

PRIVATE SECTOR HYDROPOWER DEVELOPMENT PROJECT – 2

Technical Assistance for Increased Private Sector Participation in
Environmentally and Socially Sustainable Hydropower Development
In support of
USAID Strategic Objective -4

FIRST ANNUAL REPORT

December 12, 2001 through December 31, 2002

Prepared for:
United States Agency for International Development
Mission to Nepal
Contract No. 367-C-00-02-00011-00

International Resources Group, Ltd.
Department of Electricity Development
Ministry of Water Resources
Kathmandu, Nepal

October 31, 2002
Revised January 31, 2003

PRIVATE SECTOR HYDROPOWER DEVELOPMENT PROJECT – 2

FIRST ANNUAL REPORT December 12, 2001 through December 31, 2002

TABLE OF CONTENTS

DESCRIPTION.....	PAGE
<u>CONTRACTOR INFORMATION</u>	1
<u>SECTION I – CONTRACTOR’S REPORT</u>	2
I.1 <u>Summary and Highlights of Activities</u>	2
I.2 <u>Expected Results (Outputs or Indicators)</u>	4
<u>Table 1.</u> Performance Indicator SO 4.1.....	6
<u>Table 2.</u> Performance Indicator IR 4.1.1.....	7
<u>Table 3.</u> Performance Indicator IR 4.1.2.....	8
<u>Table 4.</u> Performance Indicator SO 4.2.....	9
<u>Table 5.</u> Performance Indicator IR 4.2.1.....	10
<u>Table 6.</u> Performance Indicator IR 4.2.2.....	11
<u>Table 7.</u> Performance Indicator IR 4.2.3.....	12
I.3 <u>Administrative and Management Activities</u>	13
I.4 <u>Progress by Technical Activities</u>	15
I.5 <u>Personnel, Cost, and Performance Tables</u>	22
<u>Table 8.</u> Short-term expatriate technical assistance.....	22
<u>Table 9.</u> Cost summary by CLIN.....	23
<u>Table 10.</u> Percent Completion by CLIN	23
<u>Table 11.</u> Percent Completion by Activity.....	24
<u>SECTION II - COGNIZANT TECHNICAL OFFICER'S REPORT</u>	25

PRIVATE SECTOR HYDROPOWER DEVELOPMENT PROJECT – 2

Contractor Information

Contractor: International Resources Group, Ltd.
1211 Connecticut Avenue NW
Washington, DC 20036
Phone 1-202-289-0100; Fax 1-202-289-7601
Website: www.irgltd.com

Department of Electricity Development Building
Anam Nagar, Kathmandu
Phone: 977-1-474-174; Fax 977-1-478-085
E-mail: pshdp@wlink.com.np and individual sub-accounts

Contract No: 367-C-00-02-00011-00

Project No: 367-01-008

Reporting Period: December 12, 2001-December 31, 2002

SECTION I – Contractor’s Report

I.1. Summary and Highlights of Activities

A. Introduction

International Resources Group Ltd. (IRG) signed the contract with the U.S. Agency for International Development (USAID) on December 12, 2001 for Technical Assistance for Increased Private Sector Participation in Environmentally and Socially Sustainable Hydropower Development in Nepal. Primary objective of the contract is to provide technical assistance and associated training services to the Department of Electricity Development (DOED) of the Ministry of Water Resources (MOWR) and other agencies of the Government of Nepal (GON) to increase private sector participation in hydropower development, in support of USAID’s Strategic Objective 4 (SO4).

This contract continues and enhances USAID support for Private Sector Hydropower Development Project (PSHDP) in Nepal provided under USAID’s Special Objective 4 (SpO4). IRG’s previous contract No. 367-C-00-98-00071-00 supported SpO4. That contract ended on December 31, 2001. Some of the activities initiated under that contract are being continued in the current contract. The current contract is referred to as PSHDP-2 to indicate continuation of USAID’s technical assistance program under SO4.

The scope of work under PSHDP-2 comprises 25 activities to support SO4. A summary of major PSHDP-2 accomplishments during the reporting period is listed below. Intermediate results expected through PSHDP-2 to support SO4 are: (i) Improved enabling environment for equitable and sustainable hydropower development; and (ii) strengthened environmental and social assessment procedures with broadened stakeholder participation. Section I.2 provides details of the expected results and progress indicators under PSHDP-2. Section I.3 provides functional description of actions undertaken during the reporting period to achieve our goals. In Section I.4 we discuss our progress during the reporting period under each of the 25 contract activities. Project personnel, cost, and performance data is presented in Section I.5. Section II includes USAID Cognizant Technical Officer’s (CTO) report covering the reporting period.

B. Summary of Accomplishments

Major accomplishments of PSHDP-2 during the reporting period are summarized below:

1. Implementation of the First Year Work Plan was substantially completed.
2. DOED has provided a permanent counterpart coordinator for PSHDP-2. DOED and NEA have provided additional key counterpart staff to assist the program of activities on an as needed basis.
3. Completed the design and installation of the management information system Nepal Hydropower Management System (NHMS).
4. Completed the procurement of most equipment including three motor vehicles and three motorcycles for DOED.
5. With strong PSHDP team advice and support, the GON and the World Bank (WB) have moved closer to complete an agreement for the Power Development Project (PDP) and to establish a Power Development Fund

Administrator (PDFA - Activity 5); completed a Project Implementation Plan (PIP) for the PDF in close consultation with DOED and World Bank staff. The PIP was approved by the GON and WB concurred; assisted DOED in evaluating and selecting a PDFA.

