



**The World Bank**

Additional Financing for Nepal: Power Sector Reform and Sustainable Hydropower Development (PSRSHD)  
Project (P175306)

# Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 03-Dec-2020 | Report No: PIDISDSA30691

**BASIC INFORMATION****A. Basic Project Data**

|   |   |  |  |
|---|---|--|--|
| Country<br>Nepal  | Project ID<br>P175306                                   | Project Name<br>Additional Financing for<br>Nepal: Power Sector<br>Reform and Sustainable<br>Hydropower<br>Development (PSRSHD)<br>Project | Parent Project ID (if any)<br>P150066  |
| Parent Project Name<br>Nepal: Power Sector Reform and<br>Sustainable Hydropower<br>Development (PSRSHD) | Region<br>SOUTH ASIA                                    | Estimated Appraisal Date<br>29-Oct-2020  | Estimated Board Date<br>29-Jan-2021  |
| Practice Area (Lead)<br>Energy & Extractives  | Financing Instrument<br>Investment Project<br>Financing | Borrower(s)<br>Nepal   | Implementing Agency<br>Nepal Electricity<br>Authority, Water and<br>Energy Commission<br>Secretariat |

## Proposed Development Objective(s) Parent

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.

## Components

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

**PROJECT FINANCING DATA (US\$, Millions)****SUMMARY**

|                           |      |
|---------------------------|------|
| <b>Total Project Cost</b> | 1.00 |
| <b>Total Financing</b>    | 1.00 |
| <b>of which IBRD/IDA</b>  | 0.00 |



## The World Bank

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|               |      |
|---------------|------|
| Financing Gap | 0.00 |
|---------------|------|

### DETAILS

#### Non-World Bank Group Financing

|                                    |      |
|------------------------------------|------|
| Trust Funds                        | 1.00 |
| South Asia Water Initiative (SAWI) | 1.00 |

Environmental Assessment Category

A-Full Assessment

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

## **B. Introduction and Context**

1. The electricity sector is one of the key drivers to Nepal's economy. Improved electricity supply over the last two years correlates with the steady economic growth, reaching 7% in FY19. Conversely, perennial load shedding during 2008-2016, up to 16 hours a day at times, was estimated to incur an economic loss as high as \$1.6 billion per year (in 2016 prices). In addition, Nepal has an opportunity to earn revenues by exporting surplus hydropower to the South Asia region. Recognizing this, the government has set an ambitious target of installing 3 gigawatts (GW) of generation capacity in three years, 5 GW in five years, and 15 GW in 10 years.

2. After two decades of political instability and sectoral stagnation, the government, the first majority and elected under the new constitution, is committed to systematic reforms to strengthen the enabling environment for private and public sector investments and achieve reliable, affordable, sustainable energy services.

3. However, to realize the government's ambitious target against the current installed capacity of mere 1,200 MW, quadrupling the current investment in the energy sector is required. It is imperative to further advance sector reforms to address the constraints in sector governance, investment planning and project implementation, legal and regulatory framework, environmental and social safeguards management, sector financial viability and operational efficiency. For an elaboration of sectoral challenges and recommendations, please refer to Additional Information sheet.

4. To respond to these challenges, the World Bank has a growing portfolio in Nepal's energy sector covering sector reforms, large and medium hydropower development, transmission lines, solar power, as well as biogas and mini grid projects. The World Bank has established itself as a lead and trusted partner with the government in its multi-year sectoral reform programs through policy dialogue, programmatic DPC, IPF and ASA.

5. Endowed with rich hydropower resource, Nepal views hydropower development as the key opportunity for economic growth and human development, as from the recent consultations with the people at different level of society at various places across Nepal. While benefits from hydropower development, off-grid small hydro and on-grid large schemes, are expected in accessing modern energy services, generating revenues, creating jobs, spurring economic growth and improving quality of living, the macroeconomic impacts of large scale hydropower investments are yet to be clearly understood.

