

Action Memorandum for the Mission Director

From: Neal P. Cohen, PPD/Econ
Subject: Private Rural Electrification Project (367-0162) Authorization
Date: Tuesday, August 28, 1990

Issue

It is recommended that you authorize the Private Rural Electrification Project for Nepal. The full amount of the project, three-hundred ninety-three thousand dollars (\$393,000) will be obligated using FY90 funds. The planned life of the project is four years, with a PACD of September 30, 1994.

Discussion

One of the major resources Nepal has is ample year-round water suitable for hydro-electricity. The remoteness of the villages combined with an inability of the Nepal Electricity Authority to provide cost-effective electricity has hampered development efforts.

The GON does not have sufficient resources to provide electric energy in most rural areas. It is interested in exploring ways of providing electricity in non-subsidized ways that involve villagers. In non-Terai rural areas, 9% of the populace are estimated to have access to electricity. For heating, lighting and power, rural people rely on firewood, kerosene and water for energy. The demand for and consumption of firewood has steadily increased, with the available supply being reduced at an accelerated, unsustainable rate.

Reliable, renewable energy is necessary for economic growth and improvement of the quality of life. In the rural areas, where fossil fuels are difficult to transport and fuel wood stocks are being exhausted, water-generated electricity is the best alternate energy source available. Such energy must be provided at a reasonable cost if it is to be available for the majority of people. The Government of Nepal does not have the resources to construct the hundreds of needed small systems. Systems have to be designed and constructed that use local financial resources to cover all operations, maintenance and replacement expenses. PREP will test the viability of different solutions.

Goal and Purpose

The goal of the project is to provide renewable energy to isolated rural communities of Nepal. The purpose is to determine what type of electrification system can be provided in a cost effective, sustainable manner, maintained by local communities and is replicable.

Additional purposes include the reduction of fuelwood and kerosene usage, development of local organizational and entrepreneurial skills, and improvement of quality of life and standard of living.

This project is an experiment, an exploration in community self-reliance, self-financing, and local management of private and community-owned electric-

ity systems. The users and shareholders will manage and own the system; they must be able to operate it on a sustainable basis.

Expected Achievements and Results

The approach to project activities is to establish a private enterprise, under the Nepal Companies Act, in selected communities that will construct and operate a hydro-electric system on a sustainable basis. To facilitate this, USAID will finance technical assistance, to ascertain the appropriate type of system, help with construction, train local operators, and advise on operating the business and generating plant. PREP will also provide partial capital grants which reflect the experimental nature of the project and the social benefits of reducing deforestation and facilitating development in remote villages.

ADB/N will provide loans for construction and operating capital, as well as assist with the legal establishment of the firms. The King Mahendra Trust for Nature Conservation (KMTNC), through ACAP, will provide managerial oversight and training within the Conservation Area. Construction contractor will work with the local electricity company to construct the system and provide technical training.

The criteria for selecting areas as sites for new companies are:

- local interest and provision of equity for the establishment of the activity;
- availability of sufficient hydro power; and
- able and willing to meet all operating and maintenance expenses.

For this project, two sites have been identified that meet these criteria. They are the communities of Purang in Mustang District and Siklis in Kaski District. The project anticipates that an additional ten locations will receive electricity because of the project. Other sites have been identified inside the Annapurna Conservation Area, Mustang District and elsewhere in the western part of Nepal.

The general categories of savings are firewood savings, education, improved agricultural productivity, kerosene savings, health improvements and reduction in theft.

Cost Estimates

Illustrative USAID Budget	
Activity	US\$
Construction Capital Costs	220,600
Training and Motivation	65,100
Administrative Support	19,500
Studies and Analyses	38,800
Evaluation	20,000
Audits	5,000
Contingency	24,000
Grand Total	\$393,000

The ADB/N will loan an estimated \$130,000 and the villagers will contribute \$100,000. USAID's portion of total project cost is 63%, ADB/N's is 21% and the villagers' 16%.

Implementation

The project will be implemented by granting to ADB/N \$305,200. It will subcontract with the King Mahendra Trust for Nature Conservation (Annapurna Conservation Area Project) to oversee activities in the Conservation Area, to provide training, motivation and administrative support. No construction funds can be released until USAID completes required environmental, economic, financial and social analyses.

