

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

Report No.:78736

<b>Project Name</b>	Preparation grant for Electricity Supply Accountability and Reliability Improvement Project
<b>Region</b>	Europe and Central Asia
<b>Country</b>	Kyrgyz Republic
<b>Sector</b>	Energy and Mining
<b>Lending Instrument</b>	Technical Assistance
<b>Project ID</b>	P133446
<b>Parent Project ID</b>	N/A
<b>Recipient</b>	OJSC Severelectro
<b>Implementing Agency</b>	OJSC Severelectro
<b>Environmental Screening Category</b>	{ }A { X }B { }C { }FI
<b>Date PID Prepared</b>	June 15, 2013
<b>Estimated Date of Appraisal Completion</b>	June 30, 2013
<b>Estimated Date of Board Approval</b>	N/A
<b>Decision</b>	Project authorized to proceed to negotiations upon agreement on any pending conditions and/or assessments.

## I. Country Context

The Kyrgyz Republic, with a multi-ethnic population of 5.4 million, is one of the two low income countries in the Europe and Central Asia region. The Kyrgyz economy has fluctuated widely over the past 5 years owing to economic and political vulnerabilities. Growth has ranged from a strong 7.6 percent in 2008 to a recessionary -0.5 percent in 2010 following political and social disturbances in April and June of that year. This volatility has continued, with the economy expanding by 6 percent in 2011 and contracting by -0.9 percent in 2012, owing to a sharp drop in gold output.

Poor governance, especially corruption, and lack of voice in governing institutions was the fundamental cause of political upheavals in 2010. Improving the governance and enhancing transparency and accountability in the public sector are strongly demanded by the general public and are at the heart of the National Sustainable Development Strategy 2013-17 (NSDS) of the government. Given the significant role of the energy (particularly power) sector in the Kyrgyz economy, improving the management at energy enterprises and enhancing transparency of their activities is a key reform area under the NSDS.

## II. Sectoral and Institutional Context

The power sector, overwhelmingly public, is relatively large and has significant growth potential. It accounts for about 4 percent of GDP and 16 percent of industrial production, and its

performance is critical for the performance of the Kyrgyz economy. The sector has a significant unrealized potential for export. Other advantages of the power sector are its relatively low cost of power generation, reliance on clean sources of energy, and the near universal access to power supply.

However, the sector is hobbled by weak governance, ambiguous regulatory environment, and lack of transparency in its operations. Large commercial losses, coupled with evidence of significant theft of power by vested interests and unrecorded exports under the previous regime, are some examples of key governance problems. Power and financial flows are not recorded or reported in a comprehensive way. The attainment of transparency is a *sine qua non* for the success of any reforms. Furthermore, though constituted as joint stock companies, the sector entities lack autonomy in decision making. The status of the regulator changed several times and its independence was substantially reduced during the last eight years. The existing contractual arrangements between the energy companies and payment mechanisms in the sector hinder the transparency of power and financial flows in the sector and undermine the incentives for good performance and sound management by the sector entities. Modest steps to improve governance have been taken, for example the introduction of an escrow account for power export proceeds in 2011. The introduction of the Fuel and Energy Sector Transparency Initiative represents an attempt to improve management and governance within the sector by ensuring greater public participation and transparency.

Persistently weak governance led to significant deterioration of the energy assets, poor sector performance, and inadequate financial viability. Power tariffs are exceptionally low and do not allow the sector entities to recover cash expenses let alone long run marginal costs of power supply. Consequently, the energy sector is a source of a substantial quasi fiscal deficit. Unless some critical investments are implemented, the power sector may face fatal failures leading to extended outages, further impeding the country's economic development, and deteriorated quality of life for the population.

The government has developed a Power Sector Development Strategy for 2012-2015. Measures in the strategy include: (a) further improvements in efficiency and transparency of the sector operations, (b) development and adoption of a medium-term tariff policy that would need to be accompanied by properly designed revisions of social protection schemes, and (c) a number of important energy investments.

Under the Development Policy Operations of the World Bank, the government has committed to policy actions aimed at increasing energy sector transparency, governance and accountability, and improving its financial viability. The objectives of these actions are: (i) improving transparency and accountability, (ii) disseminating sector indicators and key decisions to the public, (iii) clearly defining a sector management and regulation framework that would lead to the transparency and better management of energy related expenditures in the budget; and (iv) improving the financial standing of the sector<sup>1</sup>.

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<sup>1</sup> The energy chapter of the ongoing World Bank Public Expenditure Review (PER) assessed the cost of power supply to ensure recovery of recurrent costs and urgent investments, and to inform government's medium term tariff policy. The World Bank also supports the Government (under the PER, Poverty and Social Impact Assessment and ongoing dialogue) with the preparation of relevant social protection measures to mitigate the impact of tariff increases on the poor.

