



1. Project Data:		Date Posted : 08/17/2001	
PROJ ID: P035160		Appraisal	Actual
Project Name: Haryana Power APL-I	Project Costs (US\$M)	77	88
Country: India	Loan/Credit (US\$M)	60	52
Sector(s): Board: EMT - Power (95%), Central government administration (5%)	Cofinancing (US\$M)		22
L/C Number: L4271; LP225			
	Board Approval (FY)		98
Partners involved : USAID, DFID	Closing Date	12/31/2000	12/31/2000
Prepared by :	Reviewed by :	Group Manager :	Group:
Ramachandra Jammi	George T. K. Pitman	Alain A. Barbu	OEDST
2. Project Objectives and Components			
a. Objectives			
The project objective was to initiate the reform process of the power sector in Haryana state by,			
(i) establishing a new legal, regulatory and institutional framework (including the creation of an independent Regulatory Commission and new power corporations, and the initiation of the privatization and distribution business); and			
(ii) removing the most critical bottlenecks of the power system with a view to demonstrate -- in a few selected areas -- the benefits, which could be expected from a successful reform of the sector .			
b. Components			
(i) Support for critically needed emergency investments in transmission, sub -transmission and distribution systems (US\$ 62.3 m);			
(ii) Improvement of commercial and technical services to the consumers (US\$ 1.2m), including introduction of decentralized computer billing at sub-divisional offices, improvement of upgradation of consumer complaint handling system, and improvement of safety and working conditions of the utility staff; and			
(iii) Technical assistance and engineering services for reform program management and implementation, communication, institutional development of new power companies and Regulatory Commission, distribution privatization, demand side management and promotion of non -conventional energy sources and engineering services (US\$ 13.5 m).			
c. Comments on Project Cost, Financing and Dates			
Against an appraisal estimate of US\$ 77 m, actual project costs were about US\$ 66 m comprising US\$ 52 m Bank credit and US\$ 14 m government contribution. The project was closed as scheduled on December 31, 2000, and an amount of US\$ 7.7 million was canceled out of the Bank's share .			
3. Achievement of Relevant Objectives:			
<i>Mostly Achieved</i>			
<ul style="list-style-type: none"> • Comprehensive reform legislation was enacted; • A Regulatory Commission was established; • Restructuring measures were effected and new power utilities -- Transmission and Generation, and Distribution Companies -- were established and made operational; • Financial restructuring measures were completed as per Haryana's Financial Restructuring Plan . Haryana State Electricity Board (HSEB) assets/liabilities were restructured and transferred to successors . 			
<i>Partly Achieved</i>			
<ul style="list-style-type: none"> • The power system was strengthened in priority areas; • Partial progress was made in tariff adjustments, and in rescheduling of debts and commercial liabilities; • There was improved efficiency in consumer services for selected areas . 			
<i>Minimally Achieved</i>			
<ul style="list-style-type: none"> • Transmission and Distribution losses (as high as 41 percent) have not been reduced, expected for a few areas; • Efficiency improvements did not materialize to the extent expected; • The financial covenants as stipulated under the amended Assumption and Project agreement in respect of 			

profitability, DSCR, receivables, payables, were largely not met, primarily due to the continuing poor financial condition of the sector.

Not Achieved

- The scheduled task of selecting a strategic private investor for one distribution company was not done .

More actions would be needed to achieve the full goal of the reform : among them, improved governance of the sector and of the utilities, full autonomy and commercialization of the utilities, privatization and distribution, tariff adjustments, continuation of financial restructuring, further electricity market reform and increased competition . The sustainability of technical achievement would also be low if adequate resources for regular maintenance and adoption of proper operational practices are not provided . While there were no significant environmental issues anticipated during implementation, the project could have done with better environmental supervision .

The ERR and FRR for the project as a whole are estimated at 22 (52 percent at appraisal) and 18 percent respectively.

