



RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
KABELI-A HYDRO ELECTRIC PROJECT
APPROVED ON JULY 1, 2014
TO
NEPAL

ENERGY & EXTRACTIVES

SOUTH ASIA

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ABBREVIATIONS AND ACRONYMS

CIA	Cumulative Impact Assessment	KAHEP	Kabeli-A Hydroelectric Project
DOED	Department of Electricity Development	KEL	Kabeli Energy Limited
EA	Environmental Assessment	MOEWRI	Ministry of Energy, Water Resources and Irrigation
EMP	Environmental Management Plan	MOF	Ministry of Finance
HIDCL	Hydroelectricity Investment and Development Company Limited	NEA	Nepal Electricity Authority
IBN	Investment Board of Nepal	PDA	Project Development Agreement
IDA	International Development Association	SAP	Social Action Plan
IFC	International Finance Corporation	WECS	Water and Energy Commission Secretariat



BASIC DATA

Product Information

Project ID P122406	Financing Instrument Investment Project Financing
Original EA Category Full Assessment (A)	Current EA Category Full Assessment (A)
Approval Date 01-Jul-2014	Current Closing Date 30-Dec-2019

Organizations

Borrower Nepal	Responsible Agency Kabeli Energy Limited, Investment Board of Nepal, Ministry of Energy, Water Resources and Irrigation, Water and Energy Commission Secretariat
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Project Development Objective (PDO)

Original PDO

The project development objective is to increase hydropower generation capacity to supply NEA grid through public private investment.

Summary Status of Financing

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net		
					Commitment	Disbursed	Undisbursed
IDA-53380	01-Jul-2014	24-Nov-2014	20-Jun-2016	30-Dec-2019	40.00	9.79	26.42
IDA-H9000	01-Jul-2014	24-Nov-2014	20-Jun-2016	30-Dec-2019	6.00	.90	4.65

Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No



I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

A. Project summary

1. The Kabeli-A Hydroelectric Project was approved by the Board on July 1, 2014 and became effective on June 20, 2016. The Project Development Objective (PDO) is to “increase hydropower generation capacity to supply NEA grid through public private investment”. The Project consists of three parts: (1) Development of Kabeli-A Hydro Electric Project (KAHEP), (2) Technical Assistance and Capacity Building for Ministry of Energy (MOE), and (3) Technical Assistance and Capacity Building for Investment Board of Nepal (IBN).
2. Part 1 (KAHEP component) is implemented by Kabeli Energy Limited (KEL). This component is financed by IDA credit of USD 40 million through Hydropower Investment and Development Company Limited (HIDCL) – a GoN owned entity established to finance the hydropower projects in Nepal – which acts as the financial intermediary in channeling the credit to the KEL for the construction of 37.5 Mega-Watt (MW) hydropower project in eastern Nepal. In addition to the IDA credit, KEL also has signed USD 38.6 million and USD 1 million loan agreement with International Finance Corporation (IFC) and NIC- ASIA, a local commercial bank, respectively. The proceeds of IDA credit from the Ministry of Finance (MOF) to KEL are subordinated to those of IFC and NIC-ASIA.
3. Part 2 (MOE component) supports the Ministry of Energy, which has changed its name to Ministry of Energy, Water Resources and Irrigation (MOERWI) in providing: (a) technical assistance to enable it to perform supervision and technical due diligence for Part 1 of the Project to ensure compliance with the agreements and plans such as Project Development Agreement (PDA), Environment Management Plan (EMP) and Social Action Plan (SAP); (b) technical, environmental and social safeguards capacity building on integrated river basin management and cumulative impacts management for sustainable hydropower development, and (c) incremental operating costs for the Project implementation. This Part is implemented by Department of Electricity Development (DOED) of MOERWI. This component is financed by IDA grant of USD 2 million.
4. Part 3 (IBN component) provides technical assistance to Investment Board of Nepal (IBN) to provide for (a) technical assistance to IBN to enable it to: (i) conduct appropriate due diligence to assess readiness of large-sized hydropower projects proposed by private investors and to carry out negotiations with selected private investors for signing project development agreements, (ii) supervise the construction of the above-mentioned projects to ensure compliance with the terms and conditions of the project development agreements and sustainability of such projects, and (iii) build up its procurement, financial management, environmental and social safeguards and technical capacities; and (b) incremental operating costs for the Project implementation. This Part is implemented by IBN and financed by IDA grant of USD 4 million.

B. Current project status

5. Overall, the project implementation has remained slow for the Component and IBN Component, while significant progress was observed under the MoEWRI component. Thus, the progress towards achievement of PDO is *Unsatisfactory*, and the overall implementation status is *Moderately Unsatisfactory*.
6. Part 1 (KAHEP Component): Overall, the work progress is far behind schedule. As the contractors were not performing as per the requirement of the contract, the construction activities have currently been suspended And the Civil/Hydronechanical (CHM) contract with Zhejiang is terminated. KEL had shared a project recovery plan with



the Bank during the last ISR mission on February 11-27, 2019. The recovery plan provides the timebound commitments on how KEL intends to restart the Project construction. The recovery plan has also provided the timeline for hiring of a new Owner's Engineer (OE); and the procurement of the new civil works contract and a new hydromechanical works contract based on the FIDIC red book and yellow book respectively (KEL now plans to restructure the existing CHM contract and split it between Civil and Hydromechanical works). KEL intends to continue with the current the Electro-Mechanical contract. The new OE – Hydro consult Engineering (HCE) – was hired on 25 April 2019. Currently it is supporting KEL to restructure bid documents to suit for the respective FIDIC books for civil and hydro mechanical works. As per the plan, the new contractor was envisaged to be mobilized to the site by July 2019 for the completion of the project within 30 months period, i.e. by Jan 2022. KEL is willing to move ahead with the new plan provided they have the lenders on board and IDA loan is available. Due to delays in the project implementation, KEL will not be able meet the original Commercial Operation Date (COD) as referenced in the Power Purchase Agreement (PPA). As such, KEL has applied to NEA for the extension of commercial operation date until October 9, 2020. In parallel, KEL has also made a request for an extension of the IDA Project closing date to the GoN.

7. Part 2 (MOEWRI Component): Significant progress was observed under the MoEWRI component. The work on most of the activities have been ongoing. In particular, Cumulative Impact Assessment (CIA)– which constitute the major chunk of the overall activities – is progressing well and consultants are submitting the relevant reports for both DOED and Bank's review in timely manner. Currently DOED is in the process of procuring consulting services for developing integrated software for monitoring hydropower projects.
8. Part 3 (IBN Component): Limited progress is observed under the IBN component. IBN is in the process of revising its procurement plan and intends to include the procurement of: i) office equipment; ii) vehicle for project supervision; and iii) consulting/training services for capacity building – in hydropower due diligence, planning, financing, and implementation. Since very little progress has been made since the last review, this component's rating is retained as *Unsatisfactory*. It is unlikely that disbursement of USD 4 million will be made by the Project closing date of December 31, 2019. Therefore, the Project is proposed to be restructured to reduce the amount allocated to this IBN component and reallocate part of the amount to a new component which will support Water and Energy Commission Secretariat (WECS)-implemented river basin planning study.

