

Note: Investments by Bank projects in offgrid rural electrification are normally accompanied by technical assistance to rationalize existing subsidy policies. The TOR describes work that could be feasibly carried out by an experienced international expert in 3-4 months.

Terms of Reference

Rationalization of Subsidy Policy for Rural Electrification

I. Background and Rationale

< Overview of the country's rural electrification program. Existing subsidy policies. High cost of electrification of remaining unserved areas, low income of remaining unserved populations. Need rational subsidy policy to extend reach of limited public resources for rural electrification >

II. Objective of the Assignment

The objective of this assignment is to develop a more effective, output-based sustainable subsidy policy for rural electrification, and its attendant implementing procedures, which can be made applicable to all types and sources of subsidies by the government in an integrated manner. Such as subsidy policy should be able to appropriately identify who to subsidize, what to subsidize and how to subsidize energy projects in order to optimize available subsidies from government and various donors and reach its intended beneficiaries. It should be able to:

a) satisfy the requirements of different types of projects, as follows:

- on-grid missionary electrification programs
- centrally planned tenders of electrification project packages for implementation by third party service providers
- locally identified, planned and implemented off-grid projects
- competitive provision of individual systems, such as solar home systems in areas uneconomic to serve by the main grid or by an isolated mini-grid with service provided by the private sector

assign appropriate roles to the various types of existing and planned subsidy instruments

- "internal" cross-subsidization of lifeline and rural consumers through the tariffs of "full-paying" consumers ;
- up-front investment subsidies;
- Annual subsidies to support unsustainable financial losses imposed on utilities by mandating electrification supply in extremely marginalized off-grid areas

b) leverage maximum co-funding from private sources of capital.

- equity capital contributions from project developers and consumers;
- loans from financing institutions

c) ensure that the subsidy is based on sound economic principles and is sustainable

III. Scope of Work

The consultant shall undertake the analytical and program design work necessary to develop a coherent subsidy policy applicable to the various programs/projects that government is

undertaking and those it plans to undertake. The tasks to be performed under this assignment shall include:

1. Review of existing subsidies

The consultant shall critically review the various subsidies currently being given to rural energy projects and the manner by which these are given to determine their efficacies and/or deficiencies and establish desired parameters for a more efficient, effective and output-based subsidy program.

2. Review of existing studies on Subsidies for Rural Energy, in particular, literatures and studies prepared by WB, as starting point for the subsidy rationalization exercise.

<list relevant reference documents prepared by the Bank and by others>

3. Design of Rural Power Subsidy Policy

The consultant shall develop and design a rural power subsidy policy incorporating the following key principles for “smart subsidies”:

- subsidies must be need-based
- subsidies must provide access to unserved areas, i.e., those that are currently without access to better quality energy (typically rural and poor households in remote areas)
- subsidies must be for access costs, not for consumption
- subsidies to cover demand-side rather than supply-side requirements

The Subsidy Policy shall include:

a) Macro-level Optimization : Criteria for Determining Subsidy Levels

- Subsidy Levels for the missionary electrification programs of Distribution Utilities

The subsidy policy shall formulate a new discriminatory policy that assigns subsidies only to distribution utilities and to projects where a genuine affordability problem can be detected.

- Subsidy levels for off-grid projects

This involves the preparation of “model utility” calculations for a ten years service operation for three forms of off-grid delivery options: mini-grid operations, fee-for-service provision of solar home systems and sales to consumers of solar home systems. The object is to estimate the justifiable subsidy support to off-grid areas.

b) Micro-level Optimization: Size and Structure of Lifeline Rate

- Establishing the level and the structure of the lifeline rate

The consultant shall establish a methodology for fixing the lifeline rates that focuses on making access to electricity service affordable for non-served low income households, rather than being an instrument for the re-distribution of income between

already connected consumers. Care must be taken to consider the regulatory implications of the cross-subsidization policy.

4. Guidelines, rules and procedures on how to operationalize the rationalized subsidy policy among the various agencies of government implementing rural electrification projects

Regardless of whatever sources of funding, the objective is to apply the same policy to all projects, across all agencies implementing missionary electrification projects. This activity shall ensure the applicability of the policy by establishing clear-cut implementing rules and procedures that all agencies must follow. The implementing rules shall have the following features:

a) Eligibility criteria

The criteria should set standards for the institutional, financial and commercial viability of the projects. It shall open the subsidy fund to all project promoters and shall be technology neutral. It shall promote sponsors that have long-term responsibility for the operational and financial viability of projects.

b) Selection criteria

The criteria should consider the satisfaction of the economic development, social and regional development goals for rural electrification. It shall set minimum standards, i.e., hours of service according to varying conditions, level of services to cover basic needs for lighting, quality and safety standards, etc. and promote cost-effectiveness in supported investments.

c) Tendering/Contracting arrangements

This refers to the rules and procedures for the transparent and competitive bidding for the subsidies. The rules may include schedules for bidding or rounds of bidding if done on a periodic basis, application and evaluation guidelines and procedures, and the tendering process. The subsidies could be tendered based on least-subsidy requested basis given target levels of connection, minimum hours of service and safety/quality standards or vice versa, lowest tariff based on a fixed subsidy level.

d) Fund release

This involves the criteria for how and when the subsidy funds may be released. The schedule for fund release must match the type of projects and subsidy instrument to be provided. For example, investment subsidy can be given either as up-front subsidy based on progress of construction, and/or as an annuity over several years linked to the number of connections.

e) Institutional arrangements (administration, monitoring and evaluation)

The rules shall specify how the contracting arrangements will be handled and by whom (which agency will handle and administer the funds), and how will the contractual performance be monitored.

5. Deliverables

Based on the above-outlined tasks, the expected deliverables for this assignment are:

- a) Report on the Recommended Subsidy Policy for Rural Electrification
- b) Report outlining the specific Guidelines, and Implementing Rules on the Subsidy Policy

6. Local Counterpart Arrangements

<Specify institutional arrangements for conducting the study>

7. Level of Effort

3 man-months