6. Commenced four-level computer training to a total of 36 DOED staff on October 29, 2002. The training is provided by local vendors (Activity 6).
7. Provided logistical, technical and other support to facilitate participation of 15 GON personnel in four international study tours and technical training programs (Activities 1, 6, 8, and 15).
8. Provided assistance to the Nepal Electricity Authority (NEA) on restructuring plans, review of Performance Contract for an autonomous Distribution Unit, determining alternative methods to use available surplus energy, development of a grid code, and developing wheeling charges for electricity transmission (Activity 7). This activity was originally planned for the Second Year, but was brought forward to accommodate NEA's accelerated needs.
9. A training needs assessment specific for DOED and key institutions, not covered by the SARI/E training program, was developed (Activity 13).
10. Initiated planning for a study tour to the Indian states of Orissa and Maharashtra states to study Power Sector Restructuring and Reform for a team of DOED, NEA, and WECS senior staff; also prepared a 10-volume resource manual on power sector reform and regulation in India (Activity 17).
11. Prepared an Operational Manual of Environmental and Social Impact Assessment for Sub-Projects Financed under the PDF and a summary of the EIA process for the Asian Development Bank (Activity 23)
12. Conducted four workshops for GON agencies, NGO's IPPs and the public on: 'Gender Participation in Hydropower Development Projects', 'Certification Standards for Environmental Impact Assessment Professionals', 'Mitigation Measures for Hydropower Developments' and 'Public Hearings for Hydropower Development Projects'.
13. Prepared a draft Second Year Work Plan in coordination with USAID, DOED and other GON agencies and submitted for SOT review.
14. Completed evaluation of the NHMS and modified the system to improve effectiveness.

D. Constraints, Problems, and Recommendations

1. A lack of a permanent resident Chief of Party (COP) during the first seven months of the year affected some progress of the activities. The first COP left his post on February 11, 2002. The new COP arrived on post on August 19, 2002 and we have caught up with nearly all the activities.
2. In order to effectively utilize the short stays of visiting overseas experts for short-term technical assistance (STTA), we requested and obtained CTO approval of 6-day work week for such personnel. IRG also requested DOED to facilitate access to IRG offices in the DOED building during government holidays and weekends. DOED has agreed to provide such access to authorized IRG staff.
3. Soft international economy and increased insurgent actions and disruption of some hydropower plants and infrastructure, have created concern among international community for lending and investment in Nepal. These concerns were discussed with WB and ADB staff during our meetings. The situation needs to be carefully

monitored and has been appropriately taken into account in developing Second Year Work Plan and performance goals.

4. In order to increase and sustain private sector participation in hydropower development, a significant pipeline of viable projects should be available for the private sector to evaluate and develop. Because of high opportunity costs of development, the private sector would be reluctant to expend significant time and resources to study and license alternative projects without a reasonable likelihood of final development. We recommend that the scope of IRG work under PSHDP-2 should be broadened to allow for preparation and review of small hydropower project feasibility studies as requested by the DOED. However, IRG contract does not have any funding for such activity. We suggest early decision be made regarding approval of funding and contracting mechanism for such activities.

I.2. Expected Results (Outputs or Indicators)

As a measure of performance under this contract to support SO4, the following intermediate results (IR) are monitored:

1. IR 4.1- Improved enabling environment for equitable and sustainable hydropower development
2. IR 4.2 – Strengthened environmental and social assessment procedures with broadened stakeholder participation

Primary indicators used to assess the IRs under the contract are summarized below:

Indicator SO 4.1 - Private financial commitments for hydropower projects, measured as cumulative investment amount in millions of US dollars.

Indicator SO 4.2 - Number of private sector firms participating in projects of one megawatt or greater, measured as growth per year of investment in millions of US dollars.

The following secondary indicators supporting performance under SO 4.1 and SO 4.2 are monitored:

Indicator I.R. 4.1.1 - Private sector projects progressing toward financial closure, measured as cumulative number of private sector projects progressing towards financial closure.

Indicator I. R. 4.1.2 - Royalties distributed to affected communities according to policy, measured as the amount of royalties distributed to affected communities in millions of US dollars.

Indicator I. R. 4.2.1 - Number of approved Environmental/Social Impact Assessments for hydropower proposals that meet or exceed international guidelines, measured as the number of EIA/SIA at or above international standards approved by DOED, MOWR, and the Ministry of Population and Environment (MOPE) for private sector hydropower projects per year.

Indicator I.R. 4.2.2 - Public hearings for hydropower conducted with local stakeholders and affected communities, measured as the number of public hearings held for private sector hydropower projects per year.

Indicator I. R. 4.2.3 - Number of professionals trained in reviewing Environmental/Social Impact Assessments, measured as the total number of professionals trained.

Analysis of Results

Review of indicators for IR 4.1 suggests a slowing down of new private sector investments and activities resulting from a soft global economy, uncertain political situation in Nepal, lack of clear and large scale power export agreement with India, as well as uncertainty of concluding and maintaining long-term PPAs with the NEA. Delay in the implementation of the PDF has also resulted in private sector hydropower investments lagging targets. However, the signing of a memorandum of understanding between the private developer and the Indian entities for the purchase of generation from the 720 MW West Seti Project is a key positive development for Nepal's hydropower sector.

Indicators for IR 4.2 show similar reduction in actual values relative to targets. However, a large number of smaller projects (<10 MW) are in various stages of licensing and are anticipated to maintain current private sector activities and would likely improve investments with improved global and local conditions.