C. Rationale for Restructuring

9. This restructuring is based on the GoN request dated September 2, 2019 to reallocate part of the unused portion of the IDA grant to support the River Basin Planning Study implemented by the Water and Energy Commission Secretariat (WECS). Taking into account the progress of the River Basin Planning Study and projected disbursements by the closing date of this Project, WECS's river basin planning study is proposed to be added as a new component (Part 4) and approximately USD 2 million out of USD 4 million from Part 3 (IBN Component) is to be allocated to the new Part 4 (WECS Component). In reviewing the progress of the river basin planning study, the team confirmed that WECS has disbursed over 96% (approximately US\$ 482, 000)of the SAWI grant and is expected to disburse additional USD 2 million by end December 2019 when the project is expected to close in line with the physical progress of the study.
10. As a background, WECS's river basin study has been supported by the Power Sector Reform and Sustainable Hydropower Development Project (PSRSHEP, P150066) and financed by South Asia Water Initiative Phase 2 Multi-Donor Trust Fund (SAWI-P2 MDTF), originally with US\$ 2.5 million, and currently with US\$ 0.5 million in grant (SAWI Grant) as a result of the Project restructuring in June 2017. The implementation of the study was initially delayed, but there has been tangible progress of its implementation, notably the conclusion of the selection of a consulting firm to assist in the implementation of the study in June 2018. WECS signed a contract of about USD 5.9 million on



June 26, 2018. The first draft hydropower generation master plan for the Koshi Basin was submitted by the Consultant in August 2019.

11. To fill the funding gap of USD 5.4 million, the GoN requested the Bank to mobilize more grant resources. Since IBN component of the Kabeli-A Hydroelectric Project will not be able to disburse the USD 4 million IDA grants in its entirety by the project closing date, the proposed restructuring would allow GoN to utilize the previous grant resources to support the WECS-implemented river basin planning study. The latter aligns with the development objective of the Kabeli A Project in supporting sustainable hydropower development and is expected to disburse USD 2 million by the project closing date. The newly allocated amount will cover the expenditures for WECS incurred on or after November 1, 2018.
12. The contract related to the funding gap referred above relates to expenses incurred since November 2018. This contract has USD and NPR portions, and the Government has paid only a few bills under this contract related to the NPR portion and none of the bills under the USD portion have been paid by the Government. Government is planning to make payments to USD bills and for unpaid NPR bills from the IDA proceeds after this amendment is completed. Even though the Multi donor Trust fund (TF 18570) referred above is fully disbursed, there is an undocumented balance in the designated account. Hence for the cut-off date for charging expenses under TF and IDA, expenses are to be paid from the designated account of TF 18570 until the designated account balance is fully exhausted and reported and after the designated account balance under TF is fully documented expenses are to be paid from IDA.
13. Since WECS-implemented river basin planning study has been adequately appraised under the PSRSHDP approved in September 2015 (see Parts 2(a) and 3(a)), there is no additional appraisal needed. The environmental assessment category for the PSRSHDP is A, same as this project and no new safeguards policies are triggered. Hence, ESMF and TOR prepared for the PSRSHDP will be applicable for the WEC's River Basin Study including strategic environmental and social assessment (SESA). The implementation arrangement for the component remains the same as under PSRSHDP. The study is expected to complete by August 2021. The ESMF and the TOR of the study have been disclosed under the PSRSHDP (<http://documents.worldbank.org/curated/en/208871468323341869/pdf/E47270v20Box390LIC00SAR0EA0P150066.pdf> ; <https://www.wecs.gov.np/uploaded/EOI-TOR-2016-03-31.pdf>)
14. WECS has maintained acceptable fiduciary management under PSRSHDP and there are no overdue audit reports for all concerned implementing agencies. As a measure to avoid double counting of expenses, the allocation under the PSRSHDP would be exhausted and reported by the WECS first and then the allocated amount from IDA grant would be withdrawn.

I. DESCRIPTION OF PROPOSED CHANGES



A. Update on Project Description and Implementation Arrangements

15. The new Component 4 (WECS Component) supports the following activities:
- (a) The implementation by Water and Energy Commission Secretariat (WECS) of integrated water resource management and planning (IWRMP) to guide sustainable hydropower development in selected river basins, using a basin-wide approach;
 - (b) Conducting a strategic environmental and social assessment (SESA) to support basin-wide approach for hydropower development planning; and
 - (c) Carrying out Project management activities.