4. Significant Outcomes/Impacts:

- Initially, in spite of an uncertain political climate, the Government of Haryana (GoH) took politically difficult and key policy decisions and provided strong and continued support to the reforms;
- GoH was able to implement a substantial increase of about 50 percent in agricultural tariffs, as per the Regulatory Commission's order, breaking a major deadlock in the reform program .
- Careful project design and implementation of a Resettlement Action Plan enabled avoidance of acquisition fo private property .

5. Significant Shortcomings (including non-compliance with safeguard policies):

- In the absence of real managerial autonomy, restoration of creditworthiness of utilities, commercial behaviour, privatization of distribution, and other elements of the reform agenda, structural measures so far would have very limited effect.
- The conditionalities for proceeding from APL 1 to APL 2 -- selecting a joint venture private investor, and effecting sale of equity to the investor within six months -- were unrealistic.
- After a new government took office in Haryana in 1999, the reform program was not backed by a clear and strong political commitment nor promoted by reform "champions";
- The absence of a clear political commitment to the policy framework make resumption of the reform process difficult and costly. Hence sustainability is non-evaluable.
- Allocation of high-level staff resources was very uneven, and too few staff were appointed to the reform group;
- There is considerable risk of conflict between the state administration and state utilites and the Regulatory Commission, which may lead to deadlock;
- Significant delay on part of GoH to sign amended legal agreements with the Bank resulted in suspension of disbursements for about eight months, which slowed the pace of procurement .

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Unsatisfactory	Moderately Unsatisfactory	Important pioneering reform steps have been taken in a difficult political and institutional environment, together with satisfactory results on the physical components of the project. Given the foundation that has already been laid, any positive change in the fickle political situation can well help the reform process resume at a faster pace.
Institutional Dev .:	Modest	Substantial	Significant steps have been taken against considerable political odds, on the sectoral policy and regulatory fronts, laying an irreversible basis for further reform.
Sustainability :	Unlikely	Non-evaluable	Strong political commitment in the initial stages of the project enable important institutional and physical progress. Unexpected developments undermined this commitment, but in an uncertain political environment, there is no strong reason to suppose that this will continue to be so.

Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Unsatisfactory	Unsatisfactory	Initially, GoH was able to take the politically difficult and key policy decisions and provided strong and continued support to the reforms; most importantly a substantial increase of about 50 percent in agricultural tariffs, as per the Regulatory Commission's order, breaking a major deadlock in the reform program. However, political change in 1999 has effectively put the reform program on hold.
Quality of ICR :		Exemplary	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

- Political support for the reform, ownership, and reform "champions" are indispensable elements to start and sustain a reform process, and no practical purpose is served by taking "shortcuts";
- The APL proved to be a powerful lending instrument for dealing with a complex reform program with a long gestation period, within a highly sensitive and volatile environment. It is also an excellent instrument allowing adjustment as a result of lessons learned during the project in similar projects elsewhere;
- Both the client and the Bank should make a clear distinction between the means used to manage the reform process and the legal agreements and covenants upon which formal assessment of progress and outcome achievement would be made during supervision, especially for complex policy matters such as privatization of distribution;
- Country-based supervision was intensive and cost-effective (20 missions in 2 years) and enabled development of a productive partnership with the Bank's clients and development partners;
- Use of best international practice and consultants was key to the acceptability of the technical and institutional reforms;
- Distribution works are better performed on a "supply and erect" basis rather than procuring goods and having them erected through labor contractors;
- The format of the ICR for APLs could be revised to reflect the programmatic aspect of the APL, and by treating it as part of the documentation necessary for processing a subsequent operation.

8. Assessment Recommended? Yes No

Why? The APL is a new Bank instrument and its effectiveness requires evaluation. This project is an important and ambitious effort in promoting reform in the power sector, in a difficult political and institutional environment. A closer study of the strategies adopted to maximize performance in such circumstances, would hold important lessons for reform efforts in India and elsewhere in the world.

9. Comments on Quality of ICR:

The ICR covers all relevant points, provides detailed information, and is objective in assessing results and drawing lessons. It is well written and presented, and a pleasure to read. This is one of the best ICRs we have reviewed this year.