

May 6, 2014

Comments from United Kingdom on Approval by Mail: SREP Nepal: Rural Electrification through Renewable Energy (ADB)

Dear Patricia,

Thank you for the request for approval by mail for USD 11.2 million in SREP grant funding for the project proposal entitled Nepal: Rural Electrification Through Renewable Energy submitted by the Government of Nepal and the Asian Development Bank (ADB).

We appreciated the opportunity to discuss with the ADB leads on the project last week and were reassured that our areas of concern had been taken into account in the project design. We are content to approve the project, however, we would appreciate written confirmation and clarification on the following points from the Government of Nepal and the ADB for the record:

- It would be useful to set out in more detail the Nepal Renewable Energy Policy as it affects the mini-hydro and solar/wind projects – particularly the percentages of subsidy, loans and community contribution applicable. We were reassured to hear that a degree of competition will be applied in the allocation of the subsidy component and we would appreciate further details of how this would be applied.
- Further to the above point, we note that the proportions of subsidy expected on the solar and wind projects in particular are relatively high, and in addition to the competition for subsidy resources, we would also suggest that an emphasis is placed in that competition and in learning/evaluation on business models which have the potential to scale at lower levels of subsidy once demonstration effects have been achieved.
- We did not find the leverage assumptions clear between the original IP and this project, and the leverage assumption is much lower for this component (even on a component by component basis) than foreseen in the IP. We would appreciate a written confirmation of the changes in assumptions and design which have led to this reduction.
- The potential of this SREP support to 1) act as a scaling-up and shift to a more commercial basis of the existing mini-hydro debt fund, and 2) to act as a pilot for the proposed Central Renewable Energy Fund - are key factors in the argument for transformation in this project. We would appreciate if you could set out a bit more clearly the positioning, co-ordination and expected outcomes of this SREP support with respect to existing funds, and expected future funds.

With best wishes,
Steven

Steven Hunt | Energy Advisor | Low Carbon Development Team | Climate and Environment Department | Department for International Development