The government has requested the Bank to allocate IDA funding for the Electricity Supply Accountability and Reliability Improvement Project<sup>2</sup> (ESARIP) to support the implementation of the reform program in the power sector. The ESARIP would aim to establish a transparent accountability framework for the power and financial flows in Severelectro OJSC, the power distribution company serving the capital city of Bishkek, which could be used as a model by the other three distribution companies in the country. To that end, the project would support investments in the metering and billing infrastructure and the commercial management system for Severelectro to identify areas with high losses and revenue leakages thus reducing commercial losses and improving cash flows and the financial health of Severelectro. The ESARIP would also cover urgent investments to rehabilitate the old and under-maintained medium and low voltage electricity distribution infrastructure in Bishkek, which jeopardizes the reliability of the power supply and also causes high technical losses.

### III. Project Development Objectives

The development objectives of the proposed grant are to enhance the readiness of the Ministry of Energy and Severelectro to implement the ESARIP, and to strengthen the capacity of Severelectro.

### IV. Project Description

**Component 1: Identification of Investment Scope and Technical Capacity Building.** This component will support the following key activities: (i) identification of priority investment needs to be supported under the ESARIP; (ii) preparation of a detailed schedule to ensure timely implementation of investments under the ESARIP; (iii) preparation of technical specifications, detailed designs and bidding documents for the first year of the ESARIP implementation; and (iv) training and study tours to build technical/engineering capacity of Severelectro.

**Component 2: Preparation of Safeguards Documents and Establishment of User Feedback and Social Accountability Measures.** This component will support the following activities: (i) support to Severelectro to prepare, discuss (through consultations) and disclose the environmental and social assessment documents to ensure that project activities are screened to identify their likely social and environmental impacts and to document and mitigate these impacts, as needed; (ii) capacity building for the Ministry of Energy and Severelectro about the application of the environmental and social documents; and (iii) assistance to Severelectro in setting up and initiating systematic consumer feedback and social accountability during preparation and implementation of the ESARIP.

**Component 3: Technical assistance for governance, transparency and accountability reforms and identification of future technical assistance.** This will include: (i) support to the Ministry of Energy with the implementation of critical governance, transparency and

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<sup>2</sup> The ESARIP was approved in the meeting of Macroeconomic and Investment Policy Coordination Committee at the Government of the Kyrgyz Republic on 8 November 2012 and the Ministry of Finance sent a support letter for the ESARIP to the World Bank on November 22, 2012.

accountability reforms that would allow successful implementation of the ESARIP and its sustainability. (ii) support to the Ministry of Energy and Severelectro to identify technical assistance needs that would be supported by the ESARIP and would aim to ensure successful implementation of governance, transparency and accountability reforms in the power sector; and (iii) preparation of Terms of References for the consulting services to be procured during the first year of the ESARIP implementation, including estimated budget and timeline.

**Component 4: Preparation of Operational Manual and Fiduciary Capacity Building.** This component will include: (i) support to Severelectro with the preparation of the Operational Manual; and (ii) technical assistance to assist Severelectro in improving the efficiency and competitiveness of its procurements. Additionally, this sub-component will include training and technical assistance to Severelectro to strengthen its accounting system and fiduciary capacity, particularly in the areas of financial management, procurement, and monitoring and evaluation.

**Component 5: Incremental Operating Costs and Financial Audit.** This will involve: (i) financial audit of the use of the funds under the grant at the end of the grant; and (ii) support incremental operating costs of the Project Implementation Unit (PIU) under Severelectro.

## V. Financing

Source:	(\$m.)
Borrower/Recipient	-
IBRD	-
IDA	-
Others (ECA Capacity Development Trust Fund)	0.47
Total:	0.47

## VI. Implementation

The grant will be implemented and monitored by the PIU under Severelectro. Severelectro OJSC was established in June 2001 as a result of restructuring of the vertically integrated power utility. It is state owned enterprise with 80 percent of shares owned by State Property Fund of the Kyrgyz Republic and 13 percent of shares owned by the Social Fund of the Kyrgyz Republic.

## VII. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Piloting the Use of Borrower Systems to Address Environmental and Social Issues in Bank-Supported Projects ( <a href="#">OP/BP 4.00</a> )		X
<a href="#">Environmental Assessment</a> ( <a href="#">OP/BP 4.01</a> )	X	
Natural Habitats ( <a href="#">OP/BP 4.04</a> )		X
Pest Management ( <a href="#">OP 4.09</a> )		X
Physical Cultural Resources ( <a href="#">OP/BP 4.11</a> )		X

Involuntary Resettlement ( <a href="#">OP/BP 4.12</a> )		X
Indigenous Peoples ( <a href="#">OP/BP 4.10</a> )		X
Forests ( <a href="#">OP/BP 4.36</a> )		X
Safety of Dams ( <a href="#">OP/BP 4.37</a> )		X
Projects in Disputed Areas ( <a href="#">OP/BP 7.60</a> )*		X
Projects on International Waterways ( <a href="#">OP/BP 7.50</a> )		X

## VIII. Contact point at World Bank and Borrower

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\* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas.