

Program for Scaling Up Renewable Energy in Nepal (SREP-Nepal)

Terms of Reference for the
Joint Programming Mission

Proposed dates: 4 – 11 July 2011



EXECUTIVE SUMMARY

Objectives of the Joint Mission

The main objective of the Nepal SREP Joint Mission is to collaborate with the government of Nepal in developing its investment plan. The main outputs of the joint programming mission will be (i) completion of a consultation process engaging key stakeholders in the design of SREP support to Nepal, (ii) initial draft SREP investment plan document, and (iii) an Aide Memoire including the agreed next steps for SREP in Nepal.

Dates of the Mission

The proposed dates for the Joint Mission are from 4 to 11 July, 2011. The mission will be led by GoN.

Government Contacts

The Joint Mission will be led by GoN through the SREP Steering Committee and SREP National Focal Points. Contact details for the Government and all mission members are included in these Terms of Reference. Government of Nepal has nominated the Alternative Energy Promotion Center (AEPC) as the lead agency to deal with SREP related activities.

Activities undertaken before the Joint Mission

Various activities before joint mission conducted by GoN with support from the MDBs include:

- i. A Scoping Mission was conducted by the joint MDB team from February 3-8, 2011 to identify key development partners, undertake stock taking of existing activities and documentation available on a range of analytical, strategic and programming activities related to renewable energy in Nepal. The mission also agreed with the Government of Nepal on timetable and financial and human resources required to prepare the investment plan and on the draft term of reference for the joint mission to initiate preparation of the investment plan.
- ii. An advance preparation grant request for \$375,000 for SREP Phase 1 (IP preparation) activities was submitted and approved by the MDB Committee;
- iii. The process for hiring of consultants for preparation of Investment Plan is currently underway.
- iv. The identification of key development partners and other stakeholders to be consulted during the IP preparation process prior to the proposed Joint Mission dates.
- v. Preparation of background materials through the grant and other means to enable effective conduct of the joint mission.

Activities to be undertaken during the Joint Mission

During the mission, GoN and MDB priorities, links between SREP and other initiatives (including parallel/complementary investments by MDBs and other co-financiers) and the strategic role of the proposed SREP investments will be identified and agreed among government and all other partners. This exercise will be carried out in a participatory and consultative manner, so that all key stakeholders will have an opportunity to share their views on how best the SREP resources can be used to support the government's plans for scaling up RE programs in the country.

An early draft of IP will also be developed and the next steps will be identified, planned and documented during the joint mission.

Expected results and outcomes

The main deliverables to be expected at the completion of the Joint Mission are:

- i. An Aide Memoire describing the process, key findings and recommendations of the Joint Mission
- ii. An early draft SREP IP for Nepal for further consultations with relevant stakeholders.
- iii. an Aide Memoire including the agreed next steps for SREP in Nepal.

It is understood that the IP should meet as many criteria as possible from the ones listed in the Annex 1.

CONTEXT OF THE MISSION

1. The Climate Investment Funds (CIF) was established in 2008 with the goal of promoting international cooperation on climate change issues, and supporting the mitigation and adaptation efforts of low income countries. Scaling Up Renewable Energy in Low Income Countries Program (SREP) was developed under the CIF umbrella that was approved in 2009 to demonstrate the social, economic, and environmental viability of low carbon development pathways in the energy sector. It seeks to create new economic opportunities and increase energy access through the production and use of renewable energy.
2. Nepal was selected by the SREP Subcommittee to be a pilot country under the program primarily due to the past efforts made by the Government of Nepal (GoN) to promote access to energy through renewable energy projects and reduce carbon emissions, vulnerability of the country to the effects of climate change, the scale of impact achievable by moderate funding, and strong private sector participation in the energy sector among others. The SREP sub-committee agreed on an indicative allocation of up to \$40 million for Nepal, which is expected to have leverage investment ratio of 1:5.
3. SREP will support investments to scale-up renewable energy generation in the Nepal, and facilitate the development of the country's sustainable energy agenda. The Nepal engagement in SREP activities is expected to result in:
 - Development of a clean energy IP for the first five years that would help the Nepal scale up RE investments
 - Improved investment climate for private sector participation in the energy sector;
 - Enhanced legal and regulatory frameworks in the energy sector;
 - Increased access to energy while maximizing the social, environmental and gender benefits.
4. The Asian Development Bank (ADB) is also currently working with GoN in strengthening the energy regulatory sector, and on several renewable energy initiatives in the Nepal. ADB supported Asia Solar Energy Forum has been facilitating knowledge exchange between the Nepal sector agencies and international utilities, governments, and the private sector since 2010.
5. The World Bank funded Power Development Project (PDF) which includes a component for Micro-hydro Village Electrification Program (MHVEP) is currently under implementation. The same project also had a component for promoting private sector led small and medium hydropower projects through the Power Development Fund. However, due to lack of up-take of funds from this component, the same was restructured and funds were reallocated to grid-connected transmission and

distribution strengthening as well as additional micro-hydro projects. The project would be closing in December 2012.

PREPARATORY ACTIVITIES

6. Since Nepal was selected as a pilot country for the SREP, the Government supported by the MDBs has undertaken a number of preparatory activities including: (i) Joint MDB team dialogue with GoN on SREP commencement, (ii) the creation of a Steering Committee under the leadership of the Ministry of Environment, to expedite, coordinate and support SREP engagement, (iii) a stocktaking exercise, and (iv) a Scoping Mission including consultations with national stakeholders.
7. The Ministry of Environment has designated the Alternative Energy Promotion Center (AEPCC) as the lead agency for SREP engagement to deal with SREP-related activities under the guidance of the Steering Committee. GoN has appointed the Ministry of finance and the Ministry of Environment as the focal points for SREP engagement.
8. The area of engagement under SREP in Nepal is divided into two groups: (i) micro and mini energy initiatives and (ii) small hydropower projects.
9. The capacity development and advisory services are likely to be in two forms: (i) capacity development specific to the two broad areas identified in the SREP engagement and (ii) general capacity development activities within AEPCC and other relevant institutions to ensure long term sustainability of the renewable energy sector.
10. From February 3-8, 2011 Asian Development Bank (ADB) and the World Bank Group (WBG) participated in a Scoping Mission led by GoN. The objectives of the Scoping Mission were to:
 - Identify key development partners and other stakeholders who should be consulted in the course of preparation of the IP;
 - To facilitate in the identification of potential SREP co-financiers;
 - Undertake a stocktaking of existing activities and documentation available on a range of analytical, strategic and programming activities related to renewable energy;
 - Agree on a timetable as well as financial and human resources required to prepare the IP;
 - Agree on the outline of the IP.
11. During the Scoping Mission preliminary consultations were held with government agencies, private sector, and local lending institutions to explore the barriers to renewable energy development in Nepal, and approaches for leveraging SREP funds to address these barriers. Lack of consumer awareness, a weak regulatory system, absence of favorable government policies, lack of access to long term financing, weak capacity within the utilities, and lack of long term renewable resource data were reported as the key impediments.
12. Following the completion of the Scoping mission, GoN and the MDBs agreed on the following actions prior to the Joint Mission:
 - The stocktaking exercise that started during the scoping mission would continue and be completed during the Joint mission to provide basis for the development of the IP, and to finalize the Terms of Reference (TOR) for preparing the IP;
 - Preliminary identification and characterization of a set of priority investments and technical assistance to be considered in the IP by GoN;

