

**PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

Report No.: AB464

Project Name	Rural Electricity Access
Region	SOUTH ASIA
Sector	Power (100%)
Project ID	P083789
Borrower(s)	GOVERNMENT OF INDIA
Implementing Agency	Ministry of Power(MoP)
Environment Category	<input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
Safeguard Classification	<input type="checkbox"/> S ₁ <input checked="" type="checkbox"/> S ₂ <input type="checkbox"/> S ₃ <input type="checkbox"/> S _F <input type="checkbox"/> TBD (to be determined)
Date PID Prepared	January 16, 2004
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1. Key development issues and rationale for Bank involvement

To help achieve the country's development goals, the Government of India (GoI) has set ambitious targets in the 10th Five Year Plan for 100% village electrification by 2008 and 100% household electrification by 2012. Financing the proposed service expansion¹ will be a significant challenge, but the more serious development issue is to demonstrate financially sustainable approaches to rural electrification that have the potential to be scaled up without increasing the already overwhelming burden of operating subsidies.

GoI is proposing a demand driven, market based approach where communities, NGOs and entrepreneurs deliver rural electricity service, and the role of government is to (i) facilitate new rural service providers through capital subsidy, business and technical support; and (ii) create a supportive institutional, regulatory and business environment that allows new service providers to flourish. This is supported by the 2003 Electricity Act - which de-regulates rural electricity supply – and by the recently released GoI statement of sector policy. The recommendations of the *India Rural Electricity Access Discussion Paper* (an FY03 Bank output), which was prepared with the participation of GoI stakeholders, also suggests a similar approach. The proposed operation will support GoI in the implementation of its new approach by funding subsidy, business development and operational support to demonstrate a variety of sustainable and scaleable models of rural electricity service delivery. This will be accompanied by technical assistance to build the capacity of sector institutions to support new rural service providers and to implement enabling reforms.

Evidence of Borrower Commitment. GoI's commitment to a demand driven, market based approach to electrification is evidenced by the legislative and policy actions described above. The proposed operation would be an integral component of the Ministry of Power's (MOP) national program of rural electrification. It has been agreed with GoI that although implementation will initially be focused in two states, the project would seek to demonstrate successful models which can be scaled- up to other states. . To ensure preparedness capacity building funds will be available to all States to support the development of subsidy delivery institutions. This will enable ready expansion of the program to the poorest states when required.

At the state level, Governments are supportive of de-regulation and interested in attracting new service providers. Access to national level subsidies for rural electrification will be used as a further incentive to State Governments to provide a supportive environment for rural electricity suppliers, encourage development of a pipeline of rural projects, and leverage additional State Government funding. Two

¹ The estimated capital investment required to attain 2012 goals is in excess of US\$95billion.

potential candidate states – Uttar Pradesh and Rajasthan – have been identified to participate in the project. These are relatively poor states, and it would be important to develop projects that are sustainable in these settings to enable replication in other difficult environments. .

Lessons Learnt from similar activities. International experience suggests that a variety of alternate institutional arrangements can be successful for providing sustainable energy service, particularly where: (i) tariffs are adequate to cover costs; (ii) subsidies are limited to capital investment and targeted effectively; (iii) technology selection is based on economic merit; (iv) communities are engaged; (v) new market entrants are supported; (vi) programs are closely monitored and evaluated; and (vii) initiatives are integrated with rural and social sectors. Within India there has been extensive analysis of the constraints to increasing rural electricity access² – findings suggest that whilst existing consumers in India are willing to pay more for better quality supply, the sequencing of price reform and quality improvement is politically contentious requiring an incremental and opportunistic approach.

Activities of other partners. USAID, UNDP, ADB and DfID have ongoing initiatives in the rural electricity sector, which tend to focus on supporting renewable energy technologies and utility reform in target states. There is presently no support to GoI to demonstrate sustainable models of rural energy service delivery, or the type of institutional capacity building proposed under this operation. However, dialogue will continue with partners on MOP's national program of rural electrification.

Rationale for Bank involvement. The value of World Bank financing expected for this project (US\$50 million) is small relative to the investment GoI plans to make from its own resources. GoI's request for Bank support is based on its expectation that (i) institutional reform, capacity building, and support to new rural service providers will benefit from the quality of the Bank's international experience; (ii) a successful Bank engagement will lead to larger future investment projects³. The proposed operation supports program priorities identified in the Banks' *Country Assistance Strategy* (CAS) for India. It aims to improve government effectiveness in the rural electricity sector, promote private sector growth in rural areas and accelerate pro-poor rural development. By selecting a small scale sector engagement initially the project design reflects the learning and monitoring approach advocated by the CAS.