Table 1. Performance Indicator SO 4.1

Objective Name:	Increased Private Sector Participation in Environmentally and Socially Sustainable Hydropower Development				
Objective ID:	367-006 (367-0174)				
Approved:	December, 2001	COUNTRY/ORGANIZATION: USAID/Nepal			
RESULT NAME: I.R. 4.1	Improved enabling environment for equitable and sustainable hydropower development				
INDICATOR: SO 4.1	Cumulative investment in millions of US dollars				
UNIT OF MEASURE: Millions of US dollars	YEAR	PLANNED^a		ACTUAL	
		Cumulative	Annual	Cumulative	Annual
SOURCE: Department of Electricity Development	2001	360	29	334 ^b	4 ^b
INDICATOR DESCRIPTION: Primary Indicator: Cumulative investment amount in millions of US dollars at the end of the year	2002 ^c	400	40	348 ^d	14 ^d
	2003	440	40		
	2004	490	50		
	2005	540	50		
	2006	- ^e	- ^e		

^a Planned target was estimated by IRG in August 2001 and accepted by USAID as contract indicators. The targets were based on actual performance recorded during PSHDP and assumptions that PDF will be available in 2002

^b Based on DOED Privatization Division database (unpublished)

^c As of September 2002

^d Excludes privatization investment by Butwal Power Company (BPC); according to newspaper report (Kathmandu Post Dec. 20, 2003) private investment in BPC is at least \$12 M for 75% stake

^e IRG estimates made in 2001 were only to 2005

Table 2. Performance Indicator I. R. 4.1.1

Objective Name:	Increased Private Sector Participation in Environmentally and Socially Sustainable Hydropower Development				
Objective ID:	367-006 (367-0174)				
Approved:	December, 2001	COUNTRY/ORGANIZATION: USAID/Nepal			
RESULT NAME: I. R. 4.1	Improved enabling environment for equitable and sustainable hydropower development				
INDICATOR: I. R. 4.1.1	Private sector projects progressing toward financial closure				
UNIT OF MEASURE: Cumulative total of projects passing through stages of completion	YEAR	PLANNED^a		ACTUAL	
		Cumulative	Annual	Cumulative	Annual
SOURCE: Department of Electricity Development	2001 S1	49	10	74 ^b	21 ^b
	S2	8	2	6 ^b	1 ^b
	S3	11	2	12 ^b	3 ^b
	S4	9	2	5 ^b	1 ^b
INDICATOR DESCRIPTION: Primary Indicator: Cumulative number of private sector projects progressing toward financial closure Stage 1 (S1) - Survey license issued Stage 2 (S2) - Construction license issued Stage 3 (S3) - Studies completed Stage 4 (S4) - financial closure	2002 S1	59 ^d	10	78 ^c	4 ^c
	S2	10	2	8 ^c	2 ^c
	S3	13	2	12 ^c	0 ^{c,e}
	S4	10	1	5 ^c	0 ^c
	2003 S1	64	5		
	S2	12	2		
	S3	15	2		
	S4	12	2		
	2004 S1	69	5		
	S2	14	2		
	S3	17	2		
	S4	13	1		
	2005 S1	74	5		
	S2	15	1		
	S3	18	1		
	S4	14	1		
2006 S1	- ^f	- ^f			
S2	- ^f	- ^f			
S3	- ^f	- ^f			
S4	- ^f	- ^f			

^a Planned target was estimated by IRG in August 2001 and accepted by USAID as contract indicators. The targets were based on actual performance recorded during PSHDP and assumptions that PDF will be available in 2002

^b Based on DOED Privatization Division database (unpublished)

^c As of November 2002

^d Planned targets for subsequent years have not been adjusted to take account of actuals being better than targets

^e Several feasibility and other studies are on-going but not completed

^f IRG estimates made in 2001 were only to 2005

Table 3. Performance Indicator I. R. 4.1.2

Objective Name:	Increased Private Sector Participation in Environmentally and Socially Sustainable Hydropower Development				
Objective ID:	367-006 (367-0174)				
Approved:	December, 2001	COUNTRY/ORGANIZATION: UNSAID/Nepal			
RESULT NAME: I. R. 4.1	Improved enabling environment for equitable and sustainable hydropower development				
INDICATOR: I. R. 4.1.2	Royalties distributed to affected communities according to policy				
UNIT OF MEASURE: Million dollars	YEAR	PLANNED^a		ACTUAL	
SOURCE: Department of Electricity Development		Cumulative	Annual	Cumulative	Annual
INDICATOR DESCRIPTION: Primary Indicator: Amount of royalties distributed to affected communities in millions of US dollars	2001	0	0	0 ^b	0 ^b
	2002 ^c	0	0	0	0.10
	2003	5	N/A		
	2004	10	5		
	2005	15	10		
	2006	- ^d	- ^d		

^a Planned target was estimated by IRG in August 2001 and accepted by USAID as contract indicators. The targets were based on actual performance recorded during PSHDP and assumptions that PDF will be available in 2002

^b Based on DOED Inspection Division database (unpublished)

^c As of September 2002

^d IRG estimates made in 2001 were only to 2005

Table 4. Performance Indicator I. R. SO 4.2

Objective Name:	Increased Private Sector Participation in Environmentally and Socially Sustainable Hydropower Development				
Objective ID:	367-006 (367-0174)				
Approved:	December, 2001	COUNTRY/ORGANIZATION: USAID/Nepal			
RESULT NAME: SO 4.2	Strengthened environmental and social assessment procedures with broadened stakeholder participation.				
INDICATOR: SO 4.2	Cumulative number of private sector firms participating in projects one megawatt or greater				
UNIT OF MEASURE: Number of firms	YEAR	PLANNED^a		ACTUAL	
SOURCE: Department of Electricity Development		Cumulative	Annual	Cumulative	Annual
INDICATOR DESCRIPTION: Primary Indicator: Cumulative number of private sector firms Sub-Indicator 1: Rate of change of number of private sector firms involved in projects	2001	43	5	18 ^b	1 ^b
	2002 ^c	48	5	20 ^b	2 ^b
	2003	54	6		
	2004	60	6		
	2005	66	6		
	2006	- ^d	- ^d		

- ^a Planned target was estimated by IRG in August 2001 and accepted by USAID as contract indicators. The targets were based on actual performance recorded during PSHDP and assumptions that PDF will be available in 2002
- ^b Based on DOED Privatization Division database (unpublished); data is conservative since DOED does not track number of private companies with at-risk investment in each licensed project
- ^c As of November 2002
- ^d IRG estimates made in 2001 were only to 2005