## **Sectoral and Institutional Context**

6. Hydropower has strong potential to be a driver for Nepal's inclusive economic development aspirations, and for regional climate benefits. Nepal's hydro generation potential is estimated to be more than 40,000 MW; to date, only 1,200 MW, less than one fortieth of this potential,

has been developed. Excellent resource potential can be converted into technically, economically and environmentally and socially sustainable investments that afford clean, affordable energy and significant climate benefits for Nepal and for the Region. As hydropower can be dispatched flexibly and compliments with the variability of solar and wind resources, the value of hydropower is only to increase as the region, especially India, scales up its variable renewable energy generation. Therefore, hydropower development in Nepal will serve to help integrate variable renewable power into the national and regional power systems.

7. Development of major energy and hydropower infrastructure will have spillover effects in human capital development in Nepal, including skill development, job creation, tourism attractions and financial market development. It will create more vocational and engineering/contract management jobs and increase the demand for upskilling training and education. It will also leverage regional economic development through improved access roads and infrastructure, new tourism attractions, and access of local products to large markets. It could help deepen local financial markets and access to foreign capital markets. Given large financial resource needs, there will be an impetus for Nepal to seek new financial products beyond straight debt from the banking sector that match the needs of hydropower assets.

8. The economics of exporting hydropower from Nepal to India and Bangladesh are compelling. Large hydrological flows in the wet season in Nepal, more than twice as much as those in the dry season, will produce a surplus of power that can help India and Bangladesh meet their (increasing) peak load demand in the hot summer months, driven by increased use of air conditioning and cooling storage. The complementarity has a strong foundation for regional electricity market which can bring about benefits for all participants.

9. Nepal has recently improved its financial health and supply efficacy through institutional and technical measures, as well as importing from India. Nepal has established a first-ever Electricity Regulatory commission (ERC) to ensure transparency, competition and accountability and a level-playing field for the public and private sector. The vertically integrated utility Nepal Electricity Authority (NEA) turned profitable for the first time in a decade in 2017 thanks to a Cabinet-approved financial restructuring, reduction in system losses, and increased sales, and has remained so ever since. It is expected to reach full cost recovery within five years in line with its long-term financial viability plan approved by its Board in 2018, also updated in 2020. Today, Nepal has effectively ended load-shedding thanks to loss reduction, demand management and increased transmission capacity for imports from India and can focus its efforts on pursuing hydropower development for the purposes of its own economic growth and regional market integration. The Nepal Development Update (World Bank, 2018) finds that improved electricity supply is one of the key factors for sustained GDP growth in FY2017 and FY2018.

10. **Government Strategy for the Short, Medium and Long Terms and Actions.** While GoN has been continuously promoting off-grid renewable energy development to expand access to energy services in rural areas, it is re-shaping and implementing a strategy for grid-side solutions to deal with the energy crisis in urban areas and, eventually, achieve the long-term power sector objectives. The strategy and actions are: (a) to reduce the load shedding in the short term, through rehabilitation of existing generation plants to increase supply, rehabilitation of distribution network to reduce system

losses, adding generation capacity that can be quickly installed (25 MWp grid- connected solar farm), issuing tax policy to support roof-top solar in urban areas, and launching a power sector reform to address key sector issues; (b) expand access to grid electricity services and reach supply-demand balance in the medium term, through grid extension, commissioning of hydropower under construction (about 1,077 MW) and the first 400 kV cross-border transmission line for power import from India (up to 1,000 MW); and (c) ensure universal access to sustainable, reliable and affordable electricity supply in Nepal potentials and integration into the South Asia regional power market. Aiming at the long-term target, several large-scale hydropower projects are under various stages of preparation.

