

Data Sheet

USAID Mission:	Nepal
Program Title:	Hydropower Development
Pillar:	Economic Growth, Agriculture and Trade
Strategic Objective:	367-006
Proposed FY 2004 Obligation:	\$2,100,000 DA
Prior Year Unobligated:	\$0
Proposed FY 2005 Obligation:	\$2,000,000 DA
Year of Initial Obligation:	FY 2001
Year of Final Obligation:	FY 2006

Summary: This program addresses the energy and economic development needs of Nepal, as well as the clean energy needs of the region. It increases private sector participation in environmentally and socially sustainable hydropower development through technical assistance and training to:

- improve the enabling conditions for private investment in hydropower by setting up a streamlined legal and regulatory framework and simpler licensing procedures;
- strengthen institutional capacity to address environmental and social impacts;
- assist the Government of Nepal (GON) to implement a new hydropower policy that promotes investment in both domestic and export markets; and
- establish a Power Development Fund, with World Bank support, as a catalyst for energy investment.

Inputs, Outputs, Activities:

FY 2004 Program:

Improve the Enabling Environment for Sustainable Hydropower Development (\$1,800,000 DA). Nepal needs to implement policy and energy sector reforms to increase private participation and investment in hydropower. It also must establish sound guidelines and increase the GON's capacity to review and approve stringent environmental and social impact assessments. USAID will provide technical assistance and training to the GON's Department of Electricity Development and other key GON entities such as the Nepal Electricity Authority, to develop strategies for regulatory and utility reforms in the energy sector. This includes amending the Electricity Act of 1993 to reflect the new hydropower policy that, for the first time, mandates establishment of an independent regulator and a timetable for the state-owned utility to reform and restructure. USAID also will provide continued support to establish a Power Development Fund with World Bank funding, designed to catalyze investment. USAID will fund training and study tours for key GON officials and policy makers. International Resources Group is the principal contractor.

Promote Effective Public-Private Energy Entity Partnerships (\$200,000 DA). USAID will promote executive exchanges and energy partnerships between the GON and U.S. regulatory bodies and utilities, and provide opportunities for GON decision makers and energy professionals to meet with their peers in the U.S. or other countries. It also will expose U.S. private businesses to energy sector opportunities in Nepal and the region. This will yield a better understanding of the reform process and an action plan to improve energy efficiency. The United States Energy Association is the principal grantee.

Support to Local Hydropower Developers and Financial Institutions to Participate and Invest in Small (1-10 megawatts) Projects (\$100,000 DA). USAID will fund technical assistance and training to local enterprises to develop bankable projects, acquire local financing for these small projects, and build the capacity of local cooperatives engaged in rural electrification. USAID also will promote the development of a clean energy and infrastructure development bank aimed at promoting investments in small-scale projects that support rural electrification. Winrock International is the principal grantee.

FY 2005 Program:

Improve the Enabling Environment for Sustainable Hydropower Development (\$1,700,000 DA). USAID will continue activities aimed at promoting policy and regulatory reforms. In addition to the technical assistance and training activities, USAID will fund feasibility studies for five small hydropower projects to assist the GON develop a roster of projects for private sector development. Assistance also will be provided to launch the first Build Own Operate and Transfer hydropower project through international competitive bidding procedures. USAID will continue training and capacity building study tours for key GON officials and policy makers. International Resources Group is the principal contractor.

Promote Effective Public-Private Energy Entity Partnerships (\$200,000 DA). Executive exchanges and energy partnerships will be consolidated, exposing U.S. private businesses to energy sector opportunities in Nepal and the region. Important outputs in the energy efficiency and private business arena are expected to result as the partnerships consolidate. The United States Energy Association is the principal grantee.

Support to Local Hydropower Developers and Financial Institutions to Participate and Invest in Small (1-10 megawatts) Projects (\$100,000 DA). USAID will continue to furnish technical assistance and training to local enterprises to develop bankable projects and acquire financing from local banks. Technical support and training will be provided to the clean energy and infrastructure development bank as it will be closer to being established. As more private power comes on line, more support will be provided to local cooperatives to distribute power to rural areas. Winrock International is the principal grantee.

Performance and Results: This program is now in its second year of operation and continues to attract private sector participation in hydropower development. Three new investments were made in FY 2003 totaling \$12 million, thereby increasing the cumulative total private sector investments from \$348 million reported in FY 2002 to \$360 million in FY 2003. This is very significant given the current situation when other sectors of the economy have contracted. Significant progress was made in the power sector reform process. The state-owned utility commenced distribution reforms this year, creating autonomous "profit centers" that reduced losses significantly within only six months of operation. Similar progress was made in establishing a Power Development Fund that will be funded by the World Bank. With USAID assistance, the GON selected a Fund Administrator and completed final loan negotiations with the World Bank.

This program will benefit Nepal's poor living mostly in the rural areas, 83% of whom lack access to electricity. USAID's \$2.2 million investment in FY 2003 successfully leveraged private sector investments in hydropower amounting to \$12 million, a significant return. Each MW of hydropower that comes on line electrifies at least 2,000 households, and each MW of exported hydropower sequesters 6,000 tons of greenhouse gases. This program reduces Nepal's dependence on fuel wood for its energy needs, thereby reducing deforestation and soil erosion. In addition, harnessing Nepal's hydropower is paving the way for developing modern sector employment opportunities for millions of Nepalese citizens, helping to remove one of the major root causes of the Maoist insurgency.

By program completion, at least 450,000 more Nepalese will have access to electricity and private sector investment in the power sector is expected to increase by at least 10% per year, creating thousands of low skilled and hundreds of high skilled employment opportunities in rural areas.

US Financing in Thousands of Dollars

Nepal

367-006 Hydropower Development	DA
Through September 30, 2002	
Obligations	4,510
Expenditures	1,268
Unliquidated	3,242
Fiscal Year 2003	
Obligations	2,227
Expenditures	1,638
Through September 30, 2003	
Obligations	6,737
Expenditures	2,906
Unliquidated	3,831
Prior Year Unobligated Funds	
Obligations	0
Planned Fiscal Year 2004 NOA	
Obligations	2,100
Total Planned Fiscal Year 2004	
Obligations	2,100
Proposed Fiscal Year 2005 NOA	
Obligations	2,000
Future Obligations	0
Est. Total Cost	10,837