

DEVELOPMENT COORDINATION

A. Major Development Partners: Strategic Foci and Key Activities

1. The energy sector in Nepal receives substantial assistance. The Asian Development Bank (ADB), the Japan International Cooperation Agency (JICA), and the World Bank have been the major sources of external funding, focusing on reforms in generation, facility rehabilitation and improvement, and development of renewable energy resources. Bilateral development partners include Danish International Development Assistance; the Department for International Development of the United Kingdom; German development cooperation through Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and KfW; the Finnish Department for International Development Cooperation; JICA; the Kuwait Fund for Arab Economic Development; the Saudi Fund for Development; and the governments of the People's Republic of China, France, India, and Norway.

Major Development Partners: Energy Sector

Development Partner	Project Name	Duration	Amount (\$ million)
ADB	Project Preparation Facility	2013–2018	21.0
ADB	Tanahu Hydropower Project	2013–2020	150.0
JICA	Tanahu Hydropower Project	2013–2020	184.0
EIB	Tanahu Hydropower Project	2013–2020	70.0
World Bank	Kali Gandaki A Hydropower Plant Rehabilitation Project	2013–2017	27.3
Danida, Norway	National Rural Renewable Energy Program	2012	170.0
ADB	Transmission Expansion and Supply Improvement Project	2011–2017	75.0
World Bank	Nepal–India Electricity Transmission and Trade Project	2011–2016	138.0
World Bank	Kabeli Transmission Project	2011–2015	38.0
ADB	Energy Access and Efficiency Improvement Project	2009–2015	69.5
JICA and JBIC	Construction of Kawasoti Substation	2007–2008	8.7
World Bank	Village Micro Hydro	2007–2015	29.2 ^a
World Bank	Biogas Program	2006–2015	18.5 ^b
JICA and JBIC	Upgrading feasibility study on Upper Seti (Damauli) storage hydroelectric project	2004–2008	2.3
World Bank	Power Development Project	2003–2013	164.8
JICA and JBIC	Project for Extension and Reinforcement of Power Transmission and Distribution System	2001–2003	14.0
JICA and JBIC	Kulekhani Disaster Prevention Project	2000–2001	5.9
JICA and JBIC	Kali Gandaki A Hydroelectric Project	2000–2007	86.5
Danida	Kailali–Kanchanpur Rural Electrification Project	2000–2005	9.1
Danida	Energy Sector Assistance Programme	1999–2004	23.9
Norway	Khimti–Kholra Hydro Electric Project	1999	94.6
Norway	NEA Transmission and Distribution Project	1999	12.5
ADB	Rural Electrification, Distribution, and Transmission Project	1999–2005	60.0

ADB = Asian Development Bank, Danida = Danish International Development Assistance, EIB = European Investment Bank, JBIC = Japan Bank for International Cooperation, JICA = Japan International Cooperation Agency, NEA = Nepal Electricity Authority.

^a International Development Association commitments of \$9.4 million plus commitments through World Bank from Danida, United Nations Development Program, and Prototype Carbon Fund.

^b Commitments through World Bank from Government of Netherlands, KfW, and the Prototype Carbon Fund; no direct commitments from International Bank for Reconstruction and Development or International Development Association.

Sources: World Bank, Government of Japan, Danish International Development Agency, Government of Norway.

2. ADB has provided 15 loans for power development in Nepal including \$150 million to the Tanahu project, as well as 26 grants. After a gap in sector funding during 2000–2008, ADB approved a loan of \$69.5 million for the Energy Access and Efficiency Improvement Project in November 2009. The project supported the augmentation of transmission and distribution systems, generation rehabilitation, energy-efficient lighting, and solar or solar–wind street lighting. In 2011, ADB financed the Electricity Transmission Expansion and Supply Improvement Project (\$75 million). ADB's interventions have focused on a mix of generation, transmission, and distribution of hydropower. Most interventions by other development partners focused on small-scale hydropower generation, transmission, and distribution. Most of these efforts have produced useful and measurable results, but have not been enough to solve the prevailing power crisis. The \$150 million in support for the Tanahu Hydropower Project approved by ADB in 2013 will enable storage hydropower generation for domestic use. The government accords high priority to the project, which will make a critical contribution to mitigating the energy crisis. In 2013, ADB also financed the Project Preparatory Facility for Energy (\$21 million grant). The grant will support detailed feasibility studies and/or detailed engineering studies of selected storage-type hydropower projects and the second cross-border transmission line. The grant will also fund public–private sector project development services to facilitate private sector investment to develop a hydropower project with potential to export power to India.

B. Institutional Arrangements and Processes for Development Coordination

3. The Ministry of Finance coordinates assistance from the major development partners. The Ministry of Energy is responsible for coordinating on-grid energy programs, and the Alternative Energy Promotion Centre for off-grid energy programs. Development partner coordination is handled through the local energy sector coordination group chaired by ADB. Regular meetings of the coordination group provide the opportunity to exchange information and share implementation experience with various projects under different development partners. In addition, ADB and the other development partners hold bilateral meetings to discuss relevant issues and present a coherent view to the government.

4. ADB and the government of Norway cofinanced the Transmission Expansion and Supply Improvement Project, approved in 2011. ADB is administering the Norwegian funding. ADB and the European Investment Bank (EIB) are cofinancing the Tanahu Hydropower Project, approved in 2013. ADB has been collaborating with the Government of Norway and EIB on the conduct of due diligence for the proposed project through a series of joint missions. Both the Government of Norway and EIB expressed their keen interest in cofinancing the project. The partnership approach of the development partners will also provide a clear message of international support for the project, in addition to sharing risks and complying with international best practices.

C. Achievements and Issues

5. To date, ADB has provided over \$680.6 million of investment assistance and about \$20 million of technical assistance to Nepal's energy sector. ADB has coordinated development partner interactions and helped bilateral sources to channel their assistance, minimizing the potential for overlapping assistance and conflicting policy advice. As a result, the development partners and ADB, in particular, have been able to contribute to the achievement of reasonable progress on policy, regulatory, and operating aspects of the sector. Some key examples are the reconstitution of the disbanded Electricity Tariff Fixation Commission and selection of the managing director of the Nepal Electricity Authority through open competition. Such coordination has led to collaboration between ADB, EIB, and the Government of Norway in

support of the development of large hydropower, in which EIB and the Government of Norway have committed to cofinancing ADB projects.

D. Summary and Recommendations

6. The government needs to ensure completion of the transmission master plan in coordination with generation expansion planning, and plans to commission a distribution system master plan to address a nationwide electrification strategy. A comprehensive cross-border power-trading agreement is needed to facilitate near-term imports and future exports of power. The government also needs to continue its progress on improving sector governance by establishing a full-fledged regulator with adequate powers, covering both economic and technical regulation in the sector, as a priority. Development partners can coordinate their efforts in this regard by ensuring it is a regular item in their policy dialogue with the government, and by providing coordinated assistance to such a regulator.