



# Project Administration Memorandum

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Project Number: 32298  
Loan Number: 2324  
January 2008

## **Multitranche Financing Facility**

### **India: Madhya Pradesh Power Sector Investment Program (Tranche 2 – Distribution Efficiency Enhancement)**

The project administration memorandum is an active document, progressively updated and revised as necessary, particularly following any changes in project or program costs, scope, or implementation arrangements. This document, however, may not reflect the latest project changes.

**Asian Development Bank**



## **CURRENCY EQUIVALENTS**

(as of December 2006)

Currency Unit – Indian rupee/s (Re/Rs)

Rs1.00 = \$0.02150

\$1.00 = Rs 44.66

## **ABBREVIATIONS**

|         |   |  |
|---------|---|--|
| ARR     | – | Annual Revenue Requirement                                     |
| ADB     | – | Asian Development Bank   |
| CDM     | – | Clean Development Mechanism                                    |
| CMD     | – | Chairman and Managing Director                                 |
| DFID    | – | Department for International Development of the United Kingdom |
| EA      | – | Executing Agency   |
| EARF    | – | Environmental Assessment and Review Framework                  |
| EIRR    | – | economic internal rate of return                               |
| EMP     | – | environmental management plan                                  |
| EPA     | – | Environmental Protection Agency                                |
| FFA     | – | Framework Financing Agreement                                  |
| FIRR    | – | financial internal rate of return                              |
| FY      | – | fiscal year  |
| GDP     | – | gross domestic product   |
| GOMP    | – | Government of Madhya Pradesh                                   |
| GRC     | – | grievance redress committee                                    |
| HVDS    | – | high-voltage distribution system                               |
| IA      | – | Implementing Agency  |
| IEE     | – | initial environmental examination                              |
| IPDF    | – | indigenous peoples development framework                       |
| IPP     | – | independent power producer                                     |
| LAA     | – | Land Acquisition Act   |
| LIBOR   | – | London interbank offered rate                                  |
| LRMC    | – | long run marginal cost   |
| MFF     | – | Multitranchise Financing Facility                              |
| MPSEB   |   | Madhya Pradesh State Electricity Board                         |
| MPERC   |   | Madhya Pradesh Electricity Regulatory Commission               |
| MTDF    | – | Medium Term Development Framework                              |
| O&M     | – | operation and maintenance                                      |
| OCR     | – | ordinary capital resources                                     |
| PFR     | – | Periodic Financing Request                                     |
| PIU     | – | project implementation unit                                    |
| PMO     | – | project management office                                      |
| PPA     | – | Power Purchase Agreement                                       |
| PPTA    | – | project preparatory technical assistance                       |
| PV      | – | Photo-voltaic  |
| RE      | – | Renewable Energy   |
| TRADECO | – | Madhya Pradesh Power Trading Company Limited                   |
| TRANSCO | – | Madhya Pradesh Power Transmission Company Limited              |

## **WEIGHTS AND MEASURES**

|                |   |   |
|----------------|---|---|
| GWh            | – | gigawatt-hour (1,000 megawatt-hours)    |
| ha (hectare)   | – | unit of area                            |
| km (kilometer) | – | 1,000 meters                            |
| kV             | – | kilovolt (1,000 volts)                  |
| kW             | – | Kilowatt (1,000 watts)                  |
| kWh            | – | Kilowatt-hour                           |
| MVA            | – | Megavolt-ampere(1,000,000 volt-amperes) |
| MW             | – | Megawatt (1,000 kilowatts)              |
| MWh            | – | Megawatt-hour                           |
| VA             | – | volt-ampere                             |

## **NOTES**

- (i) The fiscal year (FY) of India and its agencies runs from 1 April to 31 March of the following year. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2006 ends on 31 March 2006.
- (ii) In this report, "\$" refers to US dollars

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## LOAN PROCESSING HISTORY

|   | <b>Date(s)</b>        |
|---|-----------------------|
| a. Approval of Project Preparatory Technical Assistance | (PPTA not required)   |
| b. Fact-Finding   | 16 – 24 October 2006  |
| c. Management Review Meeting (MRM)                      | 11 December 2006      |
| d. Appraisal Mission                                    | 12 - 14 December 2006 |
| e. Staff Review Committee (SRC)                         | 19 January 2007       |
| f. Loan Negotiations                                    | 19 - 20 February 2007 |
| g. Board Circulation                                    | (Not required)        |
| h. President's Consideration and Approval               | 4 April 2007          |
| i. Loan Agreement Signing                               | 12 April 2007         |
| j. Loan Effectiveness, including Conditions             | 14 May 2007           |
| k. Physical Completion Date                             | 31 December 2010      |
| l. Loan Closing Date                                    | 30 June 2011          |