Borrowers interest and preparedness. The proposed operation forms part of the agreed WB/GOI program for the energy sector. Counterparts from MOP and Rural Electrification Corporation (REC) have been appointed to start work on project preparation. Candidate States were selected based on a variety of criteria including their economic status, the level of support for strategies outlined in the discussion paper, and institutional capacity.

² Key findings are presented in the *India Rural Electricity Access Discussion Paper*

³ The recent *Program for World Bank Engagement in the Power Sector in India* proposes working towards an overall engagement in the region of US \$1 billion over the next 5 to 7 years.

2. Proposed objective(s)

Project development objectives are to: (i) demonstrate sustainable institutional models for increasing access to electricity services in rural areas; and (ii) contribute to growth of rural incomes and improved delivery of social services through supply of electricity services. The success of the project shall be measured by the following outcomes: (i) institutions with the capacity to support, the development of new rural electricity suppliers; (ii) a number of sustainable rural electricity service delivery schemes in two states; and (iii) initiation of new projects to replicate and scale up successful models of rural electricity service delivery, especially for the poor.

3. Preliminary description

The proposed operation would be demand driven with rural electricity subprojects initiated by a variety of actors (e.g., entrepreneurs, NGOs, local institutions, community associations, and utilities). These 'subproject sponsors' will design rural electrification projects, prepare business proposals and compete for a capital subsidy from a state level fund to be established under the project. To develop capacity of local actors, the project will provide social intermediation and business development assistance aimed at facilitating the development, implementation and management of rural electricity subprojects. Subsidies will be awarded based on clear objective criteria. All subprojects must demonstrate that they will be financially sustainable (i.e., able to recover the costs of operation and maintenance and fixed costs less capital subsidies). It is expected that the maximum value of subsidy for a subproject will be capped at a proportion (up to 80%) of total subproject costs, with the balance of investment capital to be met from other sources (e.g., consumer contributions, private equity, commercial loans, and local government contributions). Competition for subsidies will be open to all technology types (grid, off-grid, renewable and conventional). Global Environment Facility (GEF) funding will be secured to provide additional subsidy to make renewable energy technologies more cost competitive.

A key feature of the project will be activities that maximize synergies between rural electricity services and rural development to optimize development impact. Support will be provided to integrate electricity subprojects with rural development interventions, to develop linkages between electricity and poverty reduction (e.g. matching grants for credit schemes that fund connection costs for poor households), and to coordinate electricity service with other sector investments (e.g., water supply, telecommunications).

The Project will also support the implementation of reforms and invest in capacity building of institutions to deliver proposed subsidies. To ensure coordination of activities with GOIs national program, and to prepare for national scale-up, this support will be extended to all States. Learning and innovation will be a key theme of the operation, focusing on the creation of sustainable rural electricity suppliers, the design of institutions to efficiently administer subsidies, and the development of positive synergies between electricity service delivery and poverty alleviation.

<i>Possible Project Components</i>	<i>Indicative Cost US\$m</i>
<i>Capital investments</i> for rural distribution systems supported through a blend of subsidy and loan to buy-down the capital cost of new investment. Additional investment subsidies for defined social objectives (e.g. schools) and re-financing to provide consumer credit for connections and appliances.	35
<i>GEF Grant</i> to provide additional investment subsidy for schemes involving renewable energy technologies; re-financing for state and community level financiers providing consumer credit for purchase of solar home systems; and possible promotion of energy efficiency technologies	10
<i>Technical Assistance for Institutional Reform and Capacity Building, in</i>	10

particular in the areas of subsidy administration, regulation, financial management and monitoring and evaluation.	
<i>Social Intermediation and Business Facilitation</i> , to encourage community participation in rural electricity projects, and to support new market entrants in rural electricity businesses. Funds would also be available to coordinate rural energy investments with rural and social development interventions.	7
<i>Project Administration</i>	3
A. TOTAL	65

4. Tentative financing

Source:	(\$m.)
BORROWER/RECIPIENT	5
INTERNATIONAL DEVELOPMENT ASSOCIATION	50
GLOBAL ENVIRONMENT FACILITY	10
Total	65

5. Contact point

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