Authorization

You are authorized, under Section 2A of Delegation of Authority No. 652, as amended October 6, 1986, to authorize projects which:

- ① do not exceed \$20 million;
- ② do not present significant policy issues;
- ③ do not include waivers which must be cleared by the AA/APRE or Administrator; and
- ④ do not have a life of project exceeding ten years.

Recommendation

It is hereby recommended that you authorize the Private Rural Electrification Project (367-0162) for Nepal, pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended, and to Delegation of Authority No. 652, Section 2.1.

Approved: *[Signature]*

Disapproved: _____

Date: 9/12/90

Clearances:

- DD: TWood-Stervinou
- PPD: MMCalavan
- PPD/ENG: BNPradhan
- ARD: SPlunkett
- ARD: TPierce
- FM: TRattan
- EXO: JJohnston
- PROC: AEisenberg

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PPD/Econ: NPCohen:8/28/90 *[Signature]*

Project Authorization

Name of Country : Nepal
Name of Project : Private Rural Electrification Project
Number of Project : 367-0162

1. Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended (the FAA), I hereby authorize the Private Rural Electrification Project for Nepal (the Cooperating Country) involving planned obligations not to exceed three hundred and ninety-three thousand dollars (\$393,000) in grants funds. All funds for this project will be obligated in FY90. The planned life of the project is four years, with a project assistance completion date not later than September 30, 1994.
2. The Project will assist the Cooperating Country to provide renewable energy to isolated rural communities in a cost effective, sustainable manner, which can be maintained by local communities and is replicable. In addition, the project will reduce the demand for fuelwood and kerosene, develop local organizational and entrepreneurial skills and improve the quality of life and standard of living in the project villages. The project is an experiment, it is an exploration in community self-reliance, self-financing, and local management of private and community-owned electricity systems. The users and shareholders will manage and own the systems; they must be able to operate them on a sustainable basis.
3. The Agricultural Development Bank of Nepal (ADB/N) will coordinate the project and loan money to villagers. All villages or individuals selected to participate in the Project must contribute a portion of the equity (between 25-40%) and take out a loan for the balance not subject to A.I.D. grant. The ADB/N loan will be at market interest rates and terms.
4. The Project Agreement which may be negotiated and executed by the officers to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority shall be subject to the following essential terms, covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.
 - a. Source and Origin of Commodities, Nationality of Services
Except as A.I.D. may otherwise agree in writing:
 - i. Commodities financed by A.I.D. under the project shall have their source and origin in countries included in A.I.D. Geographic Code 941 and the Cooperating Country;
 - ii. Suppliers of commodities or services, except for ocean shipping, shall have their place of nationality in countries included in A.I.D. Geographic Code 941 and the Cooperating Country; and,

- iii. Ocean shipping financed by A.I.D. under the project shall be financed only on flag vessels of countries included in A.I.D. Geographic Code 941 and the Cooperating Country, unless a separate waiver is obtained.

b. Conditions Precedent to Disbursement

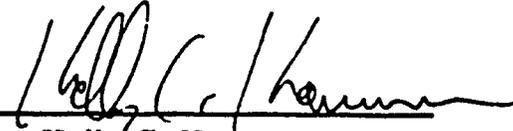
Precedent to First Disbursement:

- i. required HMG and ADB/N signatures;
- ii. the designation of the ADB/N Project Coordinator;
- iii. the designation of liaison representatives from the Ministry of Finance (MoF) and Agricultural Development Bank/Nepal, with authority to review progress and approve annual programs; and
- iv. documentation from ADB/N that HMG/N funds to subsidize rural electrification and A.I.D. funds will not be used in the same village for electrification activities.

Precedent to Disbursement of A.I.D. funds for individual activities:

- i. A.I.D. will conduct environmental, economic and financial assessments to determine that the proposed activities meet A.I.D. environmental, economic, and non-subsidized sustainability requirements.
- ii. village or private electrical companies must show that they have raised and deposited sufficient equity to finance their agreed portion of capital costs and made arrangements for provision of in-kind contributions for construction costs.

Signature: _____


Kelly C. Kammerer

Director

Date: _____

9/13/90