## DESIGN AND MONITORING FRAMEWORK

| Design Summary  | Performance Targets/Indicators   | Data Sources/Reporting Mechanisms  | Assumptions and Risks  |
|---|--|--|--|
| <b>Impact</b><br>Contributed to sustaining economic growth and social development in Madhya Pradesh.<br><br>Contributed to meeting the energy demand growth in Madhya Pradesh | Gross State Product (GSP) grows by at least 6% annually in the period 2007-2012<br><br>Energy deficit is reduced from 13% in 2007 to 0% in 2012.   | Annual economic review and performance reports <sup>1</sup>  | <b>Assumptions</b><br>Central and state governments remain committed to power sector reforms   |
| <b>Outcome</b><br><br>Reduction in system losses and improved supply quality and reliability.   | Improvement in system reliability, substantial reduction in fault restoration time.<br><br>Reduced customer complaints about quality of electricity supply   | Annual reports of the transmission and distribution companies.<br><br>Reports of the Madhya Pradesh Electricity Regulatory Commission (MPERC). | <b>Assumptions</b> <ul style="list-style-type: none"> <li>• Operation and maintenance of the installations are carried out as per standard requirements.</li> <li>• Availability of adequate competent staff in the companies.</li> <li>• Load growth as projected</li> <li>• Consistency of regulatory mechanisms and intervention</li> </ul> <b>Risks</b> <ul style="list-style-type: none"> <li>• Delays in implementation of related Powergrid transmission projects</li> <li>• Generating capacity, including associated facilities not financed by ADB, not commissioned in a timely manner</li> </ul> |
| <b>Outputs</b><br><br>Installation of, high voltage distribution systems, remote metering, consumer metering and renovation of substation protection system.                  | <u>By 2011:</u><br><u>High Voltage Distribution Systems:</u><br>7,400 km conversion of LT lines to HV lines<br><br>11/0.4 kV distribution transformers:<br>9,800 nos. of 25 kVA<br>12,400 nos. of 16 kVA<br><br><u>Remote metering:</u><br>2,000 industrial customers<br><br><u>Consumer metering:</u><br>50,000 three phase | Quarterly project progress reports, loan review missions   | <b>Assumption</b> <ul style="list-style-type: none"> <li>• Counterpart funds for timely project implementation are made available</li> <li>• Timely approval of contract awards by relevant authorities</li> <li>• Timely land acquisition and regulatory approval of construction of transmission lines and substation.</li> </ul> <b>Risks</b> <ul style="list-style-type: none"> <li>• Regulatory approval for rights-of-way in forest areas is not obtained in a timely</li> </ul>   |

<sup>1</sup> Available in *Handbook of Statistics on Indian Economy*, available from Reserve Bank of India website (<http://www.rbi.org.in/scripts/publications.aspx>) and updated monthly.

| <b>Design Summary</b>   | <b>Performance Targets/Indicators</b>   | <b>Data Sources/Reporting Mechanisms</b> | <b>Assumptions and Risks</b>   |
|---|---|--|--|
|   | 200,000 single phase<br><br><u>Substation Protection System:</u><br>100 33/11 kV substations. |  | manner<br><br><ul style="list-style-type: none"> <li>• Increase in prices of raw materials exceeds contingency and inflation forecasts.</li> </ul>     |
| <b>Activities with Milestones</b><br><br>1. Procurement of major equipment: issuance of bidding documents by March 2007 and contract awards by September 2007<br>2. Construction started by December 2007<br>3. Commissioning by 2011 |   |  | <b>Inputs</b> <ul style="list-style-type: none"> <li>• ADB: \$45 million</li> <li>• PFC: \$10.0 million</li> <li>• DISCOM-E: \$10.7 million</li> </ul> |

ADB = Asian Development Bank, DISCOM-E = east zone distribution company, kV = kilovolt, kVA= kilovolt ampere, MVA = megavolt ampere, MW = megawatt, PFC = Power Finance Company, PFR = Periodic Financing Request,



## **I. PROJECT DESCRIPTION**

### **A. Project Area and Location**

1. The distribution efficiency enhancement proposed to be undertaken in this Project are located in six distribution circles in the eastern distribution zone and various locations across the State of Madhya Pradesh.

### **B. Impact and Outcome**

2. The distribution component of MP's investment program from 2007 to 2012 is predicated on building sufficient capacity for evacuation of power from existing and planned power stations and substations, and delivering power reliability and efficiency to consumers. ADB will finance part of the distribution investment program from 2007 through to 2012. The impact of the distribution component will be more pronounced and apparent from the perspective of consumers. Improvements in voltage profiles will be evident through better lighting and fewer equipment failures. Supply will be available more consistently and momentary outages will be significantly reduced. The distribution component will also directly impact both technical and non-technical losses and eventually sector profitability and financial sustainability.

