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INDIAN ELECTRIC UTILITY TO EXPAND PRODUCTION WITH IFC LOAN

A private Indian utility company will receive loans of approximately US\$20 million from the International Finance Corporation (IFC) to enable it undertake an US\$83.3 million expansion of electricity service to its growing market. The loan is IFC's first investment in India's power sector.

IFC is the World Bank affiliate whose mandate is to stimulate the growth of the private sector in developing countries.

Under the terms of an agreement signed May 30, IFC will make loans of US\$10 million and SwF16 million in the Ahmedabad Electricity Company Ltd. (AEC) for AEC to build a gas-fired generation unit to supply additional power to the cities of Ahmedabad and Gandhinagar in the state of Gujarat.

AEC currently depends on high-cost coal burning plants for electricity generation and is unable to fully meet the growing needs of its customers. AEC supplies industrial and commercial users and over 570,000 households--a market that is increasing by some 30,000 new customers each year. To supplement its own power generation, AEC currently purchases about a quarter of its peak load requirement from the state grid. When the natural gas-fired plant becomes operational, AEC will reduce its dependence on imports from the state grid, lower its power generation costs, and retire its oldest coal unit for use on a standby basis, thereby decreasing the pollution caused by burning coal.

Although the power sector in India absorbs about 20 percent of all public investment, it is characterized by shortages which impede development. In

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recent years the government has encouraged private sector investment in the industry to address the shortages. AEC, which has been in operation since 1913, is one of four private utilities in India. Its shares are held by the public (42.6 percent), Life Insurance Corporation and Unit Trust of India (36.8 percent), insurance companies and banks (18.3 percent), financial institutions and the Government of Gujarat (2.3 percent).

The IFC loan will be repaid in semi-annual installments over 15 years after a five-year grace period.

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