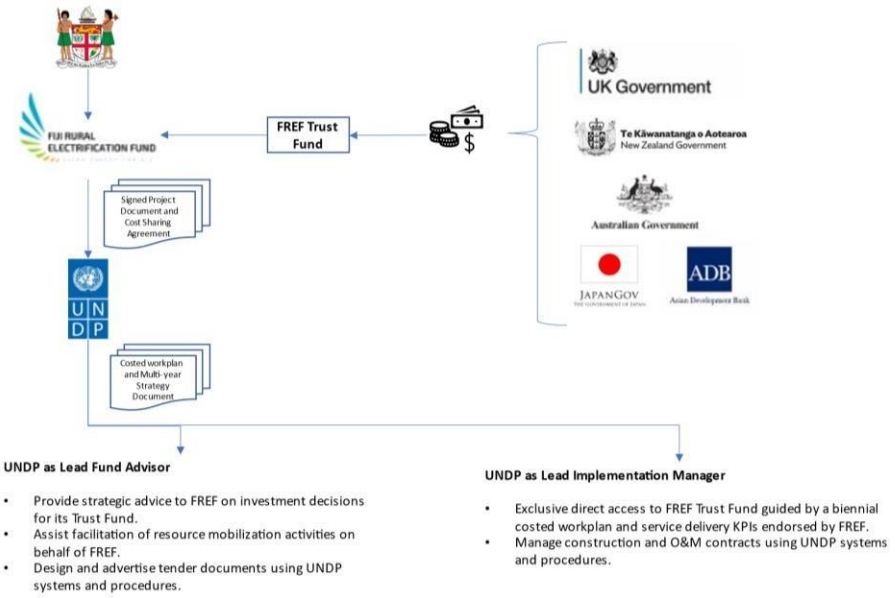


Figure 2: FREF – UNDP Relationship

4.2.2 UNDP's role as the Lead Fund Advisor

UNDP will act as the FREF Lead Fund Advisor, thereby assuming the responsibilities of carrying out the fiduciary management of FREF funds pertaining to the management of disbursals against clearly defined deliverables in the aforementioned annual or biennial workplan guided by a set of mutually agreed technical and service delivery criteria explained in the Cost Sharing Agreement between UNDP and FREF.

UNDP will be tasked to support resource mobilisation for the FREF Trust Fund and to create an enabling regulatory environment for innovative renewable electrification to flourish. FREF will benefit from UNDP's reputation as an international organization with sound financial, procurement and reporting mechanisms. Furthermore, since UNDP does not pursue any commercial interests, potential conflicts of interest risks are virtually non-existent. Through these robust mechanisms, donors and philanthropic investors alike are apt to contribute to the FREF Trust Fund.

During the design phase, in cooperation, consultation with and support to FREFS, UNDP will identify and cluster sites targeted by FREF and specify minimum technical and service standards for operations. Furthermore, UNDP will assist the FREFS to coordinate with FCCC to develop reasonable regulatory environment and tariff regime to support coordinated arrangements for Distributed Electricity Service Companies (DESCOs) to tender for works with FREF.

4.2.3 UNDP's role as the Lead Implementation Manager:

UNDP is tasked to support the FREFS to manage the contracting, designing, building, operating and maintenance of FREF assets in rural communities. UNDP's internal procurement, accounting and reporting mechanisms has been formally adopted by FREF through a BOT decision. FREFS will provide additional personnel to support UNDP and if needed. UNDP's ample experience and its sound procurement mechanisms in the preparation and execution of tenders increase the likelihood that numerous companies, both local and overseas, will participate in the tender process. UNDP will also cluster its ongoing programmes to provide integrated development solutions (mobile connectivity, water and sanitation, ice plants, micro- insurance, market connectivity, etc) through electrification of communities. Furthermore,

UNDP as the Lead Implementation Manager and with technical oversight from DoE, would support drafting, negotiations and management of service level agreement between DESCOs and FREF, including the monitoring, operational requirements and compliance of operators under FREF. The involvement of and coordination with DoE and FCCC in these contract management processes will be vital in order to eventually hand over FREF operations to the Fiji Government and assure sustainable continuation of operations at the end of December 2028.

4.3 Authority for Authorizing Operating and Capital Payments

All expenditures are duly authorized by the FREF BoT through its adoption of the FREF annual budget and budget amendment and verified by the Bank in which the FREF Trust Account is housed. The process for authorizing operating payments shall be as follows:

Operating expenses relating to the FREF Unit and the FREFS such as payroll including that of relevant technical consultants, taxes, office rent, local transportation, routine supplies, utilities (water, sewer, electricity, telephone, internet), and office miscellaneous items shall be managed by the FREF Accounts Officer with due diligent verification by the FREF Manager. The Director of Energy shall have authority to authorize payments, sign off check/disburse for all payments related to operating expenses up to FJ $5,000 with a covering brief approved by and payment signed off by the FREF Chairperson. All expenses, both operating and capital, above FJ $5,000, will need to be authorized by the FREF BoT as outlined in section 4.2.5 below.

4.3.1 Authority for signing operating contracts

1. TA Consultant Contract

    - TA Consultant contract with nationals shall be signed by the FREF Chairperson.
    - TA Consultant contract with a value higher than FJ $20,000 shall be signed by the FREF Chairperson and a member of the FREF BoT.

2. Operating Contracts.

    - The FREF Accounts Officer and FREF Manager shall perform due diligence and submit request for approval to the Director of Energy for operating expenditure below FJ $5,000 with cosigning required from the FREF Chairperson.
    - Any amount above FJ $5,000 will require approval of FREF BoT through clearance of the Director of Energy. Operating Contract include goods, furniture, equipment, internet, phone services, maintenance, staff, and office-miscellaneous.

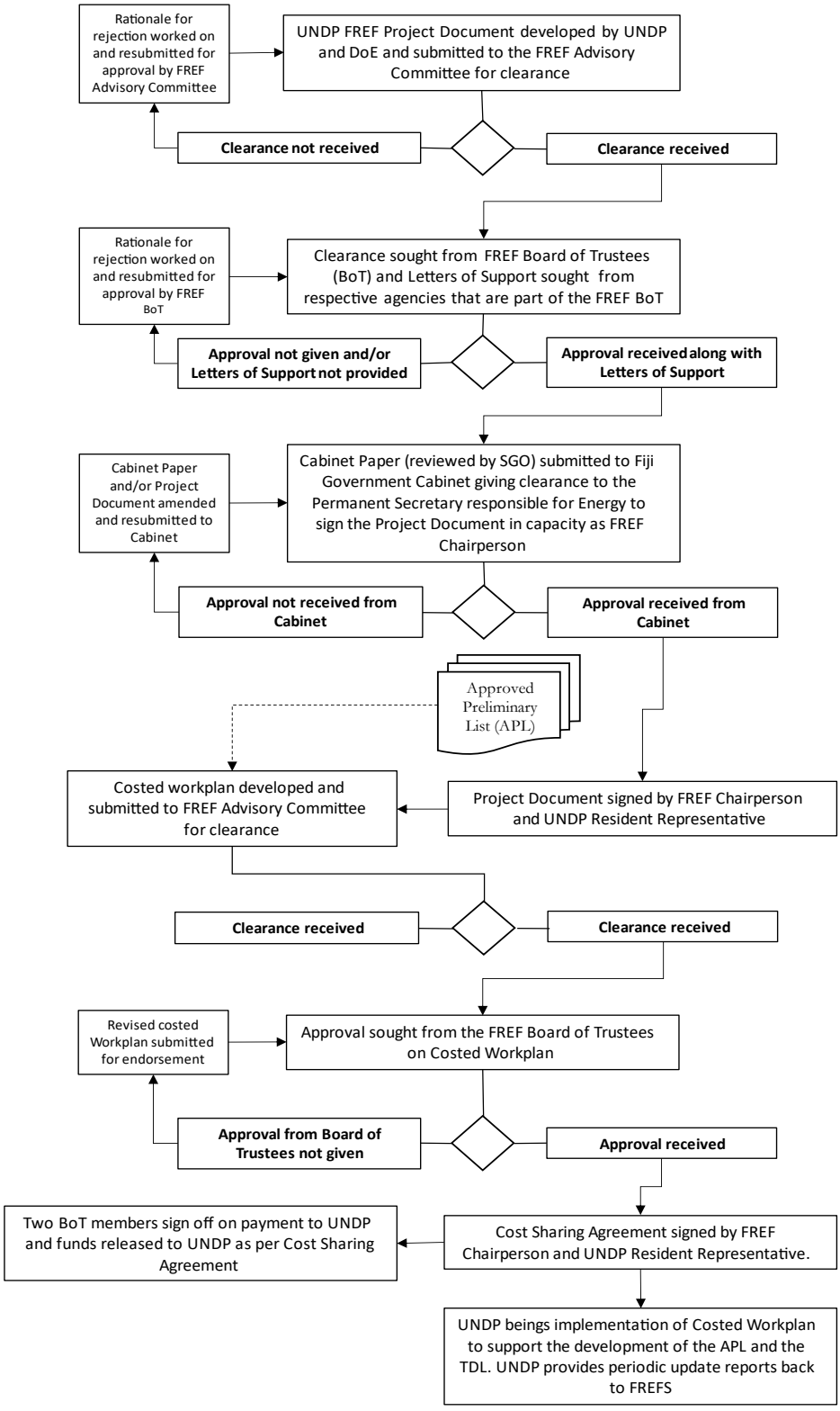
All purchases of good and service shall be approved according to the adopted budget by and any amendments approved by the FREF BoT.

4.3.2 Authority for Authorizing Capital Payments

Without contradicting section 4.2.4 above, all expenditures are duly authorized by the FREF BoT through its adoption of the annual budget, budget amendment and verified by the Bank in which the FREF Trust Account is housed. Any expenditures/payments per transaction pertaining to capital construction shall be authorized by any two signatures of BoT members. Any two BoT members shall authorize all payments on behalf of the FREF.

For payments being made to implementing partners such as UNDP, the steps outlined in the ensuing flow chart need to be followed to release payments. It is to be noted that contractual arrangements with the selected bidder (s) will be between UNDP and the bidder (s) as UNDP procurement procedures will be

used.


Rationale for rejection worked on and resubmitted for approval by FREF Advisory Committee
UNDP FREF Project Document developed by UNDP and DoE and submitted to the FREF Advisory Committee for clearance
Clearance not received
Clearance received
Rationale for rejection worked on and resubmitted for approval by FREF BoT
Clearance sought from FREF Board of Trustees (BoT) and Letters of Support sought from respective agencies that are part of the FREF BoT
Approval not given and/or Letters of Support not provided
Approval received along with Letters of Support
Cabinet Paper and/or Project Document amended and resubmitted to Cabinet
Cabinet Paper (reviewed by SGO) submitted to Fiji Government Cabinet giving clearance to the Permanent Secretary responsible for Energy to sign the Project Document in capacity as FREF Chairperson
Approval not received from Cabinet
Approval received from Cabinet
Approved Preliminary List (APL)
Costed workplan developed and submitted to FREF Advisory Committee for clearance
Project Document signed by FREF Chairperson and UNDP Resident Representative
Clearance received
Clearance received
Revised costed Workplan submitted for endorsement
Approval sought from the FREF Board of Trustees on Costed Workplan
Approval from Board of Trustees not given
Approval received
Two BoT members sign off on payment to UNDP and funds released to UNDP as per Cost Sharing Agreement
Cost Sharing Agreement signed by FREF Chairperson and UNDP Resident Representative.
UNDP beings implementation of Costed Workplan to support the development of the APL and the TDL. UNDP provides periodic update reports back to FREFS

CHAPTER 5: FINANCIAL MANAGEMENT AND USE OF FUNDS

5.1 Flow of Funds - Overview

The financial management and financial reporting obligations of the FREF could become quite complex within a few years. The complexity depends on (i) how the FREF implements its electrification plans of the proposed 300 rural communities identified by DoE, (ii) the FREFS and the FREF BoT's success in attracting funds for rural electrification and renewable energy, and (iii) enabling regulatory environment and accommodative fiscal incentives for renewable energy rural electrification.

Currently, Funds of the FREF are used:

1. To cover the operating cost of the FREF Unit which also acts as the FREF Secretariat,
2. To finance the cost of renewable energy (including implementation arrangements with development partners such as UNDP for the execution of capital works and technical assessments) projects.
3. For investment subsidies – to (pre)feasibility studies and capital investments (modalities for this are to be added into the Operations and Financial Manual in due course).

5.2 Responsibility for Financial Management

5.2.1 Financial Management Responsibilities of the FREF Governance Structure

The FREF BoT is responsible for the overall management of the FREF Trust Fund with the ability to authorize all capital expenditures and all operating expenditures.

The FREFS will be responsible for daily monitoring and reporting of the FREF Trust Fund with transaction requests to be generated by the FREF Accounts Officer, approved by the FREF Manager, approved by the Director of Energy and tabled to the FREF Advisory Committee and the FREF BoT for approval.

In conducting its financial responsibility, the FREF BoT responsibilities include:

- to be consulted by FREFS early in the annual budget planning process to provide strategic guidance and vision of the FREF BoT;
- review of quarterly financial management reports (FMRs) and audited annual financial statements for the status of annual FREF spending and its individual components: the FREFS's budget, accounts and of implementing agencies under contract with FREF.
- determining the adequacy of the financial management and accounting system.
- Checking financial performance indicators such as operating costs of FREF in % of total FREF Trust Funds.

