

REGULATION, TAXATION AND INSURANCE

PROJECT TITLE: Afghanistan Rural Energy Market Transformation Initiative – Strengthening Resilience of Livelihoods Through Sustainable Energy Access

ACCREDITED ENTITY: UNDP

REGULATIONS AND LICENCES

- The Ministry of Rural Rehabilitation and Development (MRRD) is mandated to select, own and operate renewable energy projects (including mini grids) up to 1 MW. Any energy project above 1 MW comes under the mandate of Ministry of Energy and Water (MEW). All mini grids included in the proposed project have planned installed capacities of 1 MW or less.
- Detailed design of the three selected mini grids have been completed already. A construction contractor will be selected, through a competitive bidding process, for the constructions of the three mini-grids in accordance with the already-completed detail design.
- No private company in Afghanistan has a license to own electrical grid or sell electricity on a commercial basis. MRRD will remain the owner of the mini-grids and will provide contracts to a company (or a group of companies) for the purpose of operation, maintenance and tariff collections of the mini-grids.
- UNDP will provide technical support to MRRD to select willing and eligible private (legally registered) Afghan Renewable Energy Service Companies (RESCOs)¹ for the operation, maintenance and tariff collections of the mini grids through a competitive bidding process. Eligibility criteria of the companies will be set by MRRD, including, but not limited to the following:
 - valid business license to operate in Afghanistan
 - experience in operations and management of utility scale mini grids
 - proof of financial and technical capabilities necessary to operate and manage the mini grids
- Pay-as-you-go (PAYG) model will be applied for electricity usage. To ensure 100% tariff collections, the mini grids are designed to use smart pre-paid meters. Users will have options to re-charge or top-up the prepaid meters at the collection points that will be established in the area, or through his/her mobile (phone) payment system.
- For the implementation of solar mini grids, there are regulatory requirements related to Afghanistan's existing Environmental Impact Assessment (EIA) regulations (2008). The mini-grid investment design reports comply/will comply with the EIA regulatory requirements as well as with green procurement principles and safeguards standards. The same applies to construction phase of those mini grids.
- MRRD has already acquired lands for the three mini-grids and the project complies with the Afghan Land Policy (2007).

TAXATION

¹ Currently, roles of private renewable energy companies are limited to construction and short-term operations and tariff-collections (typically, 1 year after completion of construction) of the mini-grids. MRRD, as the owner of the mini grids, will recruit those companies for long term. No additional licenses will be required by the companies for O&M or tariff collections. MRRD, however, requires consent from the Ministry of Finance (MOF) to own a bank account for revenue collection from the mini-grids and in the process of obtaining it. That consent will be obtained, as required.

- Section 7 of the Convention on the Privileges and Immunities of the United Nations provides, inter alia, that the United Nations, including its subsidiary organs, is exempt from all direct taxes, except charges for utilities services, and is exempt from customs duties and charges of a similar nature in respect of articles imported or exported for its official use. UNDP will do the procurement of goods and services for the value above 7,000 USD. The good and services procured by UNDP will be tax free. Imported goods and services procured by the MRRD (below 7,000 USD) will be exempt from custom duties and taxes.

INSURANCE

For the implementation of project activities, RESCOs, selected through bidding processes, will provide and maintain insurance with respect to operations, maintenance and tariff collection:

- i. All risks related to its property and any equipment used for the execution of the activities under their contracts.
- ii. Appropriate coverage for employees to cover claims for personal injury or death in connection with their activities in the contracts.
- iii. Liability insurance in an adequate amount to cover third party claims for death or bodily injury, or loss of or damage to property, arising from or in connection with the provision of services under this Contract or the operation of any vehicles, boats, airplanes or other equipment owned or leased by the Contractor or its agents, servants, employees or sub-contractors performing work or services in connection with this Contract.