



The World Bank

Nepal: Power Sector Reform and Sustainable Hydropower Development (PSRSHD) (P150066)

REPORT NO.: RES41485

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RESTRUCTURING PAPER

ON A

PROPOSED PROJECT RESTRUCTURING

OF

NEPAL: POWER SECTOR REFORM AND SUSTAINABLE HYDROPOWER DEVELOPMENT (PSRSHD)

APPROVED ON SEPTEMBER 25, 2015

TO

NEPAL

ENERGY & EXTRACTIVES

SOUTH ASIA

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**I. BASIC DATA****Product Information**

Project ID P150066	Financing Instrument Investment Project Financing
Original EA Category Full Assessment (A)	Current EA Category Full Assessment (A)
Approval Date 25-Sep-2015	Current Closing Date 30-Jun-2020

Organizations

Borrower Nepal	Responsible Agency Nepal Electricity Authority, Water and Energy Commission Secretariat
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Project Development Objective (PDO)

Original PDO

The Project Development Objectives are to: (a) strengthen the capacity of the power sector agencies to plan and prepare hydropower and transmission line projects following international standards and best practices; and (b) improve the readiness of the power sector agencies for regulatory and institutional reforms.

Summary Status of Financing

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net		
					Commitment	Disbursed	Undisbursed
IDA-57280	25-Sep-2015	04-Feb-2016	02-Jun-2016	30-Jun-2020	20.00	6.78	13.10
TF-18570	25-Sep-2015	04-Feb-2016	02-Jun-2016	31-Dec-2019	.50	.50	0



Policy Waiver(s)

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

No

I. SUMMARY OF PROJECT STATUS AND PROPOSED CHANGES

Project Status:

1. The Power Sector Reform and Sustainable Hydropower Development Project (PSRSHDP, the “Project”) is financed by (a) IDA financing of US\$ 20.0 million in credit, (b) South Asia Water Initiative Phase 2 Multi-Donor Trust Fund (SAWI-P2 MDTF) of US\$ 0.5 million in grant, and (c) Government of Nepal (GoN) counterpart funding of US\$ 1.5 million. The Project was approved by the World Bank's Board of Directors on September 25, 2015 and came into effect on June 2, 2016.

The Project has three components:

- Component A: Preparation of Hydropower and Transmission Line Investment Projects;
- Component B: Studies and Preparation for Policy Recommendations and Sector Reform; and
- Component C: Capacity Building for Safeguard Management and Hydropower Development.

2. Significant progress has been made under all components of the Project. Some key achievements include: (i) the draft updated feasibility report of the Upper Arun Hydro Electric Project (1,040 MW); (ii) a business plan prepared and approved for Nepal Power Trading Company Limited; (iii) Nepal Electricity Authority (NEA) digitalization/information technology roadmap prepared; (iv) the Gender and Social Inclusion guideline (jointly prepared with ADB) adopted by the implementing agency NEA; and (v) the Project Team strengthened. In the latest Project Implementation Support Review (ISR) carried out in April 2020, the overall project implementation progress rating was upgraded to ‘Moderately Satisfactory’ and the overall progress towards achieving PDOs was retained as ‘Moderately Satisfactory’.

3. The progress under each component is as follows:

Component A Preparation of Hydropower and Transmission Line Investment Projects: The technical and Environmental and Social Impact Assessment (ESIA) studies for Upper Arun Hydro Electric Project (1,040 MW) are under way. The draft feasibility study report has been completed and is expected to be finalized upon the completion of additional geological investigations required at Powerhouse and Dam sites. The first draft of the ESIA report is expected by July 2020. Both studies have been significantly affected by COVID-19 with the main technical Consultant (CSPDR) based in Wuhan, China locked down since January 2020, followed by the lockdown in Nepal since March 24, 2020.

The feasibility study for the Priority Transmission Line Project is under way. The Consultant submitted the inception report in April 2020. For the companion ESIA study, the submission of proposals from shortlisted firms was due by the end of March 2020. However, due to the lockdown in Nepal, the submission date has been extended to June 17, 2020.

Component B Studies and Preparation for Policy Recommendations and Sector Reform: The Project has delivered the draft Water Resources Bill and Policy, the draft National Electricity Regulatory Act, the business plan for Power Trading Company Limited, the Gender and Social Inclusion Guidelines for NEA, the IT roadmap for NEA, and NEA institutional restructuring plan. Led by the Water and Energy Commission Secretariat (WECS), the preparation of the River Basin



Plans and Hydropower Master Plans for Nepal is well under way. The Consultant was expected to complete the draft Koshi basin plans by June 2020, the first of the seven basins covered by the study, but the progress has been affected by the COVID-19. The Study is facing a funding gap of \$3.4 million and the team is seeking additional financing from South Asia Water Initiative (SAWI) Trust Fund. On the asset inventory and valuation study, NEA has signed the contract and is expected to make it effective by end June 2020.

Component C Capacity Building for Safeguard Management and Hydropower Development: The Energy Sector Management Assistance Program (ESMAP)-funded safeguards capacity building program was initiated in April 2019 and focuses on (i) participatory institutional capacity assessment of NEA; (ii) capacity development of the NEA environmental and Social Department (ESSD) and other relevant staff in NEA; (iii) preparation of environmental and social policy guidelines; and (iv) design of a centralized grievance redress mechanism (GRM) system integrated with modern means of communications in NEA. The institutional capacity assessment for NEA has been completed in collaboration with Asian Development Bank (ADB). The training for ESSD and other NEA staff and design of a GRM system are under way.

Description of Proposed Changes:

4. The Team proposes to extend the closing date for 7 months, from June 30, 2020 to January 31, 2021. This is the first extension for the Project.

5. The Project has been instrumental in preparing the largest hydropower project Upper Arun and supporting power sector reforms in Nepal. These technical assistance activities are advancing large hydropower development in Nepal and ensure long-term sector sustainability through structural reforms. All but \$2.5 million project funds have been committed in contracts or are in advanced stage of procurement. However, several project activities require more time to complete due to factors beyond the control of the implementing agencies. The Project activities are seriously affected by the COVID-19 pandemic. Remoteness of the Upper Arun project site and the increase of the project size from the initial 335 MW to 1,040 MW based on the optimization analysis are other major factors that require extra time for data collection, site investigations, and stakeholder consultations. Other Project activities such as preparation of river basin plans and hydropower master plans, asset inventory and valuation study, training for ESSD and other NEA staff, and design of the GRM system also require more time for completion. In this regard, the Government of Nepal has requested an extension of 18 months in order to complete the planned activities.

7. The Project has no outstanding audit reports or issues.

II. DETAILED CHANGES

LOAN CLOSING DATE(S)

Ln/Cr/Tf	Status	Original Closing	Revised Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
IDA-57280	Effective	30-Jun-2020		31-Jan-2021	31-May-2021
TF-18570	Closed	30-Jun-2017	30-Jun-2018, 31-Dec-2019		



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