11. **Rationale for World Bank Group Support.** In line with GoN objectives and strategy for the power sector, the World Bank Group (WBG) has both: (a) on-going projects supporting the immediate needs of increasing power supply through grid and off-grid solutions; and (b) a planned Hydropower Transformational Engagement Program, to address key power sector challenges at the sector level, and to facilitate financing and implementation at the project level:

- (a) at the sector level, WBG is supporting GoN, through a series of Development Policy Credit (DPC) operations, to implement key policy and reform actions to address key sector issues, in a phased approach.
- (b) at the project level, WBG will support preparation of priority projects in line with international standards to facilitate both public and private investments and to finance some of the projects.
- (c) Linkage between the Proposed Project and the Follow-on DPC: The proposed Project, through power sector project preparation and supervision support, contributes to the GoN's long term strategy of ensuring reliable, affordable, and sustainable supply to domestic demand, providing universal access to electricity, and generating revenue from hydro export. At the sector level, the proposed Project will inform the envisioned DPC operation and help the GoN systematically address challenges faced in hydropower and power sector development through key policy and reform actions and holistic plans for sector development.

12. **Other Development Partners' Support to Energy Sector Development.** WBG is working with the Asian Development Bank (ADB), Department for International Development (DfID) and other development partners jointly on transformation of the energy sector of Nepal, to develop off- grid renewable energy for expansion to electricity in rural areas, and develop its hydro potentials to meet the demand of grid electricity and to enhance regional integration. The Bank has supported Alternative Energy promotion Center (AEPC) in development of off-grid solutions through micro and small hydro, solar home systems, biogas, waste to energy and improved cook stoves to meet the energy needs of rural people together with ADB, DfID, Norwegian Government. The Bank and DfID jointly supported the IBN in review and negotiate the PDAs for the four export-oriented large hydropower projects, with the major outcome of PDAs signed for the Upper Karnali (900 MW) and Arun III (900 MW). The Bank, ADB and DfID jointly supported the policy dialogue and capacity building for regional integration, with the major outcomes of the PTA signed between India and Nepal. The Bank and ADB are supporting jointly distribution and rural electrification master planning, and development of a power trading strategy, and are in coordination with MCC and USAID on support to sector regulations and power trading capacity building.

13. **Institutions.** There are several power sector agencies responsible for policy formulation,

planning, implementation and regulation of the sector. Ministry of Energy, Water Resources and Irrigation (MoEWRI) is the apex energy agency, mainly responsible for sector policy formulation and regulation, overseeing planning, investment, and development of the power sector, as well as issuing licenses to the private sector for electricity generation, transmission, and distribution, including hydropower below 500 MW. Moreover, the Investment Board of Nepal (IBN), Department of Electricity Development (DoED), Water and Energy Commission Secretariat (WECS), Electricity Tariff Fixation Committee (ETFC), Nepal Electricity Authority (NEA) and Alternative Energy promotion Center (AEPC) are other agencies in the power sector. In addition, National Planning Commission also provides policy guidance to these agencies. However, these agencies sometimes have overlapping functions, unclear mandates or multiple roles.

### C. Proposed Development Objective(s)

#### Original PDO

The Project Development Objectives of the parent project 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.

#### Current PDO

The PDO of the Additional Financing remains unchanged.

#### Key Results

The Key Results of the Additional Financing remains unchanged.

### D. Project Description

14. The Additional Financing of US\$ 1.0 million will provide financing gap to the River Basin Planning Activities under Component B and C of the parent project. The components and activities under the parent project remain the same, including PDO, institutional arrangements and monitoring indicators.