5.2.2 FREF Manager

The FREF Manager reports to the FREF Manager. The responsibilities comprise:

1. Manage procurement of contractors to implement all the sub-projects under the project;
2. Manage, supervise, and oversee all the goods, works and turnkey contracts;
3. Regularly visit the project sites to ensure timely implementation of project activities;
4. Communicate with all stakeholders to ensure community support and acceptability of project implementation;
5. Develop project implementation schedule based on the project management strategy and monitor the progress, reporting regularly on action necessary to mitigate potential delays in project implementation;

6. Lead all procurement and contracting activities and supervise and oversee the contractors and commissioning of solar photovoltaic-based mini-grid composed of battery energy storage system;
7. Management of construction phases including sending letters of acceptance and notices to proceed, implementing and monitoring contractors' quality assurance plans and environmental management plans, monitoring consultant / contractor programs and progress, processing progress claims, reviewing change of orders and extensions of time, providing employer / owner sign-off at hold points, reviewing contractors' construction drawings for compliance with the design intent and specifications, coordinating environmental and social safeguard activities, overview commissioning, and providing oversight of contract completion and administration activities and ensure contractors adheres to contract requirements;
8. Report and provide secretariat support to the Board;
9. Prepare quarterly progress reports and semi-annual reports as well as project completion reports
10. Coordinate and actively manage and participate in training activities of the project for counterparts assigned to the project.

5.2.3 FREF Accounts Officer

The FREF Accounts Officer reports to the Director of Energy through the FREF Manager. The responsibilities comprise:

1. To perform the daily financial management control and reporting, comprising:

- responsibility for the design, implementation and management of FREF Operating and Financial Procedures;
- ensuring timely payment to all FREF personnel, technical assistance and other works and services concerning particularly payroll and out-of- pockets expenses;
- development and implementation of internal control rules and regulations related to financial and accounting systems;
- the daily maintenance of financial ledgers agreed schedules of regular (monthly, quarterly, yearly, etc.) reports, particularly on timely Financial Management Reports (FMRs) meeting the Donors, private sector and Government of Fiji requirements;
- prepare and facilitate external audits works, by ensuring that the audit reports to all donors and the Government of Fiji are timely met;
- Processing of subsidy applications, according to the FREF Operating and Financial Procedures, which would involve verification of eligibility, subsidy grant calculation, contract development, and authorizing payments.
- Promoting the supply of financial services for Rural Electrification Investors. Within FREF, the Finance Unit is the knowledge centre for issues related to the financing of Rural Electrification projects.
- closely consult relevant financial intermediaries on the design of the application forms for investment subsidies in order to ensure that the REFS information is similar to the information required by the financial intermediaries in their parallel appraisal of the project for the loan application;
- to keep up-to-date on international and national discussions on new financing concepts and institutional modalities and assist in developing and adjusting renewable energy financing concepts that are used and tested in Fiji through FREF; and
- to encourage financing institutions to assist DESCOs in co-financing the investment viability of FREF sites.

2. Any other tasks as required by the Director of Energy with direct reporting to the FREF Manager.

The FREF Accounts Officer shall conduct monthly discussion of financial status with the Director of Energy and identify key issues that require FREF BoT decision.

5.3 Procedures for Transfer of Funds

5.3.1 Transfer of Funds by Donors into the FREF Trust Fund

Funds being placed into the FREF Trust Fund by bilateral, multilateral and private/philanthropic partners are channeled through the Reserve Bank of Fiji and transferred into the FREF Trust Fund following domestic financial regulatory clearances. A replenishment exercise, led by the FREF BoT, will be undertaken when the FREF Trust Fund has a balance of FJ $500,000 remaining. The replenishment exercise will be determined by the FREF BoT based on advise from the FREF Advisory Committee.

5.3.2 Petty Cash Process

Petty Cash Custodian shall be the FREF Accounts Officer and Petty Cash Limit will be FJ$ 1,000. Staff members requiring petty cash must complete a Petty Cash Request Form (to be developed by the FREF Accounts Officer, detailing the purpose, amount, and justification for the expenditure. Attach any relevant receipts or supporting documentation to the form. The completed Petty Cash Request Form along with supporting documents need to be prepared by the FREF Accounts Officer, signed off under review by the FREF Manager and sent to the Director of Energy for approval. The Director of Energy reviews the request and either approves or denies it based on the validity of the request and available funds.

5.4 Quarterly Financial Monitoring Reports (FMR)

5.4.1 Quarterly FMR

FMRs integrate project accounting, procurement, contract management and disbursement with physical progress of project implementation. The FMRs provide linkages between expenditures and physical progress, including information under three main categories:

A *Financial Management Report* which includes

(i) Discussion of project's progress report
(ii) Balance Sheet;
(iii) Sources and Uses of Funds Statement;
(iv) Uses of Funds by Project Activities;
(v) *Project Progress Report* to provide information on project implementation progress in physical and financial terms using monitoring indicators and which explains variances between actual physical and financial progress versus forecasts;
(vi) *Procurement Management Report (PMR),* which shows procurement status and contract commitments and expenditure including source of supply data for contracts.

FREF submits FMRs to donors on a quarterly basis within 45 days of the quarter end starting the first quarter following FREF receiving donor funds. Additional output monitoring report and key performance indicators will be identified and developed to suit project needs during implementation as appropriate.

5.5 Statements of Expenditure (SOEs)

During the operation of the FREF, disbursement for Capital expenditure will be on the basis of Statements of Expenditure (SOEs) as part of a performance-based payment system. An advance will be made to the FREF implementing partner/contractor once they pass credit effectiveness checks. Subsequent replenishments will be made on the basis of withdrawal applications and SOEs showing payments made for

works as per the costed workplan between FREF and the implementing partner/contractor.

Proceeds of the Credit/Grant expected to be disbursed on the basis of SOEs are:

- works estimated to cost the equivalent of FJ $10,000,000 or less;
- goods estimated to cost the equivalent of FJ $400,000 or less;
- consulting firms estimated to cost the equivalent of FJ $200,000 or less;
- individual consultant's contract estimated to cost the equivalent of FJ $100,000 or less; and
- FREF subsidies, criteria to be determined in due course.

Disbursement for any expenditure exceeding the above limits will be made against submission of full documentation and signed contracts.

The documentation supporting SOE disbursements will be retained by the Project during the life of the Project and until one year after the receipt of the audit report for the last year in which the last disbursement would be made. These documents will be made available for review by the auditors and donor supervision missions as needed by the FREFS.

Should the auditors or donor supervision missions find that disbursements have been made that are not justified by supporting documentations, or are ineligible, donors will have the right to withhold further deposits to the FREF Trust Account or seek to have money refunded back to the donors. donors may exercise this right until FREF has refunded the amount involved or has submitted evidence of other eligible expenditures that offset the ineligible amounts.

Overall credit effectiveness check for implementing partner/contractor shall follow the following criteria:

1. **Financial Stability**

Description: Evaluate the financial health of the contractor to determine their capacity to manage and execute the project effectively.

Financial Statements: Review audited financial statements for the past 3 years, including balance sheets, income statements, and cash flow statements.

Credit Rating: Check the contractor's credit rating from recognized credit rating agencies.

Debt-to-Equity Ratio: Assess the contractor's debt-to-equity ratio to understand their leverage and financial stability.

Profitability: Analyze profitability trends to ensure the contractor is consistently generating positive margins.

Scoring:

0-2 Points: Poor financial stability; significant financial distress or negative trends.