### **C. Project Components**

3. The distribution component consists of the following:

- (i) construction of High Voltage Distribution Systems (HVDS) in six (6) distribution circles in the eastern distribution zone of Madhya Pradesh, including conversion of about 7,400 km of low voltage lines to high voltage lines;
- (ii) remote metering of about 2,000 industrial consumers,
- (iii) metering of about 250,000 consumers; and
- (iv) renovation of protection system at about 100 substations.

### **D. Technical Justification and Selection Criteria**

4. All selected subprojects have been subject to a rigorous and strict scrutiny process. These subprojects have been examined by DISCOM-E for their technical, economic and financial feasibility; then by the Madhya Pradesh Electricity Regulatory Commission (MPERC) and the Ministry of Power of the Government of India. ADB-funded project preparatory technical assistance (PPTA) consultants also reviewed all aspects of the proposed subprojects. ADB's loan processing missions also visited sites, reviewed all available reports, undertook a comprehensive due diligence assessment including safeguard aspects of the subprojects. To be eligible for inclusion in the next set, the subprojects proposed shall meet the criteria listed in Schedule 4 to FFA.

## **II. COST ESTIMATES AND FINANCING PLAN**

### **A. Detailed Cost Estimates and Financing Plan**

5. The total cost of the investment project is estimated at \$65.7 million, inclusive of taxes, duties, and interest and other charges on the loan during construction. Cost estimates are

summarized in Table 1, while financing plan is in Table 2. The detailed cost estimates and financing plan are attached as **Appendix 1**.

**Table 1: Cost Estimates (\$ million)**

| Description            | Amount      |
|------------------------|-------------|
| Base Cost              |             |
| Equipment              | 35.5        |
| Civil Works            | 12.4        |
| Project Management     | 2.6         |
| Environment Mitigation | 0.7         |
| Resettlement           | 0.0         |
| Taxes and Duties       | 2.6         |
| Subtotal Base Cost     | 53.7        |
| Contingencies          | 8.1         |
| Financing Charges      | 3.9         |
| <b>Total Cost</b>      | <b>65.7</b> |

**Table 2: Financing Plan (\$ million)**

| Agency       | Amount      | %          |
|--------------|-------------|------------|
| ADB          | 45.0        | 68         |
| PFC          | 10.0        | 15         |
| DISCOM-E     | 10.7        | 17         |
| <b>Total</b> | <b>65.7</b> | <b>100</b> |

PFC= Power Finance Company; DISCOM-E= East Zone Distribution Company

## **B. Allocation of Loan Proceeds**

6. The Madhya Pradesh Poorv Kshethra Vidyut Vitaran Company Limited (East Zone Distribution Company/DISCOM-E) shall apply the proceeds of the loan to the financing of expenditures on the investment project in accordance with the Loan Agreement. The loan proceeds will be withdrawn from the Loan account on the basis of the percentages provided in Table 3.

**Table 3: Allocation and Withdrawal of Loan Proceeds**

| CATEGORY |                                   |                        | ADB FINANCING  |
|----------|-----------------------------------|------------------------|--|
| Number   | Item                              | Amount Allocated<br>\$ | Percentage and Basis for<br>Withdrawal from the Loan Account |
| 1        | Works                             | 2,000,000              | 100 percent of total expenditure*                            |
| 2        | Equipment                         | 33,500,000             | 100 percent of total expenditure*                            |
| 3        | Interest and Commitment<br>Charge | 800,000                |  |
| 4        | Unallocated                       | 8,700,000              |  |
|          | <b>Total</b>                      | <b>45,000,000</b>      |  |

\*Excluding taxes and duties imposed within the territory of the Borrower.

7. Procurement to be financed under the investment project will be procured in accordance with ADB's *Procurement Guidelines*, 2007, as amended from time to time.

8. The investment project is expected to be completed by 31 March 2011. No disbursement from the loan account will be requested or made later than 30 September 2011, or such other date as may from time to time be agreed between the Borrower and ADB.

### III. IMPLEMENTATION ARRANGEMENTS

#### A. Executing Agency

9. The Madhya Pradesh Poorv Kshethra Vidyut Vitaran Company Limited (East Zone Distribution Company/DISCOM-E) will be the Executing Agency (EA). DISCOM-E is headed by the Chairman and Managing Director.

#### B. Project Management Unit

10. DISCOM-E has established their project management unit (PMU) in Jabalpur. The PMU has been fully staffed and operational and has carried out substantial preparatory works such as field survey, preliminary design, economic and financial analysis, preparation of detailed project report (DPR), and preparation of draft bidding documents. During implementation, the PMU will conduct day-to-day project management including procurement, construction supervision, inspection and testing of equipment, payments to contractors, monitoring and reporting of progress. The PMU manager will report directly to the Chairman and Managing Director (CMD) DISCOM-E. The organization structure for Project Implementation is in **Appendix 2**.