Table 5. Performance Indicator I. R. 4.2.1

Objective Name:	Increased Private Sector Participation in Environmentally and Socially Sustainable Hydropower Development		
Objective ID:	367-006 (367-174)		
Approved:	December, 2001	COUNTRY/ORGANIZATION: USAID/Nepal	
RESULT NAME: I. R. 4.2	Strengthened environmental and social assessment procedures with broadened stakeholder participation.		
INDICATOR: I. R. 4.2.1	Number of approved Environmental/Social Impact Assessments for hydropower proposals that meet or exceed international guidelines (Note: These figures will depend on GON policies, climate for investment, overall economic growth)		
UNIT OF MEASURE: Number of approved EIAs	YEAR	PLANNED^a	ACTUAL
SOURCE: DOED, MOWR, and MOPE Internal Database and Records (Unpublished)			
INDICATOR DESCRIPTION: a) Primary Indicator: Number of EIA/SIA at or above international standards approved by DOED, MOWR and MOPE for private sector hydropower projects per year b) Secondary Indicator : Total number of EIA/SIA documents approved by GON for private and public sector hydropower and transmission line projects c) Secondary Sub-Indicator 1: Cumulative TOR for IEE d) Secondary Sub-Indicator 2: Cumulative IEE Report e) Secondary Sub-Indicator 3: Cumulative Scoping Document for EIA f) Secondary Sub-Indicator 4: Cumulative TOR for EIA g) Secondary Sub-Indicator 5: Cumulative EIA Report	2001		
	a)	2	3 (c)
	b)	26	39 (c)
	c)	13	19 (c)
	d)	7	7 (c)
	e)	19	28 (c)
	f)	19	27 (c)
	g)	12	15 (c)
	2002 ^c		
	a)	2	1
	b)	27	10
	c)	18	24
	d)	11	8
	e)	25	31
	f)	25	30
	g)	18	16
	2003		
	a)	2	
	b)	27	
	c)	22	
	d)	16	
	e)	31	
	f)	31	
	g)	24	
	2004		
	a)	2	
	b)	27	
	c)	27	
d)	30		
e)	37		
f)	37		
g)	30		
2005			
a)	2		
b)	27		
c)	31		
d)	25		
e)	43		
f)	43		
g)	36		
2006			
a)			
b)			
c)		- ^d	
d)			
e)			
f)			
g)			

^a Planned target was estimated by IRG in August 2001 and accepted by USAID as contract indicators. The targets were based on actual performance recorded during PSHDP and assumptions that PDF will be available in 2002

^b Based on DOED Project Study Division database (unpublished)

^c As of September 2002; figures represent documents reviewed by DOED and forwarded to MOWR and/or MOPE

^d IRG estimates made in 2001 were only to 2005

Table 6. Performance Indicator I. R. 4.2.2

Objective Name:	Increased Private Sector Participation in Environmentally and Socially Sustainable Hydropower Development		
Objective ID:	367-006 (367-174)		
Approved:	December, 2001	COUNTRY/ORGANIZATION: USAID/Nepal	
RESULT NAME: I. R. 4.2	Strengthened environmental and social assessment procedures with broadened stakeholder participation.		
INDICATOR: I. R. 4.2.2	Public hearings for hydropower conducted with local stakeholders and affected communities		
UNIT OF MEASURE: Number of hearings	YEAR	PLANNED^a	ACTUAL
SOURCE: DOED, NEA and developers internal database and records (Unpublished)			
INDICATOR DESCRIPTION: a) Primary Indicator: Number of public hearings held for private sector hydropower projects per year b) Secondary Indicator 1: Total number of public hearings held for private and public sector hydropower and transmission line projects c) Secondary Sub-Indicator 1: Number of review meetings per year. d) Secondary Sub-Indicator 2: Average number of people attending public hearings for private and public sector hydropower and transmission line projects (assumes average numbers of males stays the same, % women increases) e) Secondary Sub-Indicator 3: Percentage of women attending public hearings for public and private sector hydropower and transmission line projects.	2001	a) 2 b) 6 c) 10 d) 106 to 214 e) 10% to 30%	1 (c) 4 (c) 9 (c) 100 to 200 (c) 0% to 25% (c)
	2002 ^c	a) 2 b) 6 c) 10 d) 112 to 231 e) 15% to 35%	1 1 0 not processed not processed
	2003	a) 2 b) 6 c) 10 d) 119 to 250 e) 20% to 40%	
	2004	a) 2 b) 6 c) 10 d) 127 to 273 e) 25% to 45%	
	2005	a) 2 b) 6 c) 10 d) 136 to 300 e) 30% to 50%	
	2006	a) b) c) - ^d d) e)	

^a Planned target was estimated by IRG in August 2001 and accepted by USAID as contract indicators. Targets were based on actual performance recorded during PSHDP and assumption that PDF will be available in 2002

^b Based on DOED Project Study Division database (unpublished)

^c As of September 2002; figures represent documents reviewed by DOED and forwarded to MOWR and/or MOPE