The parent Project has the following components:

15. **Component A:** Preparation of Hydropower and Transmission Line Investment Projects. This component will support preparation of two hydropower projects, Upper Arun Hydroelectric Project (UAHEP, 1040 MW) and Ikhuwa Khola Hydropower Project (IKHP, 40 MW), as proposed by the GoN, and one priority high voltage transmission line project to be identified by the on-going Transmission System Master Planning supported under the on-going Nepal India Electricity Transmission and Trade Project (NIETTP), in line with international standards and the World Bank Safeguard Policies. This component will finance (a) the preparation of detailed engineering design and bid documents for the Upper Arun Hydropower Project and the Ikhuwa Khola Hydropower Project, including: (i) preparation of detailed engineering design and bid documents; (ii) conducting environmental and social impact assessments, including a cumulative impact assessment, and mitigation studies; and (iii) hiring the dam safety panel of experts and the environmental and social panel of experts; and (b) the undertaking of a feasibility study and the preparation of basic design, route survey, environmental and social impact assessment, and bid



documents for the planned transmission line project.

16. **Component B:** Studies and Preparation for Policy Recommendations and Sector Reform. This component will address critical power sector issues. It will support preparation, prioritization and sequencing recommendations for policy and reform actions, and build consensus and capacity for follow-on implementation under the planned DPC operations. It will support preparation of (a) river basin planning in an integrated water resource management (IWRM) approach for selected river basins; (b) recommendations for improvement of water resources management and regulations, including updating of the Water Resource Act and capacity building of WECS; (c) Power System Expansion Plan, including updating the Generation Master Plan (d) establishment and operationalizing of a power trading company; (e) NEA business restructuring for improved management and efficiency, including provision of computerized management tools to enhance the distribution business management, and conducting asset evaluation.

17. **Component C:** Capacity Building for Safeguard Management and Hydropower Development. The component will support improving the environmental and social safeguard management system in Nepal and associated capacity building, including:

- (a) Conducting Strategic Environment and Social Assessment (SESA) as part of the integrated river basin planning under Component B;
- (b) Preparation of recommendations for environmental and social regulations;
- (c) Safeguard capacity building for management of transmission line ROW issues; and
- (d) Project management.

## **E. Implementation**

### **Institutional and Implementation Arrangements**

18. In order to coordinate efforts and engagement with the Project counterparts and relevant line ministries the Project will support a high-level intra-agency committee and strengthen the capacity of Project Management Units (PMUs) at the activity level. This AF will support the Water and Energy Commission Secretariat to implement Component B (a) (b) and C (a) .

- (a) WECS for implementation of Component B.(a) (b) and C.(c);

19. WECS will set up a PMU consisting of a full/part time Project Manager, a Financial Management Specialist and a Procurement Specialist, supported by technical staffs of the various IAs. The PSC oversees and coordinates the PMUs of WECS and DoED for implementation of various activities under these components.

20. The IAs will also prepare annual reports by GoN fiscal year. The reports will cover: (a) status



and issues; (b) disbursement and financial statements; (c) status of key performance indicators and intermediate result indicators; and (d) updated implementation schedule (including key milestones, Procurement Plan and disbursement projections, and planned action plans for major project issues). A Project Completion Report will be prepared by IAs and submitted to the Bank no later than three months after the closing date.

#### **F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)**

The Project will support planning and technical design of critical hydropower generation and transmission line projects, replacing electricity meters at consumer premises with smart meters, conducting important technical and analytical studies in the hydropower sector, carrying out necessary policy dialogues with the government and implementing capacity-building activities to strengthen relevant government institutions for the energy sector. This Project itself will not have any direct adverse environmental and social safeguard impacts under its planned supporting activities. Nonetheless, the future infrastructure investments being prepared through the project under Component A may have significant environmental and social impacts. For these proposed investments, the detailed design, environmental and social studies will be carried out in accordance with applicable national environmental and social requirements (including laws, regulations and international conventions that Nepal has ratified), as well as World Bank safeguard policies. Under Component A, two proposed investment projects - UAHEP (1040 MW)) and IKHP (40 MW) – have been proposed to be prepared through the Project, as well as one additional priority transmission project to be identified through the on-going Transmission System Master Planning and agreed with NEA during project implementation. The UAHEP is a 1040 MW hydroelectric facility to be located on the Arun River in Sankhuasabha District of eastern Nepal. The proposed UAHEP is designed to be a Peaking Run of the River (PRoR) project with gated weir across the Arun River. The proposed IKHP site is meanwhile located on a tributary to the Arun River approximately 8 km downstream of the proposed UAHEP powerhouse site. The IKHP project is envisioned to provide a source of benefit sharing, with options under consideration including providing project shares to local communities, and also power supply to local communities. The physical location of the additional transmission investment project to be prepared under the project is not yet identified. The specific basins to be targeted by the integrated basin planning task under Component B, which will also include a Strategic Environment and Social Assessment (SESA), are likewise not yet identified. Other policy and sector level studies and activities under Components B and C will have national reach.