#### C. Implementation Schedule

11. The investment project will be implemented over 4 years and is expected to be completed by 31 March 2011. The indicative implementation schedule is shown in **Appendix 3**.

### IV. PROCUREMENT

12. Procurement to be financed under MFF will be procured in accordance with ADB's *Procurement Guidelines*, 2007 as amended from time to time. International competitive bidding (ICB) will be used for supply of equipment (vacuum circuit breakers, meters, etc.) and turnkey construction of the facilities being funded under the investment program (high voltage distribution systems, etc.). The ICB procedures will be used for all contracts irrespective of estimate costs. The Procurement Plan (including list of contract packages of goods and turnkey contracts) is in **Appendix 4**.

13. **Advance Contracting.** To expedite the implementation of the distribution component, at the request of India, ADB approved the advance contracting. Bidding documents for transmission subprojects have been reviewed and approved by ADB and have been issued in April 2007.

### V. DISBURSEMENT PROCEDURES

14. The Loan proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2007, as amended from time to time). Direct Payment Procedure and Commitment Procedure will be used where applicable.

15. For this loan, India will establish an **imprest account**. The imprest account will be established, operated, and maintained in accordance with ADB's *Loan Disbursement Handbook* (Table 4). The imprest account shall be checking account, which will facilitate withdrawal of funds to meet project expenditures whenever needed. Interest income earned from the imprest accounts, if any, shall be refunded to ADB. A second generation imprest account (SGIA) may be established for this loan in the name of DISCOM-E that receives funds from the first generation imprest account to meet project expenditures incurred.

**Table 4: Narrative Procedures for Imprest Fund Procedure**

| <b>Responsible Person/Unit</b>                                | <b>Activity</b>  |
|---|--|
| <b>A. ADB's Initial Advance to the Imprest Account</b>        |  |
| Borrower  | <ul style="list-style-type: none"> <li>Completes the withdrawal application for imprest fund and estimate of expenditure sheet using form ADB-IFP-EES.</li> </ul>  |
| ADB   | <ul style="list-style-type: none"> <li>Receives the completed forms and disburse the initial 6-month advance for deposit to the Borrower's imprest account.</li> </ul>   |
| <b>B. Liquidation or Replenishment of the Imprest Account</b> |  |
| Borrower  | <ul style="list-style-type: none"> <li>Completes the withdrawal application for imprest fund and the applicable Summary Sheet using form ADB-IFP-SS or SOE to replenish the account as frequently as possible provided the amount of the application reaches the minimum ceiling of US\$100,000; and</li> <li>Prepares the necessary imprest account reconciliation statement and attaches the bank statement(s).</li> </ul> |
| ADB   | <ul style="list-style-type: none"> <li>Receives the completed forms and disburses the value of eligible expenditures for replenishment of the account balance; and</li> <li>Disallows any unjustified or ineligible payment.</li> </ul>  |
| Borrower  | <ul style="list-style-type: none"> <li>Refunds the disallowed amount to the imprest account.</li> </ul>  |
| <b>C. Final Liquidation or Recovery of Advances</b>           |  |
| Borrower  | <ul style="list-style-type: none"> <li>Completes the liquidation of advance form and the applicable Summary Sheet or SOE; and</li> <li>Prepares the imprest account reconciliation statements and attaches the bank statement(s).</li> </ul>   |
| ADB   | <ul style="list-style-type: none"> <li>Receives the completed forms and deducts the amount of expenditures incurred from the outstanding balances of advances until the imprest account reaches a zero balance; and</li> <li>Requests the Borrower to refund the unliquidated balance if the account still has unliquidated advance after the loan closing date.</li> </ul>  |
| Borrower  | <ul style="list-style-type: none"> <li>Refunds promptly to the loan account any amount that remains outstanding in the imprest account after the loan closing date, as specified in the Loan Agreement.</li> </ul>   |

16. ADB's **statement of expenditures (SOE)** may be used to reimburse eligible expenditures and to liquidate advances to the imprest account and SGIA, applicable to expenditures amounting to \$100,000 or less.

## VI. PROJECT MONITORING AND EVALUATION

17. The Government ensures that within 3 months of the Effective Date, a Project Performance Monitoring System (PPMS) will be established by DISCOM-E in a form and with a composition acceptable to ADB in accordance with the Investment Program and Project performance indicators. DISCOM-E will undertake periodic Project performance review, and also for the Investment Program in accordance with the PPMS to evaluate the scope, implementation arrangements, progress and achievements of objectives of the related subproject and overall Investment Program.