^d IRG estimates made in 2001 were only to 2005

Table 7. Performance Indicator I. R. 4.2.3

Objective Name:	Increased Private Sector Participation in Environmentally and Socially Sustainable Hydropower Development		
Objective ID:	367-006 (367-174)		
Approved:	December, 2001	COUNTRY/ORGANIZATION: USAID/Nepal	
RESULT NAME: I.R. 4.2	Strengthened environmental and social assessment procedures with broadened stakeholder participation.		
INDICATOR: I.R. 4.2.3	Number of professionals trained in reviewing Environmental/ Social Impact Assessments		
UNIT OF MEASURE: Number of professionals trained	YEAR	PLANNED^a	ACTUAL
SOURCE: DOED, SchEMS, TU, and other training institutions Internal Database and Records (Unpublished)			
INDICATOR DESCRIPTION: a) Primary Indicator: Total number of professionals trained b) Secondary Indicator 1: GON responsible for review and approval c) Secondary Indicator 2: Other Government Agencies d) Secondary Indicator 3: EIA practitioners who prepare EIA reports e) Secondary Indicator 4: Future EIA practitioners f) Secondary Indicator 5: Representatives of local stakeholders g) Secondary Indicator 6: Accredited EIA/SIA professionals	2001	a) 107	- ^b
	b) 15		
	c) 20		
	d) 12		
	e) 40		
	f) 20		
	g) 0		
	2002 ^c	a) 107	85 ^d
	b) 15	9 ^d	
	c) 20	29 ^d	
	d) 12	12 ^d	
	e) 40	0 ^d	
	f) 20	29 ^d	
	g) 0	0 ^d	
	2003	a) 107	
	b) 15		
	c) 20		
	d) 12		
	e) 40		
	f) 20		
	g) 20		
	2004	a) 127	
	b) 15		
	c) 20		
d) 12			
e) 40			
f) 20			
g) 40			
2005	a) 147		
b) 15			
c) 20			
d) 12			
e) 40			
f) 20			
g) 60			
2006	a) - ^e		
b) -			
c) -			
d) -			
e) -			
f) -			
g) -			

^a Planned target was estimated by IRG in August 2001 and accepted by USAID as contract indicators. The targets were based on actual performance recorded during PSHDP and assumptions that PDF will be available in 2002

^b DOED has not reported this figure in the past

^c As of September 2002; figures represent documents reviewed by DOED and forwarded to MOWR and/or MOPE

^d Based on DOED Project Study Division database (unpublished)

^e IRG estimates made in 2001 were only to 2005

I.3. Administrative and Management Activities

A. Procurement and facilities

During the reporting period, the following procurement activities were accomplished:

- Procured and transferred three vehicles and three motorcycles for the DOED.
- Transferred a total of four new and two older computers plus two printers to DOED.
- Successfully completed USAID Annual Commodity Verification for SO4 Program, 2002.

B. Subcontracts

Nothing significant to report.

C. Project personnel

As of December 31, 2002, resident staff included the Krish Krishnan, Chief of Party, Stefan Gorzula, Deputy Chief of Party, Rabin Shrestha, Senior Technical Advisor, Mr. C. B. Lamichhane, Project Administrator, and seven administrative and support staff.

D. Meetings

- Program progress meetings among IRG, DOED and USAID were held on October 3, 2002 and November 21, 2002.
- Tony Carvalho and Krish Krishnan met with the U.S. Ambassador during a meeting on September 5, 2002 and exchanged views on opportunities and challenges for PSHDP-2 activities.
- COP, DCOP, and other IRG staff conducted regular discussions and meetings with USAID and DOED staff to coordinate our work.
- IRG met with several NEA staff to define, discuss, and finalize IRG inputs to assignments under Activity 7.
- Krish Krishnan and Rabin Shrestha met with representatives of the Bhote Koshi Power Company on September 20, 2002 to discuss their experience with development of the Bhote Koshi Hydropower Project.
- Assisted DOED in two meetings with WB appraisal mission for the PDF on September 26-27, 2002.
- Hosted a meeting with ADB mission on October 2, 2002 to discuss ADB programs for Nepal Power Sector.
- Krish Krishnan and Steve Gorzula attended DOED's workshop on Safety Standards for Hydropower Projects on October 3-4, 2002.
- Krish Krishnan and Steve Gorzula met with representatives of the Lamjung Electric Company on October 4, 2002 to discuss their experience in private hydropower development.
- Krish Krishnan met with the Secretary of MOWR to exchange views on PSHDP-2 program opportunities and challenges on October 8, 2002. He attended a second meeting with the Secretary of MOWR on October 24 to discuss accelerated nomination process for candidates for overseas training under the program.

- Krish Krishnan and Rabin Shrestha assisted in preparing a plenary session speech for the Secretary of MOWR delivered at the seminar on Innovative Approaches to Hydropower Sector Tariffs in South Asia on October 10-11, 2002. Rabin Shrestha also attended the 2-day seminar.
- Krish Krishnan and Surendra Khadka attended a meeting at AID on October 24, 2002 with USAID Training Officer to discuss IP3 training requirements for HMGN staff.
- Krish Krishnan attended meeting with Lekh Man Singh at DOED on October 30, 2002 to finalize details of IP3 and Hydro 2002 training/study tours
- Krish Krishnan attended meeting with Tony Carvalho on HMGN training tours on October 31, 2002.

E. Events

- Steve Gorzula and CB Lamichhane attended USAID's Introduction to Financial Management course from 29 to 31 May, 2002.
- Krish Krishnan and CB Lamichhane attended USAID's training on the new VAT procedures on September 6, 2002.
- Krish Krishnan and Steve Gorzula attended USAID's Fraud Awareness seminar on October 8, 2002.

F. Out-of-country Training

Two staff members from DOED attended a course on Public-Private Partnerships in Canada in July, 2002.

Two senior officials from MOWR, two from DOED and one from WECS attended the Hydro Vision 2002 in August, 2002.

Two senior officials from MOWR, two from DOED, and one from WECS are attended Hydro 2002 Conference in Turkey in November, 2002.

One staff member from MOWR, one from DOED, and one from WECS attended an IP3 training course on infrastructure financial analysis, modeling, and rate setting in November, 2002.

G. In-country Training

- IRG team participated in five EIA training courses at the School for Environmental Management and Sustainable Development (SchEMS).
- Several DOED staff are undergoing computer training provided by local vendors.
- Four technical workshops and training sessions were conducted 'Gender Participation in Hydropower Development Projects' in November and 'Certification Standards for EIA Professionals', 'Mitigation Measures for Hydropower Developments', and 'Public Hearings on Hydropower Development Projects' in December 2002.