3-5 Points: Moderate financial stability; some concerns or inconsistent financial performance.

6-8 Points: Good financial stability; stable performance with manageable risk.

9-10 Points: Excellent financial stability; strong financial health and positive trends.

2. **Previous Project Experience**

Description: Assess the contractor's experience and track record in executing similar projects to

gauge their capability and reliability.

Project History: Review a list of completed projects similar in scope and scale, particularly in rural electrification or mini-grid installations.

References: Obtain and evaluate references from previous clients to assess satisfaction and performance.

Project Outcomes: Examine the success rate of previous projects, including timeliness, budget adherence, and quality of work.

Scoring:

0-2 Points: Limited or no relevant experience; poor references or unsuccessful projects.

3-5 Points: Some relevant experience; mixed references or moderate project success.

6-8 Points: Significant relevant experience; generally positive references and successful projects.

9-10 Points: Extensive relevant experience; excellent references and consistently successful projects.

3. **Technical Expertise**

Description: Evaluate the contractor's technical expertise and capability to execute the mini-grid installation effectively.

Technical Qualifications: Review the qualifications and certifications of key personnel, including engineers and project managers.

Technology Proficiency: Assess the contractor's familiarity with relevant technologies and installation techniques for mini-grids.

Innovative Solutions: Evaluate the contractor's ability to provide innovative and effective solutions tailored to rural environments.

Scoring:

0-2 Points: Limited technical expertise; insufficient qualifications or outdated technology use.

3-5 Points: Adequate technical expertise; reasonable qualifications and technology proficiency.

6-8 Points: Strong technical expertise; well-qualified personnel and current technology use.

9-10 Points: Exceptional technical expertise; highly qualified team and innovative solutions.

4. **Project Management Capability**

Description: Assess the contractor's project management skills to ensure they can deliver the project efficiently and effectively.

Project Management Plan: Review the proposed project management plan, including timelines, milestones, and resource allocation.

Risk Management: Evaluate the contractor's approach to risk management and contingency planning.

Quality Assurance: Examine the contractor's quality assurance processes and methods for ensuring project standards.

Scoring:

0-2 Points: Weak project management capabilities; unclear plans and insufficient risk management.

3-5 Points: Basic project management capabilities; adequate planning and risk management.

6-8 Points: Strong project management capabilities; clear plans and effective risk management.

9-10 Points: Excellent project management capabilities; detailed plans, robust risk management, and high-quality assurance.

5. **Compliance and Certifications**

Description: Verify the contractor's compliance with industry standards, regulations, and certifications required for the project.

Regulatory Compliance: Check compliance with local, national, and international regulations relevant to mini-grid installations.

Certifications: Verify relevant certifications (e.g., ISO standards, safety certifications) and adherence to industry best practices.

Environmental and Social Responsibility: Assess the contractor's commitment to environmental and social responsibility in project execution.

Scoring:

0-2 Points: Poor compliance; lacking necessary certifications and regulatory adherence.

3-5 Points: Basic compliance; some certifications and adherence to regulations.

6-8 Points: Good compliance; relevant certifications and adherence to regulations.

9-10 Points: Excellent compliance; comprehensive certifications and proactive adherence to regulations.

6. **Financial Management and Reporting**

Description: Evaluate the contractor's ability to manage financial aspects of the project and report on progress.

Financial Controls: Review financial controls and procedures for managing project funds.

Reporting: Assess the contractor's ability to provide timely and accurate financial reports and project updates.

Transparency: Check for transparency in financial dealings and adherence to reporting requirements.

Scoring:

0-2 Points: Weak financial management; poor reporting and lack of transparency.

3-5 Points: Basic financial management; some reporting capabilities and transparency.

6-8 Points: Strong financial management; effective reporting and good transparency.

9-10 Points: Excellent financial management; detailed reporting and high transparency.

Summary of Scoring

Financial Stability: [0-10 Points]

Previous Project Experience: [0-10 Points]

Technical Expertise: [0-10 Points]

Project Management Capability: [0-10 Points]

Compliance and Certifications: [0-10 Points]

Financial Management and Reporting: [0-10 Points]

Total Maximum Points: 60

Note: Each criterion should be evaluated based on the provided scoring scale, and a final score can be used to rank and assess the contractor's suitability for the funding opportunity. Adjust the scoring and criteria as needed to fit specific project requirements and organizational standards

5.6 Interim Arrangement for FREF in the Lead up to UNDP Exit

A consultant will design, implement, and initially operate a financial management system with proper procedures and control and supervise during the first few months of the FREF's operation in the lead up to UNDP ending its support to FREF post December 2028. The consultant will recommend a suitable off the shelf financial management system for FREF's financial management system. The consultant provides necessary training of FREF staff, and will slowly phase-out as capacity is built within the organization.

Preparation of consolidated accounts by FREF. The FREF Accounts Officer assisted by relevant staff of the Department of Energy will also handle the disbursement arrangement and accounting books for FREF activities once the UNDP support to FREF ends; and prepare consolidated FMRs for all FREF related activities.

5.7 Planning and Budgeting

The FREF's fiscal year end is December 31. The FREF Unit/FREFS is responsible for preparing annual work plan (divided by quarter) and budget of FREF's electrification and operations plans, with the inputs from responsible stakeholders, funding sources, and other relevant parties. Draft of the annual work plan and budget is submitted for the FREF Advisory Committee. Upon approval by the FREF Advisory Committee, the draft of plan and budget will be presented and discussed at the Annual General Meeting of the stakeholders (as articulated in section 10 of the FREF Constitution/Trust Deed) before final adoption by the FREF BoT. This should help ensure that financial resources are available for project implementation and coordinated with the procurement plans.

5.7.1 Planning and Budget Cycle

Planning process begins during the 2nd week of June and ends in the third week of December. The process is as follows:

Round I-Baseline Budget (2nd week of June – second week of August)

- Review life to date, year to date spending and explain any variances from the budget and actions taken to reduce risks.
- Re-estimate or reconfirm current year spending.
- Identify and propose priorities for the coming budget year.
- Identify and discuss any budget issues
- Compile budget figures for the coming year.
- Forecast monthly, quarterly, annual spending pattern
- Provide three years of forecast spending (revision of current year plus two years forecast).

FREF submits the draft work plan and budget to the FREF Advisory Committee for further discussion and policy consideration no later than August 15.

Round II-Adopted Budget (3rd week of August – 3rd week of November)

- Change or confirm priorities as directed by the FREF Advisory Committee
- Change or confirm budget figures
- Update projected monthly and quarterly spending
- Update the three-year projection.
- Finalized the proposed workplan plan and budget documents for distribution to relevant parties.
- Develop presentation package of the workplan and budget to be presented and discussed at the annual assembly of stakeholders.
- The proposed workplan and budget is approved by the FREF BoT and submitted to the Minister responsible for Energy to enable informing Fiji Government Cabinet.
- The adopted budget and workplan documents are sent to relevant government and non-government stakeholders, including donors.
- Adopted workplan and budget documents are posted on the appropriate websites.