### A. Inception Mission

18. An inception mission was fielded 20-25 May 2007 to discuss this PAM, and to ensure that all administrative matters pertaining to the Project are properly in place and working relationships are established between concerned ADB staff and DISCOM-E staff. Details relation to report requirements, accounting system, compliance with loan covenants, disbursement procedures and withdrawal applications were clarified during the mission.

### B. Review Missions

19. Review missions will be conducted to monitor overall progress of the Project, review expenditures and cost estimates and most importantly discuss problems and issues causing delays in project implementation. The review missions will also monitor the overall performance of DISCOM-E. The first review mission was conducted from 7 to 17 January 2008 and succeeding review missions will be fielded by ADB as and when required but at least twice a year. The PAM was updated with project progress calculation sheet and finalized PAM was signed on 10 January 2008.

## VII. ACCOUNTING, AUDITING AND REPORTING

20. **Accounting, Auditing and Reporting.** Quarterly progress reports will be prepared for review by ADB. The reports will include a description of physical progress, problems and a summary of financial accounts that will consist of loan expenditures during the period, year to date, and total to date. Progress on environmental and social compliance, overall progress and compliance with conditions of the FFA and loan and project agreements will also be reported in the progress reports. Suggested Format of Progress Report is attached as **Appendix 5**. Calculation Method of Project Progress was discussed during the first review mission in January 2008 and agreed as **Appendix 6**. The progress reports will also include evaluation of issues or problems faced by DISCOM-E and recommended remedial actions. DISCOM-E will maintain separate accounts for the project. Within 6 months of the close of the financial year, the DISCOM-E will submit audited project accounts and financial statements. An independent auditor acceptable to ADB will be hired by DISCOM-E to conduct the audit. A copy of the Audit Letter is attached as **Appendix 7**. A project completion report will be submitted within 3 months following completion of the investment project.

## VIII. SAFEGUARDS

### A. Land Availability and Resettlement

21. The GOMP will cause DISCOM-E to, subject to compliance with the relevant provision of the RF/RPs and Environmental Assessment Framework (EAF) /EMP and in accordance with all

applicable laws and regulations of INDIA and MP, acquire or make available the land and rights to land free from any encumbrances, and cleared the utilities, trees and any other obstruction from such land, required for commencement of construction activities in accordance with the schedule agreed under the related civil works contract.

22. The GOMP will cause DISCOM-E to ensure that all land and rights-of way required by the subprojects will be made available in a timely manner and that the provisions of the RPs, including compensation and entitlements for affected households and persons, will be implemented in conformity with all applicable laws and regulations of the Government, including as amended from time to time, and the entitlement benefits as listed in the Government's applicable laws, and ADB's *Policy on Involuntary Resettlement 1995*, and the agreed RF.

23. The GOMP will cause DISCOM-E to ensure that people affected by each subproject are fairly compensated in a timely manner on replacement values in accordance with the related RPs and RF, such that their living standards are not adversely affected. DISCOM-E will submit progress and completion reports on land acquisition and resettlement under the quarterly progress reports for each subproject.

24. The GOMP will cause DISCOM-E to ensure that prior to land acquisition and any resettlement under each subproject, the related RP including its update based on consensus of affected peoples, is disclosed with all necessary information made available to persons affected by the subproject and confirm that it be uploaded onto ADB website. DISCOM-E will ensure that essential public infrastructure that may be affected under land acquisition and resettlement is replaced as appropriate in an expeditious manner in accordance with the RPs.

25. The GOMP will cause DISCOM-E to ensure that construction contracts contain binding requirements for construction contractors to fully reinstate pathways, other local infrastructures, and agricultural land to at least their pre-project condition upon construction completion. Provision should be made for adequate recording of the condition of roads, agricultural land and other infrastructure prior to transport of material and construction commencement.

26. For each subproject, the GOMP and DISCOM-E will ensure timely provision of budget for land acquisition, resettlement and other activities outlined in the related RP and shall meet any unforeseen obligations in excess of the RP budget estimate in order to satisfy the RP requirements.

27. Within 3 months of the Effective Date, DISCOM-E will engage an independent external expert/agency, acceptable to ADB, for monitoring and verification of the RP implementation under each subproject that will be responsible for providing ADB through the PMU quarterly monitoring and evaluation reports on resettlement implementation in accordance with the RPs.

28. Within 3 months of the Effective Date, DISCOM-E will establish a grievance redress committee with representation from all stakeholders for the Project to address any grievances from APs concerning resettlement, environment and other social issues in a timely manner.

## **B. Environmental**

29. GOMP through DISCOM-E will ensure that proposed investments under the MFF are undertaken and that all subproject facilities are operated and maintained in accordance with all applicable laws, rules, and regulations of INDIA and ADB's *Environment Policy 2002*, as amended from time to time.

