



CASE STUDY 6: NEPAL – POWER DEVELOPMENT PROJECT

Barriers	Lack of long term financing and availability of equity
Instrument	Project loan
Application	n/a
Amount	Original IDA fund of US\$35 million

PROJECT BACKGROUND AND OBJECTIVES

Nepal faced a large and growing need for investment in its power sector. The required investment was beyond the capacity of the government and donor agencies. The availability of private-sector debt and equity for hydropower projects was constrained, the debt that was available was of an insufficient maturity, and private investors were uncomfortable with investing in first-of-a-kind projects.

This project aimed to increase the flow of private investment in small and medium hydropower plants through the creation of a Power Development Fund (PDF), which provides provide long term financing to private investors, leveraging debt (and developer's equity) financing from the local capital markets. The project also aimed to reduce costs of new plants by implementing improved international competitive tendering processes. The project became effective in March 2004.

INSTRUMENTS USED

Under this credit operation, the PDF will finance small hydro schemes with an aggregate capacity of about 10 MW and one medium-sized scheme of about 30 MW. The US\$35 million from IDA Credit is expected to

leverage financing from other sources, i.e., developers' equity and commercial banks, of about US\$40 million.

INSTITUTIONAL ARRANGEMENTS

The PDF would be set up and owned by the Government while the administrative management of the fund would be carried out under contract by a local commercial bank (the Fund Administrator). The fund would provide long-term financing to small and medium hydropower projects, initially using money advanced by the World Bank (IDA). Other donor institutions would be invited to contribute over time. This donor involvement would be leveraged to attract private lenders and project developers. The Government would form a PDF Board which would approve loans from the Fund.

OUTCOMES

In January 2008 a proposal to restructure was submitted. Due to the political unrest in Nepal the project had rated as unsatisfactory and only a quarter of funds had been dispersed. Under the restructuring the unutilized PDF funding would be redirected to rural electrification. The PDF would remain but without funds. The November 2010 Implementation Status and Results Report stated progress as unsatisfactory.

Further reading

World Bank, Nepal Power Development Project – click [here](#)