H. Publications

- Published the *Manual for Preparing Environmental Management Plans for Hydropower Projects* in August 2002.
- Assisted NEA in preparing their public document on the Use of Surplus Energy in NEA System.

I. Internal Reports and Databases

- Created a database of 204 women engineers in Nepal and 85 Kathmandu based Women NGOs.
- Prepared a paper on Awareness Raising Workshop for gender issues.
- Prepared a concept paper on streamlining Gender Participation into Hydropower Development.

J. Field activities

- IRG senior technical staff visited the NEA Training Centre on June 26, 2002.

I.4. Progress by Technical Activities

General Activities

During the reporting period the following several general tasks were completed:

- Completed the design and installation of the management information system for the project called Nepal Hydropower Management System (NHMS).
- Completed draft of Second Year Work Plan.

Activity 1: Support policy, legal, and regulatory reform and strengthen key institutions

- Held detailed technical discussions with NEA and developed detailed work plans related to the proposed new corporate structure of the Nepal Electricity Authority (NEA) and performance-based management of its key divisions.

Activity 2: Facilitate policy dialogue between HMG/N and civil society groups

(To commence in year two)

Activity 3: Technical support to the DOED on one or more export projects

(To commence in year two)

Activity 4: Technical support to improve the one-window mechanism

- We added Alternatives Analysis and Developmental Analysis as major components of EIA training to assist DOED staff to balance economic and environmental constraints in project licensing.

- Our discussions with existing and potential IPPs in Nepal and overseas as well as comments from the WB on lengthy licensing period indicates that the one-window mechanism needs to be strengthened to be effective. However, because the Hydropower Development Policy of 2001 requires significant realignment of responsibilities of key government agencies such as DOED, WECS, and the NEA, we have deferred work on one-window improvement strategy and preparation of a road map for power sector restructuring to Second Year.

Activity 5: Assist DOED in implementing the World Bank's Power Development Fund (PDF)

- With strong PSHDP team advice and support, the Government of Nepal (GON) and World Bank moved closer to agreement on the PDF and PDFA.
- Completed preparation of the Project Implementation Plan (PIP) for the PDF in close consultation with DOED and World Bank staff which was approved by GON and concurred with by WB.
- Assisted DOED in evaluating financial proposals and selecting a financial institution for the PDFA contract.
- We would assist DOED to conclude PDF negotiations with WB in Washington, DC in 2003.

Activity 6: Improve DOED's Capacity

- Two staff of DOED attended EIA training course at SchEMS in September
- A number of DOED staff are attending several computer training courses provided by local vendors
- One senior divisional engineer from the DOED, one from WECS, and one from the MOWR attended the IP3 course on Public in June 2002 on Private Partnerships in the Power Sector.
- One official from WECS, one from MOWR and one from DOED attended IP3 course on Infrastructure Financial Analysis, Modeling, and Rate Setting training in Washington DC in November 2002.

Activity 7: Identify Issues and Constraints to Power trade under Power Trade Agreement with India

All activities under this Task were originally scheduled for Second Year. However, at the request of USAID and GON agencies we have completed the following:

- Held technical discussions with NEA and completed initial identification of candidate projects and planning steps for the development of a National Grid Generation Expansion Plan.
- Participated in NEA's study of the potential to use and export surplus hydroelectric energy.
- Provided comments on NEA's corporate restructuring plan and performance contract for the operation of the Distribution Unit as an autonomous unit.
- Prepared a draft outline for a transmission grid code to facilitate cross-border power transmission, and power purchase from IPPs.

- Developed a methodology for wheeling charges for autonomous operation of the Transmission Unit and for providing a basis for apportioning charges for the use of existing and new transmission lines by NEA and IPPs.

Activity 8: Assist DOED in developing and analyzing project proposals, RFQs and RFPs from the financial perspective

- Two senior divisional engineers from the DOED attended an intensive five-week course at Queens University, Kingston in Canada on investment risk appraisal and risk analysis in July 2002.
- Reviewed WB comments on the RFP for the two BOOT projects and assisted DOED to address the comments.

Activity 9: Liberalize Nepal's finance sector to promote domestic investment in hydropower

(To commence in year two)

Activity 10: Improve public awareness and participation in private hydropower development

- Assisted DOED in developing the web site which is expected to be operational in March 2003.
- Researched and assembled relevant information and provided a daily electronic news service to approximately 130 international and local stakeholders and other parties interested in Nepal hydropower development and related issues.
- Reviewed DOED's Documentation Center's current functions and a step-by-step plan for converting it into a Public Information Center in consultation with DOED is under formulation. This plan would include staffing, training, the publication and distribution of newsletters, and the use of electronic media.

Activity 11: Improve transparency of local revenue sharing of hydropower benefits

(To commence in year two)

Activity 12: Build outreach and education programs to increase public support through information

- Updated and converted the Nepal News Group archives to a 13.8 MB searchable file in MS Word.
- Supplied copies of all manuals and documents produced under PSHDP-1 and PSHDP-2 to DOED's Documentation Center.
- A report on Energy Poverty is being prepared for use in EIA/SIA training.

Activity 13: Training Activities - Perform TA and training needs assessment for DOED and key institutions, complementary to SARI/E training program

- Completed a TA and training needs assessment, specific for DOED and other key GON institutions, which is not covered by the USAID SARI/E training program. Draft report is under preparation for discussion and finalization with DOED.
- Completed the design and initiated implementation of a general training program including a specialized management information system that will be used to process, monitor, and maintain records in compliance with applicable USAID regulations.
- Conducted short presentation and workshop to train DOED staff in implementation of the training program with respect to overseas training procedures..