30. For each subproject, DISCOM-E will prepare and implement the necessary IEE, environmental impact assessment, and EMP (with budget) in accordance with the environmental assessment and review framework. For subprojects not defined prior to approval of the MFF, the environmental categorization and assessment procedures defined in the environmental assessment and review framework will be followed as part of subproject appraisal. For any category A or B subprojects, an SEIA or IEE will be prepared and made available to the public 120 days in advance of subproject approval following ADB procedures.

31. DISCOM-E will monitor, audit, and report to ADB twice a year on the implementation of the EMPs for each subproject. GOMP will verify that all associated power projects not financed by ADB will be constructed and commissioned in compliance with the laws and regulations of INDIA prior to connecting such facilities to the ADB-supported transmission network.

## **IX. MAJOR LOAN COVENANTS**

32. In addition to the standard assurances, the Government, DISCOM-E, and ADB agreed to the additional assurances and the summary on status of compliance is shown in **Appendix 8**.

## X. KEY PERSONS INVOLVED IN THE PROJECT

### A. Executing Agency

#### The Government of India:

Ministry of Finance

Mr. Arvind Mayaram  
Joint Secretary  
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#### Project Executing Agency:

Madhya Pradesh Poorv Kshethra  
Vidyut Vitaran Company Limited  
(East Zone Distribution Company  
/DISCOM-E) Jabalpur

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E-mail: [mmarasigan@adb.org](mailto:mmarasigan@adb.org)

Controller's Department  
Loan Administration Division  
(CTLA1)

Mr. Francis Emmanuel  
Senior Financial Control Specialist  
Tel. No.: (63-2) 632-4774  
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Address & Fax No. (SAEN):

Asian Development Bank  
6 ADB Ave., Mandaluyong City, 1550  
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Fax No. (632) 636-2338 (SAEN)

India Resident Mission (INRM)

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Project Implementation Officer  
(Energy)  
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Website Address of ADB:

<http://www.adb.org>

## **XI. ANTICORRUPTION**

33. ADB defines corruption as “abuse of public or private office for personal gain”. ADB will systematically identify, in consultation with its member countries’ opportunities for reducing corruption as part of its broader emphasis on improving good governance and sound development management. ADB’s Anticorruption Policy has set the guidelines and procedures in addressing fraudulent corrupt practices. Anyone coming across evidence of fraud or corruption associated with the Investment Program must contact ADB’s Office of the General Auditor, who will investigate such allegations.

## **XII. CONCURRENCE**

34. We have reviewed the Project Administration Memorandum and concur to implement the Investment Program according to the agreed requirements.

(Original Signed in Jan. 2008)  
 Pankaj Agarwal  
 Chairman & Managing Director  
 Madhya Pradesh PoorvKshetra Vidyut  
 Company Limited (DISCOM-E)

(Original Signed in Jan. 2008)  
 Hiroki Kobayashi  
 Energy Specialist  
 /Project Officer for Loan 2324  
 Asian Development Bank