B. Update on Results Frameworks

16. Following the addition of the new Component 4 (WECS Component), the Results Frameworks will be modified. Specifically, new intermediate results indicators for the new Component 4 (WECS Component) will be added as follows:
- Number of river basin plans, including hydropower master plan, prepared with an integrated water resource management (IWRM) approach
 - Number of workshops on Strategic Environmental and Social Assessment (SESA)/ cumulative impact assessment (CIA) conducted

C. Amendment to the Financing Agreement

17. The Financing Agreement will be modified as follows:

(a)

Part 4: Technical Assistance and Capacity Building for WECS

18. Article 3.01 of the Financing Agreement will be modified as follows:

Current Provisions	Proposed Provisions
<p>3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall: (i) cause KEL to carry out Part 1 of the Project; and (ii) carry out Part 2 of the Project through MOE and Part 3 of the Project through IBN, all in accordance with the provisions of Article IV of the General Conditions and the Project Agreement.</p>	<p>3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall: (i) cause KEL to carry out Part 1 of the Project; and (ii) carry out Part 2 of the Project through MOEWRI, Part 3 of the Project through IBN, and Part 4 of the Project through WECS, all in accordance with the provisions of Article IV of the General Conditions and the Project Agreement.</p>

19. New provisions in the Schedule 1, Project Description of the Financing Agreement will be added as follows:

New Provisions



Part 4. Technical Assistance and Capacity Building for WECS

- (a) Provision of technical assistance to WECS to enable it to (i) implement integrated water resource planning and management to guide sustainable hydropower development in selected river basins, using a basin-wide approach and (ii) conduct a strategic environmental and social assessment to support a basin-wide approach for hydropower development planning.
- (b) Carry out Project management activities.

20. Paragraph 3(a), Section I.A.1 of Schedule 2 of the Financing Agreement will be modified as follows:

Current Provisions	Proposed Provisions
<p>A. Institutional Arrangements for Parts 2 <u>and</u> 3 of the Project</p> <p>1. The Recipient: (a) through the Secretary of MOEWRI shall oversee the implementation of Part 2 of the Project; <u>and</u> (b) through IBN shall be responsible for implementing Part 3 of the Project.</p>	<p>A. Institutional Arrangements for Parts 2, 3 <u>and</u> 4 of the Project</p> <p>1. The Recipient: (a) through the Secretary of MOEWRI shall oversee the implementation of Part 2 of the Project; (b) through IBN shall be responsible for implementing Part 3 of the Project; <u>and (c) through WECS shall be responsible for implementing Part 4 of the Project.</u></p>

21. A new paragraph 3 will be added to Section I.A. of Schedule 2 (Project Execution) of the Financing Agreement as follows:

New Provision
<p>3. For purposes of implementing Part 4 of the Project, the Recipient shall maintain at all times during the implementation of the Project, Project implementation structure within WECS, with functions and resources satisfactory to the Association, and with staff in adequate numbers and with qualifications, experience and terms of reference satisfactory to the Association.</p>

22. Paragraph 3(a), Section I.D of Schedule 2 of the Financing Agreement will be amended as follows:



Current Provisions	Proposed Provisions
<p>3. The Recipient shall ensure or caused to be ensured, that:</p> <p>(a) the terms of reference for any consultants' services in respect of any activity under Parts 2(a), 2(b) and 3(a) of the Project shall be satisfactory to the World Bank following its review thereof and, to that end, such terms of reference shall duly incorporate applicable international performance, technical, environmental and social standards equivalent to the World Bank Safeguards Policies then in force, as applied to the advice conveyed through such technical assistance; and</p>	<p>3. The Recipient shall ensure or caused to be ensured, that:</p> <p>(a) the terms of reference for any consultants' services in respect of any activity under Parts 2(a), 2(b), 3(a) and 4(a) of the Project shall be satisfactory to the World Bank following its review thereof and, to that end, such terms of reference shall duly incorporate applicable international performance, technical, environmental and social standards equivalent to the World Bank Safeguards Policies then in force, as applied to the advice conveyed through such technical assistance; and</p>