#### **G. Environmental and Social Safeguards Specialists on the Team**

Josefo Tuyor, Environmental Specialist  
Caroline Mary Sage, Social Specialist



Rekha Shreesh, Social Specialist  
Annu Rajbhandari, Environmental Specialist

## SAFEGUARD POLICIES THAT MIGHT APPLY

| Safeguard Policies   | Triggered? | Explanation (Optional) |
|--|------------|------------------------|
| Environmental Assessment OP/BP 4.01                            | Yes        |                        |
| Performance Standards for Private Sector Activities OP/BP 4.03 | No         |                        |
| Natural Habitats OP/BP 4.04                                    | Yes        |                        |
| Forests OP/BP 4.36   | Yes        |                        |
| Pest Management OP 4.09  | No         |                        |
| Physical Cultural Resources OP/BP 4.11                         | Yes        |                        |
| Indigenous Peoples OP/BP 4.10                                  | Yes        |                        |
| Involuntary Resettlement OP/BP 4.12                            | Yes        |                        |
| Safety of Dams OP/BP 4.37                                      | Yes        |                        |
| Projects on International Waterways OP/BP 7.50                 | Yes        |                        |
| Projects in Disputed Areas OP/BP 7.60                          | No         |                        |

## KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

### A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

The additional financing will only provide gap financing to the river basin planning studies under Component B and C of the parent project. There will be no new activities to be financed, no change in PDO nor in the institutional arrangements. That said, the risks and impacts assessed for the parent project remain unchanged. As of the latest implementation support mission carried out in November 2020, safeguard performance of the project is rated Moderately Satisfactory.

The parent Project is financing technical assistance and some goods and materials for capacity building and possible replacement of electricity meters at consumer premises with smart meters. Therefore, the project itself will not have any direct adverse environmental or social impacts.

However, activities supported under Component A of the Project is preparing the necessary preparatory studies and



documentation for the development of UAHP and IKHP, as well as an expected one additional hydropower project and two Transmission Lines. These specific investment projects would have adverse social and environmental impacts if and when they are implemented. Therefore, the project was assigned an EA category of A under OP 4.01.

For UAHP and IKHP specifically, since they have been identified during preparation of the proposed project, detailed TORs for the required environmental and social studies have already been developed as part of preparation of this Project. For these two proposed investments, environmental impacts would occur in the construction, operation and maintenance phases across numerous impact zones and influence areas, including locations in the upstream catchment area and the reservoir, the dam site, tunnel corridor and power plant location, a section of the Arun River immediately downstream of the dam that will experience significantly reduced flows, and the corridors of the transmission line and access roads. Impacted areas would also include the construction areas where workers would be camped, quarry areas, spoil disposal areas and construction equipment service areas. Temporary in-migration could cause HIV and workers could destroy vegetation for firewood. Given the mountainous nature of the terrain, erosion and sedimentation issues would need to be evaluated and managed in all areas during project construction, operation and maintenance, including ensuring slope areas are well protected and drained. Managing water quality in the reservoir and ensuring adequate Environmental / riparian flows are also issues to be evaluated and managed carefully. The baseline surveys conducted as part of the Upper Arun feasibility study and Environmental and Social Impact Assessment reveals that mostly primary forest exists in the project area, including along the tunnel, penstock and transmission line corridors and the power house area. Furthermore, the UAHP dam site borders the Makalu Barun National Park Buffer Zone. The ESIA is carefully analyzing/ studying impacts on natural habitats in accordance with Natural Habitats OP/BP 4.04. There is currently no information available on highly significant archaeological or other physical cultural resources (PCR). Impacts, if any on PCR are will be determined and covered as part of the Environmental and Social Impact Assessment (ESIA) for UAHP and IKHP, and if necessary the corresponding Environmental and Social management Plans (ESMPs). In any case, procedures will be specified in case chances finds of any archaeological and/or cultural significance occur during construction.