Date: 10 January 2008

## Detailed Cost Estimates and Financing Plan

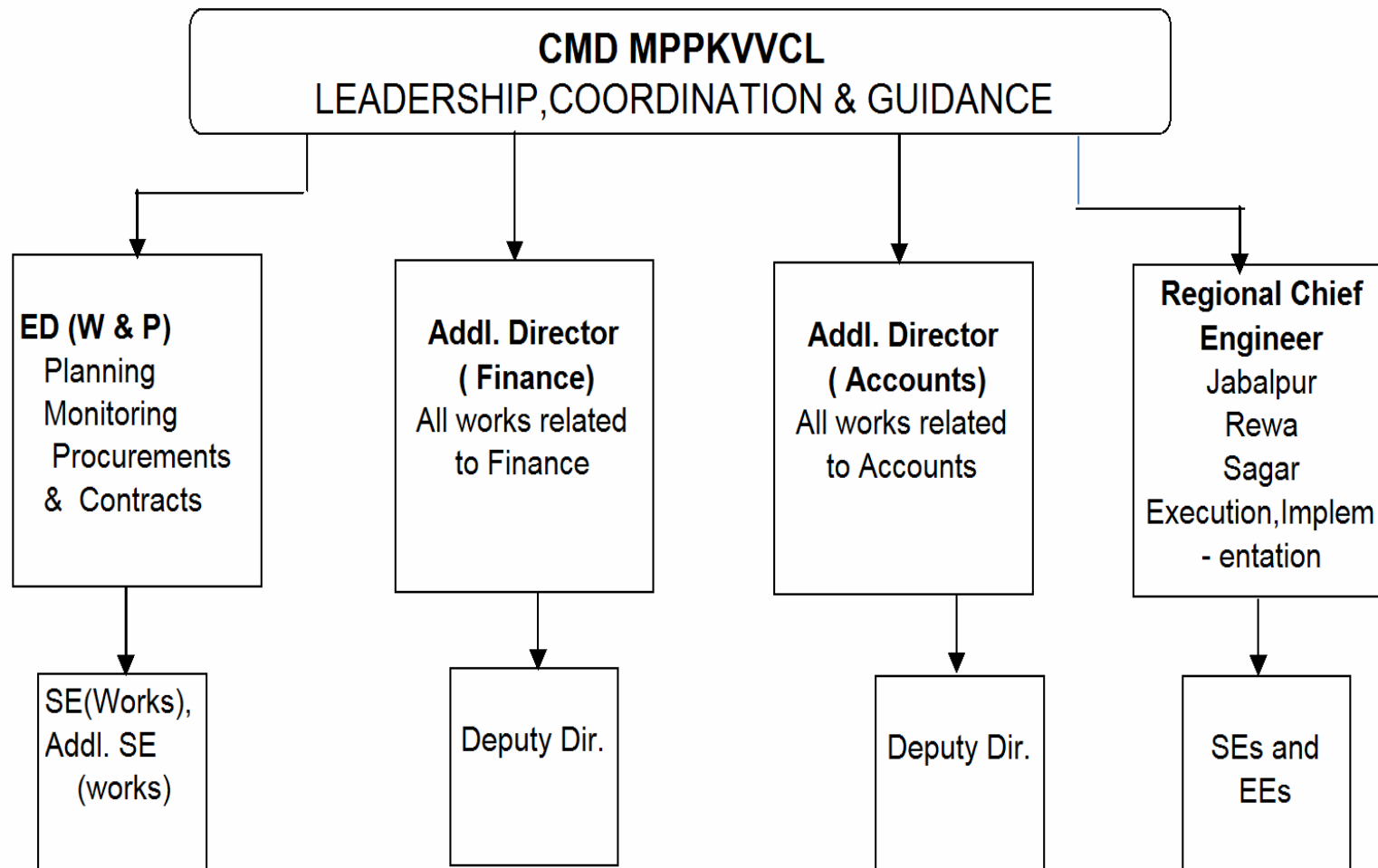
**Table 1: Detailed Cost Estimates for Distribution East Component by Expenditure Category**

|   | (Rs million)        |                   |                | (\$ million)        |                   |               | % of Total<br>Base Cost |
|---|---------------------|-------------------|----------------|---------------------|-------------------|---------------|-------------------------|
|   | Foreign<br>Exchange | Local<br>Currency | Total<br>Cost  | Foreign<br>Exchange | Local<br>Currency | Total<br>Cost |                         |
| <b>A. Equipment</b>                                       |                     |                   |                |                     |                   |               |                         |
| High Voltage Distribution Systems (HVDS)                  | 1,038.5             | 0.0               | 1,038.5        | 22.3                | 0.0               | 22.3          | 42%                     |
| Remote Metering   | 19.5                | 0.0               | 19.5           | 0.4                 | 0.0               | 0.4           | 1%                      |
| Consumer Metering   |                     |                   |                |                     |                   |               |                         |
| Single Phase Meters                                       | 129.3               | 0.0               | 129.3          | 2.8                 | 0.0               | 2.8           | 5%                      |
| Three Phase Meters  | 89.0                | 0.0               | 89.0           | 1.9                 | 0.0               | 1.9           | 4%                      |
| Cables and Wires  | 113.4               | 0.0               | 113.4          | 2.4                 | 0.0               | 2.4           | 5%                      |
| Renovation of Substation Protection Systems               | 167.8               | 0.0               | 167.8          | 3.6                 | 0.0               | 3.6           | 7%                      |
| <b>Subtotal Equipment</b>                                 | <b>1,557.5</b>      | <b>0.0</b>        | <b>1,557.5</b> | <b>33.5</b>         | <b>0.0</b>        | <b>33.5</b>   | <b>62%</b>              |
| <b>B. Civil works, including erection &amp; stringing</b> | 0.0                 | 668.0             | 668.0          | 0.0                 | 14.4              | 14.4          | 27%                     |
| <b>C. Project Management and Construction Supervision</b> | 0.0                 | 120.0             | 120.0          | 0.0                 | 2.6               | 2.6           | 5%                      |
| <b>D. Environment Mitigation and Monitoring</b>           | 0.0                 | 32.6              | 32.6           | 0.0                 | 0.7               | 0.7           | 1%                      |
| <b>E. Resettlement</b>                                    | 0.0                 | 0.0               | 0.0            | 0.0                 | 0.0               | 0.0           | 0%                      |
| <b>F. Taxes and Duties</b>                                | 0.0                 | 120.9             | 120.9          | 0.0                 | 2.6               | 2.6           | 5%                      |
| <b>TOTAL BASELINE COSTS</b>                               | <b>1,557.5</b>      | <b>941.5</b>      | <b>2,499.0</b> | <b>33.5</b>         | <b>20.2</b>       | <b>53.7</b>   | <b>100%</b>             |
| Physical Contingencies                                    | 77.9                | 47.1              | 124.9          | 1.7                 | 1.0               | 2.7           | 5%                      |
| Price Contingencies                                       | 155.8               | 94.1              | 249.9          | 3.3                 | 2.0               | 5.4           | 10%                     |
| <b>TOTAL PROJECT COSTS</b>                                | <b>1,791.2</b>      | <b>1,082.7</b>    | <b>2,873.8</b> | <b>38.5</b>         | <b>23.3</b>       | <b>61.8</b>   |                         |
| Commitment Charges  | 18.2                | 0.0               | 18.2           | 0.4                 | 0.0               | 0.4           | 1%                      |
| Interest During Implementation                            | 159.6               | 0.0               | 159.6          | 3.5                 | 0.0               | 3.5           | 10%                     |
| <b>TOTAL COSTS TO BE FINANCED</b>                         | <b>1,969.0</b>      | <b>1,082.7</b>    | <b>3,051.7</b> | <b>42.4</b>         | <b>23.3</b>       | <b>65.7</b>   | <b>122%</b>             |

