

Template for Project/Program Preparation Grant Request¹

SREP PROGRAM			
Project/Program Preparation Grant Request ²			
1. Country/Region:	Nepal / Asia	2. CIF Project ID#:	XSRENPO22B
3. Project Title:	ADB SREP Project		
4. Tentative SREP Funding Request (in US million total) for Project³ at the time of Investment Plan submission (concept stage):	<i>Grant:</i> \$12 million total	<i>Loan:</i>	
5. Preparation Grant Request (in USD):	\$580,000	<i>MDB:</i> Asian Development Bank	
6. National Project Focal Point:	Ministry of Environment Krishna Gyawali, Secretary		
7. National Implementing Agency (project/program):	Alternative Energy Promotion Center Dr. Govind Raj Pokharel, Executive Director		
8. MDB SREP Focal Point and Project/Program Task Team Leader (TTL):	<i>Headquarters-SREP Focal Point: Jivan Acharya,</i> jacharya@adb.org	<i>TTL: Ms. Hongwei Zhang</i> 632-632-5997, hwzhang@adb.org <i>Alternate: Mr. Zhang Lei</i> 632-683-1724, zlei@adb.org	
9. Description of activities covered by the preparation grant:			
<p>Nepal is presently facing an energy crisis of unprecedented proportions. As of 2010, total installed electricity generating capacity of 706 megawatts (MW) was adequate to meet only about 50% of the demand at the peak-load period during the winter months, resulting in load shedding of average 12 hours per day during the year. About 56% of the population has access to electricity – including existing off-grid solutions. Given the mountainous geographic nature of Nepal, low population density in rural areas and scattered households across the country, renewable energy (RE)⁴ development is ranked as a priority program of the Government of Nepal (GoN), which provides a least-cost solution to remote, sparsely populated areas unviable for grid extension, while being clean, safe, and environmentally friendly.</p> <p>The GoN has set goals towards addressing the energy crisis – namely, increasing the share of modern RE from less than 1% to 10% of the total energy supply, and to increase the access to electricity from RE sources from 10% to 30% within the next 20 years. The GoN has enacted relevant policies and plans⁵ to attract private sector participation, and set up other enabling measures including targeted subsidies and funding mechanisms, tax and duty concessions, and</p>			

¹ To be annexed to the Investment Plan.

² A separate template needs to be presented for each project and program preparation grant request listed in the Investment Plan.

³ Including the preparation grant request.

⁴ Renewable energy includes small hydropower (1-10MW), mini-micro hydropower (5Kw-1MW), and pico hydropower (less than 5Kw), solar, wind, biogas and biomass which are available and abundant in Nepal.

⁵ Rural Energy Policy 2006; Subsidy Policy for Renewable (Rural) Energy, 2009; Renewable (Rural) Energy Subsidy Delivery Mechanism 2010; and Delivery Mechanism of Additional Financial Support to Micro/Mini Hydro project 2011.

exemption of mini, micro and pico hydro projects from royalties and licensing requirements.

As envisioned in the SREP Investment Plan for Nepal, access to energy constraints in rural / off-grid areas will be addressed by leveraging SREP funding with ADB and other donor funds to expand investment in mini-micro hydropower (MMH) and solar home systems (SHS). The proposed ADB SREP Project will support development of off-grid, mini-micro renewable energy via 2 investment components: (i) MMH installations with aggregate capacity of 30MW, and (ii) SHS servicing up to 500,000 households.

The project preparation grant is needed for conducting technical, economic, financial and social due diligence for the proposed investment Project. The major activities of the preparation grant are technical, financial, economic, environmental, and social due diligence for off-grid renewable energy systems, as follows:

- (i) **Technical.** In-depth technical assessment on sample subprojects will be conducted, and selection criteria for subsequent subprojects will be prepared.
- (ii) **Economic and financial.** Economic and financial viability and sustainability of the sample subprojects will be assessed following ADB guidelines for investment projects. Financial sector development in Nepal will be also assessed with identification of major issues in relation to the Project. A demand assessment will be carried out to determine the pipeline of viable MMH and SHS projects that potentially can be funded under the Project. Eligibility criteria will be defined for the selection of subprojects to be financed under the Project.
- (iii) **Governance.** AEPC has been working with several international funding agencies on grant based projects. ADB has worked with MoEnv in recent years. Assessment of financial management, procurement, anticorruption, policy and legal, capacity, and other institutional issues and mechanisms of the EA/IA will be carried out. Selection criteria in governance aspect for candidate partner financial institutions (PFIs) and sub borrowers will be prepared.
- (iv) **Poverty, social and gender.** Identification of issues and practices related to pro-poor and gender-inclusive access to energy resources and services and possible options for incorporation in the project design will be undertaken.
- (v) **Private Sector Participation.** The intention and extent of private sector to invest in the project will be assessed.
- (vi) **Safeguards.** According to the preliminary assessment, none of the project subprojects are expected to have major social and environmental impacts given the small scale of individual installations. An Initial Environmental Examination (IEE) or Environmental Impact Assessments (EIA) including an Environmental Management Plan (EMP) and a Resettlement Plan for sample subprojects will be prepared as required under ADB *Safeguard Policy Statement 2009* and Nepali regulatory requirements.

10. Outputs:

Deliverable	Timeline
Energy sector assessment and implementation roadmap	Month 1
Procurement and implementation capacity assessment of EA/IA	Month 1
Economic and Financial due diligence report	Month 2
Environmental Management Plan, Resettlement Plan, Gender Action Plan	Month 2

[Deliverables will be revised and updated going forward to ADB Board Approval]	[Month 3 and onward]
11. Budget (indicative):	
Expenditures⁶	Amount (USD) – estimates
Consultants	\$402,000
Equipment	0
Workshops/seminars	\$10,000
Travel/transportation	\$80,000
Others (admin costs/operational costs)	\$35,000
Contingencies (max. 10%)	\$53,000
Total Cost	\$580,000
Other contributions:	
• Government	Staff and logistical support (in-kind)
• MDB	Professional and administrative staff
• Private Sector	[no direct inputs during preparation]
• Others (please specify)	
12. Timeframe (tentative)⁷	
Submission of Project Preparation Grant Request to SREP Sub-Committee: 7 May 2012 Expected Concept Paper/PPTA approval by ADB Management: 31 May 2012	
13. Other Partners involved in project design and implementation⁸:	
Ministry of Environment and AEPC are taking the lead in project design and implementation. Ministry of Energy, Ministry of Local Development, National Planning Commission, and Ministry of Finance have been involved in SREP project design discussions. Rural / renewable energy service companies and equipment suppliers/vendors have also been engaged in ongoing dialogue for project design.	
14. If applicable, explanation for why the grant is MDB executed:	
Standard ADB Procedure (ADB executes all such grants to its developing member countries)	

⁶ These expenditure categories may be adjusted during project preparation according to emerging needs.

⁷ In some cases activities will not require MDB Board approval.

⁸ Other local, national and international partners expected to be involved in design and implementation of the project.

15. Implementation Arrangements (incl. procurement of goods and services):

Ministry of Environment (MoEnv) will be the Executing Agency (EA), and AEPC may be the Implementing Agency (IA) for the Project. A Project Management Unit (PMU) will be established to monitor the screening and selection of subprojects and for day-to-day implementation of the Project. The PMU will be staffed with existing staff from AEPC and/or designated staff from MoEnv as necessary.

A total of 37 person months of consultancy services requiring 4 international and 6 national consultants will be required to prepare the project. ADB will recruit the consultants in accordance with its *Guidelines on the Use of Consultants* (2010, as amended from time to time). It is proposed to recruit the consultants as individuals. To expedite project processing, advanced contracting procedures are proposed to be adopted, so that the consultants can be on board soon after the PPTA is effective. Consulting services required are summarized below.

International Name of Positions	Person- months	National Name of Positions	Person- months
Renewable Energy Specialist	5	Renewable Energy Specialist	5
Legal Specialist	2	Hydropower Engineer	3
Financial Specialist	3	Economist	4
Environment Specialist	3	Social safeguard Specialist	4
		Environment Specialist	4
		Poverty Gender Specialist	4