Meanwhile, under Components B and C, the proposed Project has been providing technical advice, guidance and recommendations to GoN on policy and planning aspects related to hydropower development, including specific aspects related to environmental and social assessment and management, and other aspects which may affect the potential environmental and social impacts and management approaches for future investments in the sector. Most notably, integrated basin planning processes is being supported for water resource management and hydropower development for select basins at a national scale under Component B. These planning processes will have implications for future development activities in the basins, with related environmental and social effects. The ToRs for these Plans, as well as inception and technical reports for the additional Basin study have been reviewed by the Bank. Meanwhile, technical guidelines and policy recommendations to be developed under Component C will influence how environmental and social aspects are managed at a sector level for future hydropower and transmission investments.

## 2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:

Long term and indirect environmental and social impacts from the development of the UAHP and IKHP are likely and may include: aquatic effects to the morphology of the channel of the Arun River immediately downstream of the dam sites, and from impacts associated with erosion and sedimentation in the catchment area and along the corridors of the access roads if these are left unmitigated as these would potentially open up access to forest areas in the Arun river watershed that were previously very difficult to access. Influx of workers and changes to livelihoods of the local population associated with the project may also increase pressures on forest resources, with indirect effects to biodiversity as well as catchment management and erosion/sedimentation.



3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.

The ESIA's being prepared and to be carried out for each specific investment being prepared through the Project will include a full alternatives analysis of siting, design, technology, construction methods, and operational aspects of each investment project.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.

The Environmental and Social Management Framework (ESMF) prepared by the GoN is the safeguards instrument for the proposed Project, consistent with OP4.01 requirements for TA projects. The ESMF sets out the approach to addressing safeguards aspects for the overall proposed Project and covers Components A, B and C. The ESMF sets out the approach to identifying and addressing potential social and environmental aspects, including, inter alia, the public consultation and communication strategy, and the institutional arrangements, also in compliance with the other triggered safeguards policies, which are the Natural Habitats OP4.04, Forests OP4.36, Physical Cultural Resources OP4.11, Indigenous Peoples OP4.10, Involuntary Resettlement OP4.12, Safety of Dams OP4.37 and Projects on International Waterways OP7.50. The ESMF also sets out the list and broad scope of studies and safeguards instruments to be prepared during the period of implementation of the proposed project to ensure compliance with all of these triggered policies.

For Component A, the ESMF specifies that all safeguards documents and studies financed under the proposed project will be prepared in compliance with WB standards and safeguard policies, as well as applicable policies and standards of the GoN. For UAHP and IKHP, specific TORs for the required environmental and social planning were prepared and consulted with key stakeholders during preparation of the parent project, and are annexed to the ESMF. NEA is also engaging an Environmental and Social Independent Panel of Experts for UAHP and IKHP in accordance with OP 4.01, as well as an Independent Panel for Experts for Dam Safety aspects in accordance with OP 4.37. As of the latest implementation support mission, the parent project is making good progress in implementing the ESMF. An international E & S Consulting firm has already been hired to carry out the ESIA, RAP, IPP and CIA. The Consultant is in the process of completing the ESIA for UAHEP and having submitted all draft chapters and has also submitted the draft RAP, IPP and CIA for UAHEP. The World Bank team has already reviewed and provided comments on all documents. The NEA team is reviewing various E&S mitigation and management strategies prior to disclosure of documents in order to ensure effective implementation. Stakeholder Engagement Plan (SEP) that lay out an inclusive process to be conducted throughout the project cycle has been publicly disclosed and widely disseminated at project site. One round of consultation has taken place at project area on the draft RAP. For FPIC process, National Federation of Indigenous Nations (NEFIN) has been hired as an independent facilitator. FPIC process has been initiated for the project and IPs from about 19 villages in the project area are expected to participate in the FPIC process. During the first round of consultations IP community stressed on the need to promote and preserve the religious and touristic places, need for studies of the religious places and biodiversity, need for special programs for indigenous peoples, scholarships for students, vocation and technical trainings for people from the project area, etc.