Activity 14: Training Activities - Build Nepalese capacity for regional energy development and trade

(To commence in year two)

Activity 15: Training Activities - Train DOED on IPPs and power trade negotiations (Financial issues)

- Two officials from the DOED, one from WECS, and two from the MOWR attended HydroVision 2002 Conference in Portland Oregon in August 2002.
- Two officials from the DOED, one from WECS, and two from the MOWR are scheduled to attend the Hydro 2002 – Development, Management, and Performance Conference in Kiris, Turkey in November 2002.

Activity 16: Training Activities - Executive exchange to promote energy reform consensus

(To commence in year two)

Activity 17: Training Activities - Study tours to Indian States to learn from successful sector reforms

- Initiated planning and preparations for the study tour. The tour is planned to be conducted in two phases starting in 2003.
- Carried out Internet web research and prepared a 10-volume resource manual on power sector reform and regulation in India.

Activity 18: Train/assist relevant HMG/N agencies in EIA/SIA procedures and public consultations.

- Published the *Manual for Developing and Reviewing Water Quality Monitoring Plans and Results for Hydropower Projects* in April 2002.
- Prepared a database of all firms that have carried out EIA studies for hydropower projects since July 1998.

- Developed syllabi for EIA training of master degree program at TU and bachelor and master programs at SchEMS. TU and SchEMS are the premier organizations for training future EIA professionals. This training is programmed to start in 2003.

Activity 19: Improve public hearings and documentation of stakeholder concerns

- Conducted four workshops in November and December 2002 as follows:
 - Gender Participation in Hydropower Developments
 - Certification Standards for EIA Professionals
 - Mitigation Measures for Hydropower Developments
 - Public Hearings on Hydropower Development Projects

Activity 20: Advance impact monitoring and evaluation of benefits and equity issues

- Published the *Manual for Preparing Environmental Management Plans for Hydropower Projects* August 2002.
- Prepared a list of professionals with 1st-hand experience of monitoring and auditing hydro project operation for a proposed workshop in December to discuss the status of monitoring and auditing in Nepal.

Activity 21: Develop and strengthen EIA/SIA capacity for mitigation, implementation and monitoring

- Consolidated the EIA/SIA Team with the addition of a gender specialist and provided input for developing the First Year Work Plan.
- Prepared a syllabus for a generic training package.
- Prepared a list of manuals needed to improve EIA/SIA process, together with their functions. The utility of such manuals is proposed to be discussed in a SWOT workshop in December (Activity 18).

Activity 22: Develop standards for accrediting EIA/SIA Professionals

- Prepared a database of 33 EIA practitioners.
- Prepared a draft outline for types and levels of accreditation, together with a document outlining the standards for accreditation in consultation with DOED, SchEMS and TU.
- Planning an interagency workshop in November to finalize standards for accreditation.
- Conducted a workshop in November to identify for needs and procedures for certification of EIA professionals.

Activity 23: Develop capacity for EIA/SIAs at or above World Bank or IUCN standards

- Prepared a draft *Operational Manual of Environmental and Social Impact Assessment for Sub-Projects Financed under the Power Development Project*.
- Prepared a summary of the EIA process for the Asian Development Bank.

- Provided training to 18 officers the Department of Roads, a key government stakeholder in hydropower development, to adapt the Hydropower Scoping Manual to the road sector.
- Provided intensive training to 23 GON officers (including 5 officers from MOPE) and stakeholder representatives in the EIA process.
- Participated in the 11th EIA Training Courses at SchEMS.

Activity 24: Train public on disclosure and public consultation concerning EIA/SIA

- Conducted workshop on Public Hearings on Hydropower Developments in December 2002.

Activity 25: Facilitate regional info exchange to resolve key issues

- Obtained contact and background information for the National Environmental Association of Bangladesh (NEAB), the National EIA Association of Nepal (NEIAAN), the Pakistan EA Association (PEAA), the Sri Lanka EA Association (SLEAA), and the Indian Environment.
- Provided substantial support to the SARI/E program in developing a distance learning EIA course.
- Held discussions with the SARI/E team with regard to rationalizing and maximizing the utilization of resources by combining training activities as and when appropriate.

I. 5. Personnel, Cost, and Performance Tables

The schedule of short-term technical assistance, cost summary by Contract Line Item (CLIN), and estimated percent completion by CLIN and status by subtask at end of current report period are shown on Tables 8 through 11.

**TABLE 8. SHORT TERM EXPATRIATE TECHNICAL ASSISTANCE
(As of December 31, 2002)**

Name	Arrival Date	Departure Date	Length of Stay (days)	CLIN Number(s)	Assignment
Charles Moseley	02-Feb-02	10-Feb-02	9	1 and 2	First Year Work Plan; Project Management
Kenneth Lussier	23-Feb-02	14-Mar-02	20	1	Activity 5
Kenneth Lussier	28-Apr-02	09-May-02	12	1	Activity 5
Shakeb Afsah	29-Apr-02	10-May-02	12	1 and 2	NHMS
Mark Jordan	30-Apr-02	16-May-02	18	1 and 2	NHMS
Kenneth Lussier	07-Jun-02	20-Jun-02	14	1	Activity 5
John Andrews	07-Jun-02	29-Jun-02	23	1	Activity 13
Charles Moseley	10-Jun-02	24-Jul-02	45	1 and 2	Acting Chief of Party, Management System, Activities 1, 4, 5, 6, 17
Charles Moseley	18-Aug-02	6-Sep-02	20	1 and 2	Project Management, Activities 1, 5, 6, 17
John Andrews	17-Aug-02	6-Sep-02	21	1 and 2	Activity 13
Ali Memon	23-Aug-02	10-Sep-02	19	1	Activities 1, 6, 7

TABLE 9. COST SUMMARY BY CLIN
(As of December 31, 2002)