The FREF Advisory Committee introduces the new annual workplan and budget at the annual general meeting of stakeholders. The FREFS assists in answering questions from the stakeholders. The annual general meeting should take place during the 3rd week of November with relevant NOL from donors (if needed) to be issued before November. The adopted budget takes effect January 1 of each year.

5.7.2 Budget Amendment

The budget amendment may be proposed and adopted at the FREF BoT's quarterly meeting once the FREF Advisory Committee has cleared it. The adopted amendment may require a NOL from relevant donors.

5.7.3 Responsibility during work planning and budget formulation process

The F*REFS* prepare the budget proposals for budget lines referring to their specific areas of activity and work in collaboration effort with the relevant units within Department of Energy and the respective government and non-government stakeholders in order to complete the tasks comprehensively and to meet the deadlines as mentioned above.

The F*REF Manager in collaboration with the FREF Accounts Officer* consolidates the individual budget proposals into a draft FREFS budget, cutting down on cost items considered excessive. The draft workplan and budget are then submitted to the Director of Energy for

review and approval before it is tabled to the FREF Advisory Committee for clearance. The draft workplan and budget are then submitted to the FREF BoT for final endorsement.

The endorsed workplan and budget are sent to the Minister responsible for Energy for information and onward tabulation to Government of Fiji Cabinet for information.

The endorsed workplan and budget are discussed at the *Annual General Meeting of Stakeholders* and disseminated via relevant websites.

FREF BoT is responsible for keeping the operating cost of the FREFS as a percentage of the annual FREF budget as low as possible without impairing the efficiency of the FREFS.

5.8 Accounting System

For all matters related to finance and use of the funds from the FREF Trust Fund, including disbursements, auditing and overall financial management, require the FREFS with oversight by the FREF BoT to:

- maintain the detailed books of accounts for FREF,
- monitor overall fund disbursements,
- initiate replenishment of the FREF Trust Fund as deemed appropriate or when the FREF Trust Fund has a balance of FJ $500,000 remaining;
- produce quarterly Financial Monitoring Reports (FMRs),
- Prepare annual financial statements, and having them audited by an external auditor acceptable to the donors.

The books of accounts for FREF activities include:

(i) Cash Bank Book
(ii) Ledgers
(iii) Vouchers
(iv) Contracts Register

The Chart of Accounts should be developed in a way that allows project costs to be directly related to specific work activities and outputs of the program/project. In the interim and in the absence of UNDP financial procedures, FREF shall adopt the Government of Fiji's Chart of Accounts to report on FREFS operating expenditures.

Accounting policies will be in accordance with International Accounting System (IAS) applicable for project accounting. FREF's financial management should include at least the following policies and procedures:

- Cash on hand and in bank
- Purchasing including expendable supplies
- Non-expendable property and equipment
- Salaries and wage
- Subsidy payment
- Month end procedures
- Year end procedures
- Receipt

Because of the relatively small size of the FREF's operation, a suitable off the shelf financial system can be used to keep track of financial transactions and generate necessary financial reports.

5.9 Auditing

The FREF's accounts and financial statements are audited in accordance with International Standards on Auditing by an independent external auditor appointed under terms of reference satisfactory to FREF donors. Relevant auditing requirements of the Fiji Charitable Trust Act 1945 need to be also taken into consideration.

The FREFS submits the audited financial reports to the FREF BoT, the Minister responsible for Energy, and donors. The annual cost of the auditing firm is paid by the FREF operating budget**.**

The auditor audits the consolidated project financial statements of the FREF, and funds transferred to implementing partners such as UNDP. In addition, the audit will determine:

(i) whether the activities of FREF associated with the respective project funds have been correctly accounted for and used in accordance with accounting best practices and caveats set out in donor agreements; and
(ii) the adequacy of supporting documents and controls surrounding the use of the Statement of Expenditures (SOEs) as a basis for disbursement.

A separate Management Letter will also be submitted which will:

(i) identify any material weakness in accounting and internal control;
(ii) report on the degree of compliance of financial covenants of Project Agreements; and
(iii) communicate matters that have come to the attention of the auditors which might have a significant impact on the implementation of the FREF.

The audited financial statements will be submitted to donors within six months after the end of each fiscal year.

Management Letter

Upon receiving a draft of the management letter, the FREFS shall respond in writing to accept the recommendations or explain the circumstances and or take necessary course of actions to implement the auditor's recommendations. The written response is to be reviewed by the FREF Advisory Committee and submitted to the Chairperson of the FREF BoT for approval, prior to sending it back to the external auditor.

CHAPTER 6: DISCLOSURE OF INFORMATION

6.1 Management Information System (MIS)

6.1.1 Type of management information needs

The management information needs can be categorized into:

1. Financial and Accounting Information (provided by the periodic financial status reports and procurement reports).
2. Project progress – quantitative information on target achievement in terms of (i) number of electrified communities, households and institutions and (ii) number of trained consultants and operators in FREF related models and procedures, etc. (provided by project progress reports).
3. Cost-effectiveness analysis - of FREF-policy instruments, procedures and choice of areas of intervention (provided by internal surveys, benchmarking and other monitoring indicators, evaluation reports, survey interviews with clients and collaborating financial institutions).
4. Impact analysis – quantitative and qualitative information on the socio-economic changes in electrified communities (provided by M&E-reports).

6.1.2 Hierarchy of Management Information Needs

The management information needs related to the operation of the FREF run through four layers of hierarchy:

1. At the bottom level are the *individual technical officers (UNDP-FREF Project Team)* who manage the individual, specific activities of the FREF. They are consumers of the basic raw data and producers of the initial processed data, which composes the MIS.
2. Next come the *FREF Accounts Officer and the FREF Manager* who monitor the use of funds and the performance of FREF implementing partners/contractors;
3. Then the *FREF BoT* who is ultimately responsible for the financial management of the FREF and the FREF Trust Fund and for the specific choice of financing instruments and areas of intervention;
4. At the top level, the *Minister responsible for Energy and the Government of Fiji Cabinet and donors* want information to control (i) that - compared with alternative uses of funds - they get value for money by supporting FREF-activities and (ii) that the FREF-funds are not deviated to other purposes than the intended as per approved workplan and budget.

For each level, it is to be defined:

i. what kind of information is needed for decision taking at that "level" so that the functions assigned to that "level" can be performed in an effective manner;
ii. how the required information is to be collected;
iii. in what form the collected information is to be synthesized and presented to the upper layer;
iv. how the collected information is to be integrated into the FREF data base, and thus, be available for the MIS.

<u>Financial Information for financial management</u>

FREFS shall keep physical record of all financial transactions to allow for appropriate audit trail and transparency of the transaction itself. Financial transactions (purchases, withdrawals, disbursement, etc.) are recorded into the financial system according to the accounting principles accepted by International Accounting System. The financial system generates periodic financial reports such as sources and uses of fund, expenditure report, balance sheets, etc. The FREF Accounts Officer is responsible for actual entering of data and maintaining physical record keeping of this financial information with supervision from the FREF Manager. However, as FREF data needs grows along with the number of sites electrified, an Information Officer will need to be hired. The reports and support documents shall be accessible by the Director for Energy, authorized personnel, FREF BoT members, auditors, and funding sources. Where soft copy version of the document is possible such information shall be housed in a database for future reference.

