

**Afghanistan, Kyrgyz Republic, Pakistan and Tajikistan – IDA – Central Asia South Asia
Electricity Transmission and Trade Project (CASA 1000)**

March 27, 2014

U.S. Position

This is a landmark project, which is the first but most important step towards integration of the electricity markets of two sub-regions of Central Asia and South Asia.

The Bank's Role: The Bank's role in a project of this nature goes beyond project design, financing and traditional implementation support. It is equally critical that the Bank act as a trusted neutral partner to all four governments, especially in facilitating the negotiation of an electricity purchase price and a transit tariff that are fair to all parties. As well, the Bank should stand ready to mediate to resolve any inter-country issues that may arise during implementation, although such mediation should be without any legal obligation.

Access to Electricity: The United States would have expected more analysis of the "access-to-electricity" impacts that this operation would have in Pakistan and Afghanistan. In this regard, the aggregate numbers of "Indirect Project Beneficiaries" in the results framework are relevant but they would be more meaningful when broken down and systematically monitored separately for Afghanistan and Pakistan. In addition, it would be useful to measure the impacts this operation may have upon the reliability of electricity supply and technical line losses.

Project Cost and Implementation Timeframe: The economic and financial returns of this project are critically sensitive to cost overruns and implementation delays. The four governments involved have been engaged in discussions over this project since 2006.

Project Oversight and Coordination: The United States is pleased with the establishment of a ministerial level Inter-Governmental Council (IGC). The role of the IGC Secretariat is critical to ensure smooth coordination of implementation activities and, most importantly, to resolve issues with relevant authorities. Hence, the United States expects the Bank will continuously monitor the work of the Secretariat and other committees, in order to ensure they perform their roles effectively.

Implementation and Fiduciary Risks: The United States takes note of the insufficient experience in such projects in all four participating countries and encourages the authorities and staff to continuously strengthen implementation capacity, especially in Afghanistan where capacity gaps may endanger implementation, as is evidenced by a series of recent implementation completion reports on past projects, including in the energy sector. Given the incidence of corruption and fiduciary issues in the participating countries, the project document could have been more explicit on measures to manage these risks more effectively.

Project Impact on Electricity Demand and Supply Balance: The project rationale is built on availability of excess supply from Kyrgyz Republic and Tajikistan in summer months. However, the United States would like some clarification on how this excess supply matches excess demand in Pakistan and Afghanistan during those months.

Security Risk and Community Support Program: The risk to physical security of the project assets is the most unpredictable and challenging of all the risks. While the United States takes comfort from the commitment of the governments involved to make strong security arrangements, the United States believes involving corridor communities as stakeholders and beneficiaries under the Community Support Program (CSP) component, as well as a strong community outreach as envisaged, would also help manage security risks. In this regard, the United States is comforted that the participating governments have agreed to set aside a percentage of the total energy sales through the CASA1000 system in order to ensure financial sustainability of the CSP during operational stages. Having said that, the United States believes it is important to quantify the benefits to communities that might accrue from CSP implementation.

Procurement: Considerations of scale and consistency of technical specifications make a strong case for single procurement packages for the largest two components, i.e. transmission lines and converter stations, under a single set of procurement guidelines. However, the United States notes that various financing institutions are expected to finance discrete parts of the project on the basis of parallel financing following their own procurement procedures. The United States would like an explanation of why it is not feasible to use a single set of procurement procedures, for instance those of the Bank.

The United States requests further clarification on a few other key issues:

- Quantification of the poverty impact of this project in the four countries.
- The prospects of the excess fiber optic capacity embedded in the CASA 1000 transmission lines being taken up by telecom companies. Should this capacity find buyers, how will the revenues be shared? In any event, the United States believes that the Bank Group, IFC in particular, should help participating countries market this excess capacity.
- The economic incentives that other Central Asian countries and Russia would have in order for them to utilize the spare capacity of the CASA 1000 line during the winter months.

The United States wishes to be recorded as supporting this project.