CLIN No.	Contract Budget	Total Claimed by 12/31/2002	Percent Budget To 12/31/2002 Expenses
CLIN 001	\$2,981,228	\$710,863	23.8%
CLIN 002	\$2,218,867	\$423,909	19.1%
Total	\$5,200,095	\$1,134,772	21.83%

TABLE 10. PERCENT COMPLETION BY CLIN
(As of December 31, 2002)

CLIN	Title	Expended Resources Percent	Estimated Activity Completion Percent
01	Improved enabling environment for equitable and sustainable hydropower development	23.8%	22%
02	Strengthened environmental and social assessment procedures, with broadened stakeholder participation	19.1%	20%

TABLE 11. PERCENT COMPLETION BY ACTIVITY
(As of December 31, 2002)

Activity Number	Activity Description	Percent Complete
CLIN 1 – Improved enabling environment for equitable and sustainable hydropower development		
1	Support policy, legal, and regulatory reform and strengthen key institutions	22%
2	Facilitate policy dialogue between HMG/N and civil society groups (To commence in year two)	0%
3	Technical support to the DOED on one or more export projects (To commence in year two)	0%
4	Technical support to improve the "one window" mechanism	10%
5	Assist DOED in implementing the World Bank's Power Development Fund (PDF) (including assistance on PDF processing)	50%
6	Improve DOED's capacity	25%
7	Identify Issues and Constraints to Power trade under Power Trade Agreement with India	20%
8	Assist DOED in developing and analyzing project proposals, RFQs and RFPs from the financial perspective	15%
9	Liberalize Nepal's finance sector to promote domestic investment in hydropower (To commence in year two)	0%
10*	Improve public awareness and participation in private hydropower development	20%
11	Improve transparency of local revenue sharing of hydropower benefits (To commence in year two)	0%
12*	Build outreach and education programs to increase public support through information	20%
13*	Training Activities - Perform training needs assessment for DOED and key institutions, complementary to SARI/E training program	65%
14	Training Activities - Build Nepalese capacity for regional energy development and trade (To commence in year two)	0%
15	Training Activities - Train DOED on IPPs and power trade negotiations (Financial issues) (To commence in year two)	0%
16	Training Activities - Executive exchange to promote energy reform consensus (To commence in year two)	0%
17	Training Activities - Study tours to Indian States to learn from successful sector reforms	8%
	CLIN 1	22%

* These activities support CLIN 1 and CLIN 2

TABLE 11. PERCENT COMPLETION BY ACTIVITY (Continued)
(As of December 31, 2002)

Activity Number	Activity Description	Percent Complete
CLIN 2- Strengthened environmental and social assessment procedures, with broadened stakeholder participation		
18	Train/assist relevant HMG/N agencies in EIA/SIA procedures and public consultations.	20%
19	Improve public hearings and documentation of stakeholder concerns	20%
20	Advance impact monitoring and evaluation of benefits and equity issues	15%
21	Develop and strengthen EIA/SIA capacity for mitigation, implementation and monitoring	20%
22	Develop standards for accrediting EIA/SIA Professionals	35%
23	Develop capacity for EIA/SIAs at or above World Bank or IUCN standards	25%
24	Train public on disclosure and public consultation concerning EIA/SIA	20%
25	Facilitate regional info exchange to resolve key issues	15%
CLIN 2		21%
ESTIMATED OVERALL WEIGHTED PERCENT COMPLETE		21%

SECTION II - COGNIZANT TECHNICAL OFFICER'S (CTO) REPORT

AGENCY FOR INTERNATIONAL DEVELOPMENT
MISSION TO NEPAL

REC'D DATE		
NAME	SIGN	DATE
KK	<i>KK</i>	2/24
SG		
RS		
SK		
RR		
CB		
RB		
RSG		
IRG/W		

MEMORANDUM

DATE: February 24, 2003

TO: Krish Krishnan, Chief of Party
International Resources Group, Inc. *file*

FROM: Anthony B. Carvalho, CTO *[Signature]*

SUBJECT: CTO Comments on the First Annual Report, Private Sector Hydropower Development Project-2, IRG/USAID Contract No. 367-C-00-02-00011-00 in support of USAID's Strategic Objective 4.

Please include the following in Section 2 of the First Annual Report for the period December 12, 2001 to December 31, 2002:

IRG submitted a draft of its first Annual Performance Report for the period December 12, 2001 to December 31, 2002 on October 31, 2002, three months earlier than required contractually in order to provide inputs for USAID's annual reporting requirements. They submitted their complete and final annual report on January 31, 2003.

As highlighted in the report, the first year's efforts were characterized by a quick mobilization effort, rapid start-up of activities but followed by a setback due to the departure of IRG's Chief of Party, Mr. Leo A. Polivka. IRG decided that he should be replaced for internal reasons. The COP departed on February 11, 2002 and was replaced by a new COP, Mr. Krish Krishnan on August 19, 2002. During that period, activities slowed although IRG provided home office staff to fill in the gap. At the same time, IRG made concerted efforts to fill in the position as quickly as possible. That search took about six months but by the end of the reporting period IRG had substantially caught up on most of the important activities.

In general, the first year's activities may be described as relevant, appropriate, productive and more or less within schedule. The report accurately describes progress accomplished during the reporting period and a review of the indicator tables reveals that good progress was made in meeting the major Strategic Objective targets for that year.

Comments by the DOED on IRG's recent performance were generally positive, particularly with regard to the Power Development Fund activities and the transparent manner in which the process for the selection of the Power Development Fund Administrator took place. As a result of these efforts, the selection process was substantially completed and was awaiting the World Bank's approval for award. This was a first for the DOED and perhaps for the Government of Nepal, where international competitive bidding took place in a transparent and professional manner.

I look forward to working with IRG in implementing the year two activities and achieving the results and targets set in their Workplan.



CC: RCO: Kathleen Bridges; CO: Satish Kumar
GDO: DStauffer
PPD:JWilliams