- Submission of a preparatory grant request for SREP Phase 1 activities by GoN; the funds will be channeled through the Asian Development Bank.
 - Initiation of the engagement of consultants to assist GoN in the development of the SREP IP.
13. The Government indicated its intention to formally submit its SREP IP for approval at the SREP sub-committee meeting in October/November 2011. The following timetable was agreed upon to ensure the timely submission of the IP:
- *By June, 2011:* Commence preparation of SREP IP by GoN with support from consultants
 - *Early July 2011:* Conduct Joint Mission to review on-going IP preparation
 - *By mid-August, 2011:* Publication of SREP IP for public consultations and submission for formal review by MDBs and an external reviewer
 - *By mid September, 2011:* Finalize SREP IP on the basis of comments received from the public consultations
 - *September/October, 2011:* Submission of SREP IP to CIF Administrative Unit
14. GoN and the MDBs continued working in close consultation post Scoping Mission primarily to complete the stocktaking exercise, and the TORs for the Joint Mission and the consultant to assist GoN in developing the IP. The preparatory grant for \$375,500 has been approved by the MDB committee. The grant is intended to assist GoN with the preparation of the SREP IP. The process for hiring of consultants for preparation of the SREP IP is now underway.

JOINT MISSION ACTIVITIES

15. On the basis of the preparatory activities carried out during the past few months, the Government and the MDBs have agreed on having a Joint Mission that could support the AEPC/GoN in elaborating and finalizing the IP. The main objective of the Nepal SREP Joint Mission is to collaborate with the government of Nepal in developing its investment plan
16. The main outputs of the joint programming mission will be (i) completion of a consultation process engaging key stakeholders in the design of SREP support to Nepal, (ii) outline of SREP investment plan document, and (iii) an Aide Memoire including the agreed next steps for SREP in Nepal.
17. The joint mission will also develop and firm up plans for capacity building for relevant sectors and stakeholders including potential investors interested in the two areas of engagement for Nepal under SREP

Consultations with the Stakeholders

18. During the Joint Mission, consultations with key stakeholders will be held in Kathmandu. This includes national institutions / authorities, development partners, NGOs and civil society organizations, local communities and the private sector. The MDBs will work with the Government to ensure that it has a good understanding of the need to get the private sector involved in the program.
19. The preliminary consultations with stakeholders was initiated during the Scoping Mission organized in February, 2011 with the aim to strengthen national ownership of the SREP, mobilize co-financing for SREP investments, harmonize support to public policies and promote complementarity with ongoing or planned climate change and energy activities in Nepal. The consultation meetings and

workshops to be organized during the Joint Mission will identify concrete opportunities for investment that can lead to large-scale deployment of renewable energy technologies.

20. Bilateral and multilateral partners will also be involved in the mission to provide inputs to the IP, contribute to the discussions on the investment priorities, and assess the opportunities for potential co-financing among other activities.
21. The Joint Mission will conclude the stakeholder consultations through meetings (group or bilateral) or as part of a workshop.

Support to GoN with preparing the IP:

22. GoN will prepare the IP with assistance from the MDBs. The MDBs staff and members of the concerned agencies (with support from consultants) will work together to review the draft IP, in parallel with other mission activities. The IP will be finalized following the mission by the same group with assistance from additional MDB specialists or consultants as needed.
23. In accordance with the SREP "programming guidelines", the IP will consist of the sections mentioned in Annex 2.

COMPOSITION OF THE MISSION

24. The mission will consist of MDB SREP focal points, renewable energy experts from the three MDBs, and consultants supporting GoN with SREP Phase 1 activities. The assessment of country readiness and the availabilities of the experts participating in the Joint Mission will be assessed in the weeks prior to the mission to ensure adequate technical assistance to GoN. In addition, the mission will be based on the broad participation of national and international stakeholders. Other bilateral UN Agencies will be closely associated to the mission. This broad participation is designed to ensure ownership of the program and support its implementation by the Government, national stakeholders and development partners.

MISSION CALENDAR

25. The proposed set of meetings during the Joint Mission is provided below. The Mission calendar is a work in progress and will be finalized prior to the Joint Mission dates.
- 26.

Day	Forenoon Session	Afternoon Session
July 4, 2011 (Monday)	<ul style="list-style-type: none"> • Meetings with Ministries of Environment, and Finance 	<ul style="list-style-type: none"> • Meeting with IP Consultants
July 5, 2011 (Tuesday)	<ul style="list-style-type: none"> • Meeting with AEPC (Lead Agency) 	<ul style="list-style-type: none"> • Meeting with SREP Steering Committee
July 6, 2011 (Wednesday)	<ul style="list-style-type: none"> • Meeting with Ministry of Energy, NEA and Department of Electricity Development 	<ul style="list-style-type: none"> • Meetings with Banks • Meeting with Industry Associations
July 7, 2011 (Thursday)	<ul style="list-style-type: none"> • Working Meetings with AEPC and IP Consultants 	<ul style="list-style-type: none"> • Meetings with Other Donors
July 8, 2011 (Friday)	<ul style="list-style-type: none"> • Consultation workshop – small 	<ul style="list-style-type: none"> • Consultation workshop – micro

July 9, 2011 (Saturday)	hydro <ul style="list-style-type: none"> • Government Holiday • Mission Team Internal Meetings 	initiatives <ul style="list-style-type: none"> • Government Holiday • Mission Team Internal Meetings
July 10, 2011 (Sunday)	<ul style="list-style-type: none"> • Additional Meetings 	<ul style="list-style-type: none"> • Wrap-up Discussions with AEPC • Briefings to Ministries of Energy, Finance, Environment and National Planning Commission
July 11, 2011 (Monday)	<ul style="list-style-type: none"> • Wrap-up Meeting with Ministry of Finance and Ministry of Environment 	<ul style="list-style-type: none"> • MDB team meetings/consultants • Departure

MAIN CONTACTS (MDB and Government)

Government

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Annex 1: Criteria for the Sub-Committee to Assess the Investment Plan

- a) **Increased installed capacity from renewable energy sources:** A high priority for most low income countries is expanding their generation capacity in order to ramp up modern energy use and energy access. Therefore, SREP-funded investments should result in increased MW from renewable energy, as well as increased energy (GWh) per capita in the country.
- b) **Increased access to energy through renewable energy sources:** SREP may support grid extensions and decentralized energy systems with a view to expanding the percentage of the population with access to non-fossil-fueled electricity. Investment proposals should demonstrate how the investments are part of the Government's long term commitment to increasing energy access.
- c) **Low Emission Development:** SREP may support the use of renewable energy technologies for electricity generation and services to replace fossil fuel technologies that would be deployed in a business-as-usual scenario aimed at substantially increasing commercial energy use in low income countries. In particular, benefits from SREP investments will often arise from “leap-frogging” technologies, in which low income countries will be assisted to mainstream renewable energy technologies into the overall energy system.
- d) **Affordability and competitiveness of renewable sources:** Affordability is essential for increasing access and for ensuring the long term renewable energy market development. SREP funding should address clearly-defined cost barriers to adoption of renewable energy technologies, such as connection costs for rural consumers, higher capital costs of new technologies, transmission costs related to grid-connected renewables, and risk adjusted rates of return sought by investors.
- e) **Productive use of energy:** SREP programs should promote the generation and productive use of energy.
- f) **Economic, social and environmental development impact:** Investment proposals for SREP financing should demonstrate the generation of economic, social and environmental benefits.
- g) **Economic and financial viability:** Investment proposals should demonstrate the economic viability of investments and the financial viability with the inclusion of time bound SREP resources.
- h) **Leveraging of additional resources:** Activities should maximize the leverage of funds from other partners.
- i) **Gender:** SREP investments should seek to strengthen the capacity of women to be active participants in the economic sector and avoid negative impacts on women.
- j) **Co-benefits of renewable energy scale-up:** SREP investments should include decreased air pollutants from energy production and consumption as well as the potential to reduce stress on forest resources. Investments and activities should elaborate on the potential positive effects on air quality and natural resource management through the adoption of renewable energy technologies.