23. Paragraph 2, Section II.A of Schedule 2 of the Financing Agreement will be amended as follows:

Current Provisions	Proposed Provisions
<p>2. The Recipient, through MOE and IBN, shall monitor and evaluate the progress of Parts 2 and 3 of the Project, and prepare Project Reports for such Parts of the Project in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators agreed with the Association.</p>	<p>2. The Recipient, through MOEWRI, IBN and WECS shall monitor and evaluate the progress of Parts 2, 3 and 4 of the Project, and prepare Project Reports for such Parts of the Project in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators agreed with the Association.</p>

(b) Withdrawal Table

24. The Table in Schedule 2, Section IV. Withdrawal of the Proceeds of the Financing, A. 2. of the Financing Agreement will be modified as follows:

Current Table:

Category	Amount of the Credit Allocated (expressed in SDR)	Amount of the Grant Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Part 1 of the Project: Goods, works, non-consulting services, and consultants' services	26,100,000		100%



(2) Part 2 of the Project: consultants' services, goods, <u>non-consulting services</u> , Training and Incremental Operating Costs		1,333,000	100%
(3) Part 3 of the Project: consultants' services, goods, <u>non-consulting services</u> , Training and Incremental Operating Costs		2,667,000	100%
TOTAL AMOUNT	26,100,000	4,000,000	

Proposed Table:

Category	Amount of the Credit Allocated (expressed in SDR)	Amount of the Grant Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Part 1 of the Project: Goods, works, non-consulting services, and consultants' services	26,100,000		100%
(2) Part 2 of the Project: consultants' services, goods, Training and Incremental Operating Costs		1,333,000	100%
(3) Part 3 of the Project: consultants' services, goods, Training and Incremental Operating Costs		<u>1,333,500</u>	100%
(4) <u>Part 4 of the Project: consultants' services, goods, Training and Incremental Operating Costs</u>		<u>1,333,500</u>	<u>100% on or after November 1, 2018</u>
TOTAL AMOUNT	26,100,000	4,000,000	



25. The definition of the term “Respective Part of the Project” in paragraph 32 of the Appendix will be amended as follows:

Current Provisions	Proposed Provisions
32. “Respective Part of the Project” means, with respect to KEL, Part 1 of the Project and, with respect to the Recipient, Parts 2 <u>and</u> 3 of the Project.	32. “Respective Part of the Project” means, with respect to KEL, Part 1 of the Project and, with respect to the Recipient, Parts 2, 3 <u>and</u> 4 of the Project.

26. The definition of the term “Training and Workshops” in paragraph 37 of the Appendix will be amended as follows:

Current Provisions	Proposed Provisions
37. “Training and Workshops” means the reasonable costs of training required for the participation of personnel involved in training, workshops and study tours under Parts 2 <u>and</u> 3 of the Project, including travel and subsistence costs for training, workshop and study tour participants, costs associated with securing the services of trainers, rental of training and workshop facilities, preparation and reproduction of training and workshop materials, and other costs directly related to training, workshop or study tour preparation and implementation, but excluding fees of consultants.”	37 “Training and Workshops” means the reasonable costs of training required for the participation of personnel involved in training, workshops and study tours under Parts 2, 3 <u>and</u> 4 of the Project, including travel and subsistence costs for training, workshop and study tour participants, costs associated with securing the services of trainers, rental of training and workshop facilities, preparation and reproductions of training and workshop materials and other costs directly related to training, workshop or study tour preparation and implementation, but excluding fees or consultants.

27. A new Paragraph 38 in the Appendix will be added as follows:

New Provision
38, "WECS" means the Recipient's Water and Energy Commission Secretariat, or any successor thereto.