Industry data

The FREF Manager keeps record of relevant documents, statistics, surveys, geographic, sub project awards, economic and demographic stats, etc. Where applicable, information is to be scanned and or transferred into soft copy version and made available via appropriate websites.

The FREF Manager shall work with the Department of Energy to develop a database of profile (location, size of asset, years in business, number of customers, type of service/product, etc.) of industries related to the FREF. Industries such as bank, financial institution, hydro construction contractors, dealers/importers/manufacturers of alternative energies (solar panel, bio waste, wind power, etc) shall be supported by FREF.

Rural Electrification Enterprise data

The FREF Manager shall work with the Department of Energy and the Climate Change Department to create a database of profile of rural electrification in the country. The profile includes-demographic statistics of the region it serves, financials, progress report, type of electricity source, number of customers, location, quality of service, etc.

6.1.3 Collection and initial processing of data for the MIS

Being responsible for the initial data entry and the initial processing of data for the MIS, FREFS is held accountable for the systematic collection of data, which is relevant for the work of the FREF Unit, and the assessment of its performance.

Technical representatives of the FREF Advisory Committee members are to assist the FREF Manager and the Department of Energy's REU in finding appropriate responses to the four questions listed in section 7.1.2, above.

In the monitoring of the performance of a sub-contractor, even those contracted through UNDP under the FREF Support Programme, the FREF Manager is responsible for ensuring that the contracted entity:

- presents all required *financial reports* and *progress reports* timely and in accordance with the format defined in the contract;
- at the end of a *capacity building seminar on reporting requirements for FREF to be organized by the FREFS*, asks the attendants to fill out a *user-satisfaction questionnaire*, rating the relevancy of the content and the quality of the trainers and coming up with suggestions on improvements.

Project Implementation Plans for the executing agents address the following areas:

1. Inputs and outputs of *financial information* required to track implementation;
2. Inputs and outputs of *physical information* matched with financial information required;
3. arrangements for recording project impacts, outcomes, outputs, and inputs that are required to assess project progress toward project objectives.

The Director of Energy, monitors that the FREF Unit/FREFS:

- summarize their conclusions and observations on received progress reports in a short, concise note;
- write short notes in standard format on field visits and participation at seminars or outreach meetings summarizing (i) number and type of attendants, (ii) subjects discusses, (iii) key impressions of feedbacks and lessons learned.

6.2 Fiscal Year Financial Report and Annexes

Once the financial accounts for a fiscal year have been audited, the FREF BoT submits the *fiscal year financial report on the FREF* to the Minister responsible for Energy, and to donors. The report covers the consolidated financial accounts of the FREF comprising the general balance of the FREF Trust Fund and financials of funds released to implementing partners. The financial statements presented in the report include:

- *Statement of Sources and Uses of Funds and balance sheets* showing funds from the different donors and national sources of revenue separately, a summary of expenditures analyzed under the main headings and by main category of expenditures
- *Notes* in respect of significant accounting policies and accounting standards adopted by management when preparing the accounts and any supplementary information or explanations that may be deemed appropriate by management in order to enhance the presentation of a "true and fair view".
- *FREF Trust Fund Bank Statement* showing deposits and replenishments received, payments substantiated by withdrawal applications, interest that may have been earned on the account and the balance at the end of the fiscal year.
- *A Reconciliation* between the amounts shown as "Received by FREF in the FREF Trust Fund" and that shown as having "Disbursed" by them.

6.3 Public Dissemination Policy

6.3.1 FREF progress reports and annual RE-Status Report

The FREF Manager, through the Director of Energy, prepares *three short FREF progress reports* to the FREF BoT during a year and one detailed *Status Report*. The FREF BoT approves the reports after consideration during the quarterly meeting of the FREF BoT before submitting the reports to the Minister responsible for Energy and to donors.

The progress reports and Status Report synthesize the information of progress reports received from implementing partners and sub-contracted consultants and summarizes the results from M&E.

6.3.2 Annual Status Report

The annual Status Report, prepared by the FREF Manager and approved by FREF BoT is submitted to the Minister responsible for Energy and to the Annual General Meeting roughly one month before the start of a new fiscal year. This report includes the progress in FREF electrification plans (as per the approved workplan and budget for the year in consideration) in general, and of FREF-financed activities, and summarizes the qualitative and quantitative M&E information on FREF, which the FREFS collected during the year, since the presentation of the last report.

The report (i) informs on:

a. the advancement of FREF electrification plans and its impact on the rural transformation objective;
b. the efficiency and the impact of the FREF investments (demonstrating innovative blended financing) and the procedures for these; and
c. the results and effectiveness of FREF-financed capacity building programs in communities electrified by FREF demonstrating productive energy use cases and its resulting socio-economic benefits.

and, (ii) presents the budget and work program for the next year FREF-activities, including any proposed subsidy rates and eligibility criteria to be considered by the Government of Fiji for its forthcoming national budget programming.

After approval by the FREF BoT, the Minister Responsible for Energy, donors, and the Government of Fiji Cabinet, the annual status report is published on relevant websites.

6.3.3 Publication of M&E reports

The FREF BoT decides on the publication of M&E reports.

Chapter 7 Monitoring and Evaluation

7.1 Objectives for Monitoring and Evaluation (M&E)

M&E reports are prepared to provide the FREF BoT, the Minister responsible for Energy, the Government of Fiji Cabinet and donors with information on:

1. The status of national progress towards rural electrification and the role of FREF herein, making use of *output indicators* for the FREF. The information documents that output targets for individual FREF-activities are being achieved.

2. The socio-economic impact of rural electrification projects (*impact indicators* for the FREF). The information helps the Ministry of Finance and donors to determine whether the amount of public resources allocated to the FREF are justified by their socio-economic impacts.

3. The effectiveness of FREF procedures and the relevancy and cost-effectiveness of FREF-financed electrification projects. The information gives the FREF BoT the qualitative and quantitative data needed to take informed decisions on recommended capital co-financing, subsidy levels, eligibility criteria and procedures, the FREF budget and the annual FREF workplan, including the launching or closing of innovative financing products/approaches by FREF.

7.2 Organization of M&E

Monitoring and evaluation are undertaken through evaluation by FREFS and through contracted external consultants and other organizations like FCCC.

The initiative for specific M&E-reports executed by external consultants can come from the Director of Energy with written agreement of the Chairperson for the FREF BoT and from any donor.

The *FREF Manager* is responsible for M&E-activities within the FREFS. Normally, FREFS will write the TOR for an M&E activity and contract an independent consultant. In the case of M&E activities initiated by donors, FREFS is responsible for facilitating required local assistance to the M&E-team contracted by the donor.