Annex 2: Preliminary Stakeholder Consultation List (Not Exhaustive)

National Institutions:

- National Planning Commission
- Ministry of Environment
- Ministry of Finance
- Ministry of Energy
- Alternative Energy Promotion Center
- Nepal Electricity Authority
- Department of Electricity Development

Private Sector Organisations:

- Confederation of Nepalese Industries
- Federation of Nepalese Chambers of Commerce and Industry
- Independent Power producers' Association Nepal
- Clean Energy development Bank
- Kumari Bank Limited
- Nepal Investment Bank Limited
- Nepal Bangladesh Bank Limited
- NIC Bank
- Winrock International
- Rural Energy Technology Associations (mini and micro hydro, solar, biogas)

Development Partners (other than MDBs):

- United Nations Agencies
- United States Agency for International Development (USAID)
- Department of International Development, UK (DFID)
- Royal Norwegian Embassy
- Embassy of Finland
- Swiss Development Agency
- Australian embassy
- Danish embassy
- German International Cooperation Agency (GIZ)
- Energy Sector Assistance Program (ESAP)
- KfW
- Korea International Cooperation Agency (KOICA)
- SNV
- Japan International Cooperation Agency (JICA)

Annex 3: Suggested Structure for the Investment Plan

I. Proposal Summary (2 pages)

- Objectives
- Expected outcomes
- Program criteria, priorities and budget

II. Country Context (3-4 pages)

- Energy sector description (market structure, demand supply, and dispatch composition, electricity cost and pricing) incl. renewable energy status
- Gap/barrier analysis; needs assessment

III. Renewable Energy Sector Context (3-4 pages)

- Analysis of renewable energy options (technology, cost, mitigation potential, barriers)
- Government plans or strategy for the sector (willingness to move towards renewable energy investments, existing or envisioned policy, regulation, plans, and resource allocation)
- Institutional structure and capacity (technical, operational, financial, equipment supply, information)
- Role of private sector and leverage of resources
- Ongoing/planned investment by other development partners

IV. Contribution to National Energy Roadmap (2 pages)

- Likely development impacts and co-benefits of SREP investment
- How SREP investment will initiate a process leading towards transformational low carbon growth

V. Program Description (6-8 pages)

- Capacity building and advisory services
- Investment preparation activities
- Technology deployment investments
- Parallel activities to be funded by other development partners
- Environmental, social and gender co-benefits

VI. Financing Plan and Instruments (3-4 pages)

- Budget envelop for investments
- Costs and sources of funding
- SREP assistance (grant, concessional debt, etc.)
- Recipients of funding

VII. Additional Development Activities (2-3 pages)

- Leverage complementary co-financing with other development partners such as bilaterals, private sector, and financial institutions

VIII. Implementation Potential with Risk Assessment (2 pages)

- Country/regional risks - institutional, technology, environmental, social, financial
- Absorptive capacity for SREP and leveraged resources

IX. Monitoring and Evaluation (1/2 page)

- Results framework table

Annexes

Information should be included in annexes on the following areas:

- assessment of country's absorptive capacity
- stakeholder consultations
- co benefits
- existing activities in the field of renewable energy, particularly activities of other development partners

For each project to be implemented under the Investment Plan, an investment concept brief (maximum two pages) will be prepared as part of the Annex to the Investment Plan.

A suggested outline of an Investment Concept Brief includes:

- Problem statement (1-2 paragraphs)
- Proposed contribution to initiating transformation (1-2 paragraphs)
- Implementation readiness (1-2 paragraphs)
- Rationale for SREP financing (1-2 paragraphs)
- Results indicators
- Financing plan
- Project preparation timetable
- Requests, if any, for investment preparation funding