I. SUMMARY OF CHANGES

	Changed	Not Changed
Implementing Agency	✓	



Results Framework	✓	
Components and Cost	✓	
Reallocation between Disbursement Categories	✓	
Institutional Arrangements	✓	
DDO Status		✓
Project's Development Objectives		✓
Loan Closing Date(s)		✓
Cancellations Proposed		✓
Disbursements Arrangements		✓
Disbursement Estimates		✓
Overall Risk Rating		✓
Safeguard Policies Triggered		✓
EA category		✓
Legal Covenants		✓
Financial Management		✓
Procurement		✓
Implementation Schedule		✓
Other Change(s)		✓
Economic and Financial Analysis		✓
Technical Analysis		✓
Social Analysis		✓
Environmental Analysis		✓

IV. DETAILED CHANGE(S)**IMPLEMENTING AGENCY**

Implementing Agency Name	Type	Action
Kabeli Energy Limited	Implementing Agency	No Change
Investment Board of Nepal	Implementing Agency	No Change
Ministry of Energy, Water Resources and Irrigation	Implementing Agency	No Change



Water and Energy Commission Secretariat	Implementing Agency	New
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COMPONENTS

Current Component Name	Current Cost (US\$M)	Action	Proposed Component Name	Proposed Cost (US\$M)
	0.00	New	Water and Energy Commission Secretariat (WECS)	2.00
Kabeli-A Hydroelectric Project (KAHEP) Component	102.08	No Change	Kabeli-A Hydroelectric Project (KAHEP) Component	102.08
Ministry of Energy (MOE) Component	2.00	No Change	Ministry of Energy (MOE) Component	2.00
Investment Board of Nepal (IBN)	4.00	Revised	Investment Board of Nepal (IBN)	2.00
TOTAL	108.08			108.08

REALLOCATION BETWEEN DISBURSEMENT CATEGORIES

	Current Allocation	Actuals + Committed	Proposed Allocation	Financing % (Type Total)	
				Current	Proposed
IDA-53380-001 Currency: XDR					
iLap Category Sequence No: 1					
	26,100,000.00	6,276,858.29	26,100,000.00	100.00	100.00
Total	26,100,000.00	6,276,858.29	26,100,000.00		

IDA-H9000-001 | Currency: XDR

iLap Category Sequence No: 2					
	1,333,000.00	215,764.60	1,333,000.00	100.00	100.00
iLap Category Sequence No: 3					



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	2,667,000.00	0.00	1,333,500.00	100.00	100.00
iLap Category Sequence No: 4					
	0.00	0.00	1,333,500.00		100
Total	4,000,000.00	215,764.60	4,000,000.00		



Results framework

COUNTRY: Nepal

Kabeli-A Hydro Electric Project

Project Development Objectives(s)

The project development objective is to increase hydropower generation capacity to supply NEA grid through public private investment.

Project Development Objective Indicators by Objectives/ Outcomes

Indicator Name	DLI	Baseline	End Target
To increase hydropower generation capacity to supply NEA grid through public private investment			
Generation Capacity of Hydropower constructed or rehabilitated under the project (Megawatt)		0.00	37.60
Generation Capacity of Hydropower constructed under the project (Megawatt)		0.00	37.60

Intermediate Results Indicators by Components

Indicator Name	DLI	Baseline	End Target
Kabeli-A Hydroelectric Project Component			
Public-private financing mobilized (Amount(USD))		0.00	102.00
Progress in construction of dam, tunnel and powerhouse (Percentage)		0.00	102.00



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Indicator Name	DLI	Baseline	End Target
Signing of HIDCL consortium agreement (Text)		Financing agreements	Financing agreements consisting of: 1. master security agreement 2. accounts agreement 3. inter creditor agreement.
Ministry of Energy, Water Resources and Irrigation Component (Action: This Component has been Revised)			
Guidelines for CIA (Text)		No guidelines	Adopted by GoN
Guidelines for Resettlement (Text)		No guidelines	Adopted by GoN
Investment Board of Nepal			
Number of PDA signed with private hydropower developers (Number)		0.00	3.00
Water and Energy Commission Secretariat Component (Action: This Component is New)			
Number of river basin plans, including hydropower master plan, prepared with an integrated water resource management (IWRM) approach (Number)		0.00	2.00
Action: This indicator is New			
Number of workshops on SESA and CIA conducted (Number)		0.00	2.00
Action: This indicator is New			

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