The *FREF Database* developed and maintained by FREFS is of key importance for the monitoring work. It stores quantitative information from FREF-grant application forms (feasibility study: number of households in community, economic activities, number of household/business owned generators) and from FREF-grant disbursement forms (project completion form: number of connected households, type of productive uses and estimated productive loads, number of poles and transformers and cost data). It also stores quantitative and synthesizes qualitative data from M&E-reports.

Due to the self-interest of the FREFS in the justification of public support to FREF projects, the M&E of the impact of rural electrification on rural transformation is entrusted to an outside institution, which reports directly to the FREF BoT whenever a report of major relevance has been prepared.

7.3 Plan for presentation of M&E-reports

Type of Report	Comments
FREFS - Quarterly progress - Annual Status Report - Mid-term review - End-of-term report	 Short standard format report with quantitative data on outputs + short observations on items calling for attention Quantitative data on rural electrification + FREF-outputs + self-evaluation by FREFS on effectiveness of procedures, programs and subsidy levels + synthesis of conclusions of evaluation reports prepared by outside consultant Evaluation by outside consultant contracted by donors Quantitative data + self-evaluation + attached evaluation report prepared by donor-contracted consultant
Outsourced TA-activities: - Quarterly progress - Annual status report - Mid-term review - End-of-project report	 Short standard format report with quantitative data on outputs + short observations on items calling for attention Quantitative data + conclusions from self-evaluation Evaluation by outside consultant contracted by FREFS Quantitative data + self-evaluation + attached evaluation report prepared by REFS-contracted consultant
Socio-Economic Impact of FREF	Responsibility for M&E permanently outsourced to outside Institution such as UNDP or a University based in Fiji.
Ad-hoc M&E Reports	Evaluation reports requested by donors and executed by donor-contracted consultants or by consultants contracted by FREFS on behalf of donor

7.4 M&E of REF Performance

7.4.1 Output Indicators

Rural Mini-Grid Electrification Status

- The number of communities and agglomerations in Fiji that have been electrified during the year; new households getting electricity service; percentage and number of communities by category of size that remain without electricity service
- Progress in rural electrification coverage (percentage of rural population living in electrified areas) and rural connection rate (percentage of rural households having electricity service).
- The number of rural enterprises (including those in the broadly define agriculture sector) that have been connected during the year and their estimated load

- The number of health clinics and schools that have been electrified during the year and the percentage and number of national clinics that remain without electricity service

7.4.2 Impact Indicators

1. Socio-economic impacts

In-depth analysis of a few FREF projects, will be undertaken to evaluate the impact which electrification has on rural transformation. The M&E of rural transformation is of particular importance, as the socio-economic results must justify the substantial support from scarce public resources, which is given to FREF, and which competes with alternative claims on these resources for other sector interventions. The subject covers three major issues:

1. *Productive use impact*. The impact of electricity (i) on the improvement and quality of *social services* – health, education, public administration – (ii) on *commercial business activities* - the creation of new agro-industrial businesses and services, development of productivity and quality enhancement in existing agro-industrial businesses and services- and (iii) links to *other infrastructure investments* such as water, road and telecommunications.
2. *Impact on household welfare.* Benefits from improved lighting and better access to internet of things, radio, and television.
3. *Poverty impact of supported RE-projects*. Connection rates of poor households; poverty impacts from indirect access to electricity.
4. *The equity impact* of FREF subsidies (socio-economic class and regional)

Indicators for the above are collected using a methodology containing participatory and survey elements.

2. Impacts on costs of rural electrification and on rural tariffs and quality of service

- Evolution in *the costs of rural electrification over time, adjusted for differences in customer density and other cost-affecting factors*
- Evolution in *rural tariffs over time, adjusted for differences in customer density and other cost-affecting factors*
- average number of hours per day in which electricity is supplied to households by the FREF solutions.

7.4.3 Indicators for efficiency of individual instruments

M&E of the effectiveness of FREF-investment subsidies

The M&E relates to the effectiveness (i) of FREF subsidy levels and (ii) of the procedures for allocating subsidies to projects. Key performance indicators to be monitored and evaluated would be:

- The annual balance between the supply of grant funds (forecast payments for the year) and the demand for funds (accumulated grant finance requested by applicants)
- The impact of FREF investment subsidies on reducing the cost of investment for project developers (subsidy in percent of the cost of investment).
- Whether other instruments for investment support, such as guarantee schemes for loans, for example, would be a cost effective mean to enhance the impact of rural electrification investment subsidies on the acceleration of rural electrification.
- The extent of free-rider effects (giving subsidies to projects, which would have been carried out also in the absence of a subsidy; or offering lower tariffs to consumers who would have been willing to pay a higher tariff).
- The evolution over time in the cost of subsidy per connected customer

M&E of the effectiveness of FREF funding rural electrification support programs

Key output indicators are:

- Number of feasibility studies/business plans prepared with FREF-financed TA
- Number of technicians in rural electrification-construction and/or operation trained in FREF-financed courses number of trained rural and renewable electricity employees in different institutions (at least 200).
- Number of solar energy technicians, particularly from beneficiary communities, trained in FREF-financed courses
- Number of bank staff trained in appraisal of rural electrification and renewable energy

projects

Key impact indicators are:

- Evolution in the quality of feasibility studies, which are attached to the applications for FREF investment subsidies (both capital and non-capital).
- Evolution in the penetration of least cost technologies and quality of construction work.
- Evolution in the unit price of components and of services.
- Evolution in the percentage of co-financing secured by private operators to finance FREF rural electrification works.
- Evolution in the number of firms that provide goods and services to rural electrification and their regional distribution.

7.4.4 Indicators for result achievement

Key performance indicators for progress in rural electrification:

- The number of communities that have been electrified during the year and the percentage and number of communities by category of size that remain without electricity service
- Progress in rural electrification coverage (percentage of rural population living in electrified areas) and rural connection rate (percentage of rural households having electricity service).
- The number of rural enterprises (including those in the broadly define agriculture sector) that have been connected during the year and their estimated load
- The number of health clinics and schools that have been electrified during the year and the percentage and number of clinics that are without electricity service
- Progress in solar PV market development for isolated households and institutions (number and capacity of systems installed for households and institutions)

Key performance indicators for effectiveness of FREF-investment subsidies:

- access of project developers to loan finance for FREF projects
- reduction in average tariff due to the subsidy
- household connection rates in project areas

Indicators for rural transformation will cover:

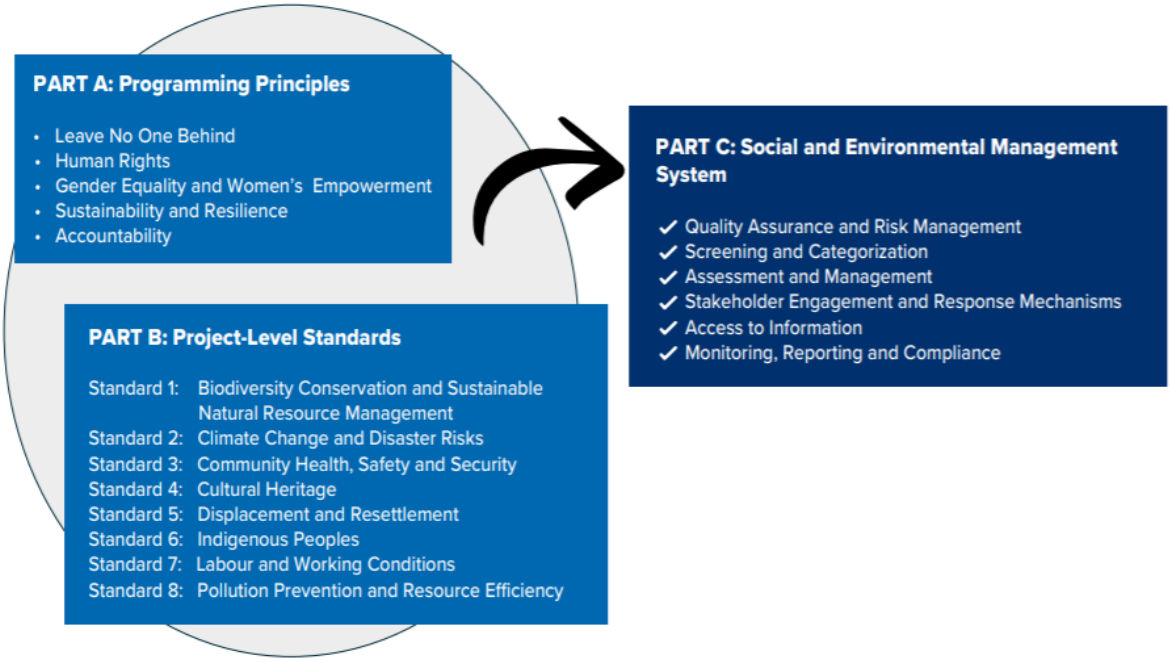
- *Productive use impact*. The impact of electricity (i) on the improvement and quality of social services – health, education, public administration – (ii) on commercial business activities - the creation of new agro-industrial businesses and services, development of productivity and quality enhancement in existing agro-industrial businesses and services- and (iii) links to other infrastructure investments such as water, road and telecommunications.
- *Impact on household welfare*. Benefits from improved lighting and better access to internet of things, radio, and television.
- *Poverty impact of FREF projects*. Connection rates of poor households; poverty impacts from indirect access to electricity.

Chapter 8: Environment and Social Screening and Management Plans

8.1 Safeguard Policies

FREF projects and programs need to satisfy the UNDP Social and Environmental Standards in addition to conformity with environmental legislation of Fiji i.e. the Environment Management Act (2005). The UNDP SES Objectives are to (i) strengthen the quality of programming by ensuring a principled approach; (ii) maximize social and environmental opportunities and benefits; (iii) avoid adverse impacts to people and the environment; (iv) minimize, mitigate, and manage adverse impacts where avoidance is not possible; (v) strengthen UNDP and partner capacities for managing social and environmental risks; and (vi) ensure full and effective stakeholder engagement, including through a mechanism to respond to complaints from project-affected people.

Figure 1: Key Elements of UNDP's Social and Environmental Standards (SES)



8.2 Potential Environmental Issues

The key environmental issue for mini-grid systems concerns the disposal and recycling of lead acid or nickel-cadmium batteries that are expected to be part of the FREF hybrid renewable energy systems using Battery Energy Storage Systems (BESS). There maybe issues related to land use change as well.

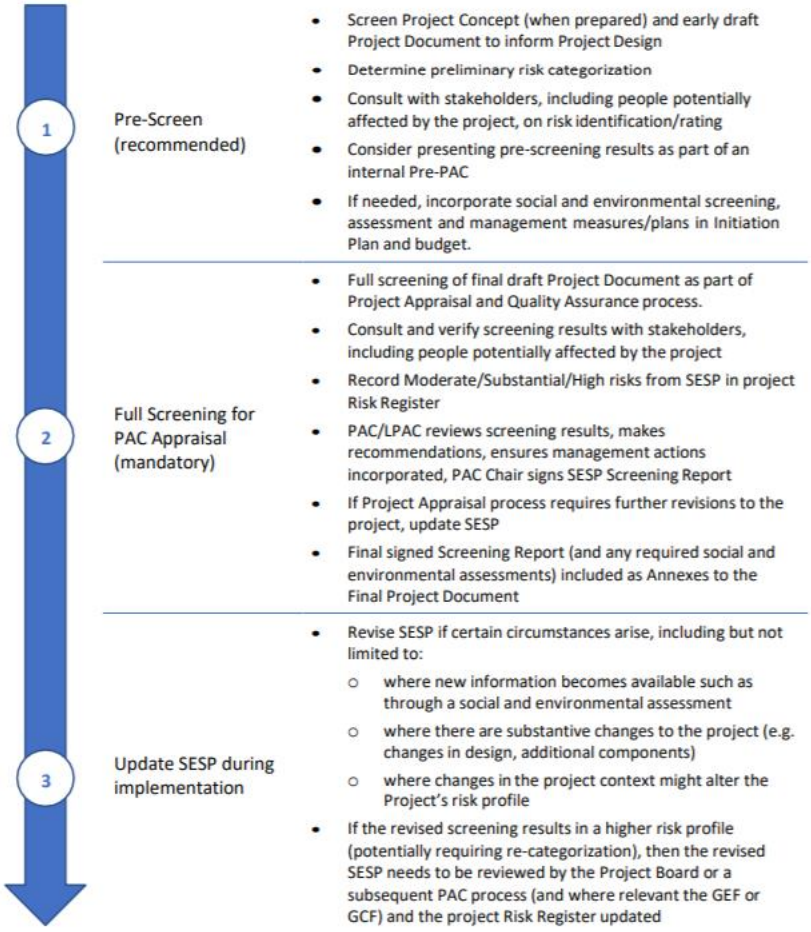
For micro- and mini hydro projects, there may likely be run-of-the river as opposed to storage projects. Potential impacts concern: (i) partial dewatering of a section of the riverbed from the intake until water is returned to the river downstream of the powerhouse and consequent impacts on aquatic life in the dewatered section; (ii) potential soil erosion caused by flushing flows discharged from sedimentation basins and by overflows at the forebays; (iii) potential ground instability caused by canal/pipe construction, (iv) cutting of trees for use of power poles for village hydro projects; and (v) adverse impacts due to construction of access roads.

The environmental assessment should cover physical-chemical, biological, socio-economic and cultural assessment that are likely to arise during construction and operation activities as appropriate.

For each site or cluster of sites to be electrified, the FREFS will form a Project Appraisal Committee (PAC) made up of technical representatives of the FREF Advisory Committee members to review the TDL rate the electrification project as Low, Moderate, Substantial or High risk.

The FREFS along with the implementing partner/contractor responsible for FREF electrification works will follow the following steps with guidance from the UNDP FREF Support Programme team:

Figure 2. Key SESP Steps during the Project Cycle



It is to be noted that if the SES screening registers a moderate or higher risk rating, the FREFS will need to initiate an EIA Screening process in line with the Environment Management Act (2005).