In addition, the E & S Consultant has been tasked with undertake a GAP analysis of the IKHP EIA - prepared by local consultants to GoN standards – to bring it up to international ESIA standards. A resettlement policy framework (RPF) is also being prepared for IKHP. The ESIA and other safeguard documents have to be adjusted to meet the requirements of the ESF. In addition, relevant guidance documents from IFC; notably Environmental Flows for Hydropower Projects, and Environmental Health, and Safety Approaches for Hydropower Projects will be considered while finalizing the E&S documents of these developments.

For Component B, a SESA is being carried out to assess the implications of the integrated water basin planning processes, and will make recommendations regarding (i) the strengthening of the institutional, regulatory and



decentralization framework, (ii) integration of the management of any environmental and social issues into subsequent planning decisions for the location and scale of energy investments, alternatives, mitigation measures and monitoring activities. The SESA will furthermore provide recommendations on consultations with local communities to establish the broad support for management of potential environmental and social impacts related to future energy investments in these basins.

#### Government institutional arrangements and capacity

The project overall is being implemented by a Project Steering Committee (PSC) chaired by the Energy Secretary. The role of the PSC is critical in orchestrating the various policy and reform recommendations under the various components of the Project, with support of the Bank.

The 3 components in turn each have a primary Implementing Agency. The implementing agency for Component A is the Nepal Electricity Authority (NEA). Under Component B, WECS is the primary implementing agency (IA) for basin wide river planning and the related SESA and NEA is the IA for power system expansion planning and operationalizing a power trading company, and under Component C, WECS is implementing the various institutional strengthening and policy activities. Each IA has set up a PMU consisting of a full/part time project Coordinator, a Financial Management Specialist and a procurement Specialist, supported by technical staffs of the two IA. The PSC oversees and coordinates the PMUs for implementation of various activities under the Project.

In terms of borrower capacity, NEA has good experience working with the World Bank on preparation of hydro power projects, most recently during the preparation of the Kabeli A and Kali Gandaki 'A' Hydropower Rehabilitation Projects which are currently under implementation. Furthermore, through the parent project, assistance is being provided to support capacity development within NEA specifically on environmental and social management aspects, and to ensure that stakeholder engagement and consultations carried out by government for the various activities are fully inclusive and appropriate to the diverse stakeholders so as to enable meaningful participatory consultation, in accordance with Bank policy requirements.

Ensuring that the NEA and WECS have clear responsibilities and TOR for the agreed work, and a strong information-sharing and consultation process in place throughout the project, will also mitigate this risk. These aspects are detailed in the ESMF and will be supervised by the Bank throughout the project.

#### 5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

Under Component A, for each investment being prepared under the parent Project, consultations on the environmental and social aspects of the investments is required with diverse stakeholders – including potentially affected peoples and communities, other local communities as well as NGOs, institutions, industry, academics and any others – at least twice, once at the TOR stage for each investment and once on the draft studies, in accordance with OP 4.01. However, following international good practice, the investment-specific studies to be commissioned will include a more comprehensive stakeholder engagement program. The ESMF specifies that each investment specific TOR shall include a requirement for a stakeholder identification and mapping process and development of stakeholder consultation plans for purposes of ensuring effective, inclusive, and culturally appropriate consultation and engagement throughout the course of study of each specific investment. In the case of UAHP and IKHP, the first formal consultation event was held on the initial draft TORs for the ESAs and social planning studies to be carried out for these investments as part of preparation of this TA project, and the TORs have been updated by NEA to reflect feedback received. NEA will establish a project-specific website, where information about the specific investments being prepared under the project (for now covering UAHP and IKHP) can be accessed. Draft and final reports will need to be disclosed locally, including executive summaries tailored to the language, level of literacy, as well as cultural



considerations for the local communities in each project affected area. For future investments, similar processes will be followed.

For Component B, with respect to the integrated basin planning activity, preparation of this project included an initial workshop in Kathmandu in September 2014 involving key stakeholders from across government and the donor community, as well as select key NGOs and academics. The workshop aimed to lay the initial groundwork for advancing integrated basin planning and management in Nepal at a national level by creating a mutual broad understanding of the key elements and components of such processes, stimulating consensus on the need for such an approach, exchanging information about current and planned donor supported activities in Nepal related to water resource management and planning, and identifying critical gaps or areas where more donor support would be helpful to advancing integrated basin planning. During implementation of the proposed project, this initial workshop will be built upon further with additional capacity building activities involving diverse stakeholders at the level of the specific basins to be targeted through the TA. The SESA that is being carried out in conjunction with the integrated river basin planning activity will furthermore require engagement with broad stakeholders, and will feed the recommendations and feedback of stakeholders on water resource management and hydropower development considerations within each basin into the basin planning processes. The program that is being supported through Component B furthermore aims to support WECS in developing a transparent digital platform for data and information sharing at a basin level, to facilitate better understanding of the interrelated effects of different water resource development activities within a basin on shared resources, and hence better decision making and collaborative management of water resources for both hydropower as well as other sector uses (in particular irrigation). All draft and final documents produced related to the integrated basin planning processes will furthermore be disclosed on the digital platform, and linked to from the project website.

For Component C, the specific studies to be supported related to key policy areas on environmental and social management will each require identification of relevant stakeholders to contribute to each, and engagement with them throughout the course of study. All draft and final studies will be disclosed.

For the overall project, the ESMF outlining the safeguards compliance strategy across all project components, and including the detailed TORs for environmental and social assessments for the UAHP and IKHP investments and ToRs for basin and SESA studies have been disclosed and consulted with project stakeholders by GoN prior to appraisal of the parent project

## **B. Disclosure Requirements (N.B. The sections below appear only if corresponding safeguard policy is triggered)**

### **Environmental Assessment/Audit/Management Plan/Other**

|                             |                                   |  |
|-----------------------------|-----------------------------------|--|
| Date of receipt by the Bank | Date of submission for disclosure | For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors |
|-----------------------------|-----------------------------------|--|

### **"In country" Disclosure**



**Resettlement Action Plan/Framework/Policy Process**

Date of receipt by the Bank

Date of submission for disclosure

**"In country" Disclosure**

**Indigenous Peoples Development Plan/Framework**

Date of receipt by the Bank

Date of submission for disclosure

**"In country" Disclosure**

**C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting) (N.B. The sections below appear only if corresponding safeguard policy is triggered)**



## The World Bank

Additional Financing for Nepal: Power Sector Reform and Sustainable Hydropower Development (PSRSHD)  
Project (P175306)

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## The World Bank

Additional Financing for Nepal: Power Sector Reform and Sustainable Hydropower Development (PSRSHD)  
Project (P175306)

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### APPROVAL

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| Task Team Leader(s): | Subodh Adhikari |
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#### Approved By

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| Practice Manager/Manager: | Gailius J. Draugelis | 18-Jan-2021 |
| Country Director:         | Lada Strelkova       | 21-Jan-2021 |