**Table 2: Detailed Cost Estimates for Distribution East Component by Financier**

| (\$ million)  |             |             |                    |             |                    |
|---|-------------|-------------|--------------------|-------------|--------------------|
|   | Cost        | ADB         |                    | DISCOM-E    |                    |
|   |             | Amount      | % of Cost Category | Amount      | % of Cost Category |
|   |             |             |                    |             |                    |
| <b>A. Equipment</b>                                       |             |             |                    |             |                    |
| High Voltage Distribution Systems (HVDS)                  | 22.3        | 22.3        | 100%               | 0.0         |                    |
| Remote Metering   | 0.4         | 0.4         | 100%               | 0.0         |                    |
| Consumer Metering   |             |             |                    |             |                    |
| Single Phase Meters                                       | 2.8         | 2.8         | 100%               | 0.0         |                    |
| Three Phase Meters  | 1.9         | 1.9         | 100%               | 0.0         |                    |
| Cables and Wires  | 2.4         | 2.4         | 100%               | 0.0         |                    |
| Renovation of Substation Protection Systems               | 3.6         | 3.6         | 100%               | 0.0         |                    |
| <b>Subtotal Equipment</b>                                 | <b>33.5</b> | <b>33.5</b> |                    | <b>0.0</b>  |                    |
| <b>B. Civil works, including erection &amp; stringing</b> | <b>14.4</b> | <b>2.0</b>  | <b>14%</b>         | <b>12.4</b> | <b>8</b>           |
| <b>C. Project Management and Construction Supervision</b> | <b>2.6</b>  | <b>0.0</b>  | <b>0%</b>          | <b>2.6</b>  | <b>10</b>          |
| <b>D. Environment Mitigation and Monitoring</b>           | <b>0.7</b>  | <b>0.0</b>  | <b>0%</b>          | <b>0.7</b>  | <b>10</b>          |
| <b>E. Resettlement</b>                                    | <b>0.0</b>  | <b>0.0</b>  | <b>0%</b>          | <b>0.0</b>  |                    |
| <b>F. Taxes and Duties</b>                                | <b>2.6</b>  | <b>0.0</b>  | <b>0%</b>          | <b>2.6</b>  | <b>10</b>          |
| <b>TOTAL BASELINE COSTS</b>                               | <b>53.7</b> | <b>35.5</b> | <b>66%</b>         | <b>18.2</b> | <b>3</b>           |
| Physical Contingencies                                    | 2.7         | 1.8         | 69%                | 0.8         | 3                  |
| Price Contingencies                                       | 5.4         | 3.5         | 66%                | 1.8         | 3                  |
| <b>TOTAL PROJECT COSTS</b>                                | <b>61.8</b> | <b>40.9</b> | <b>66%</b>         | <b>20.9</b> | <b>3</b>           |
| Commitment Charges  | 0.4         | 0.4         | 89%                | 0.0         | 1                  |
| Interest During Implementation                            | 3.5         | 3.5         | 101%               | 0.0         | -                  |
| <b>TOTAL COSTS TO BE FINANCED</b>                         | <b>65.7</b> | <b>44.8</b> | <b>68%</b>         | <b>20.9</b> | <b>3</b>           |

## Organisational Structure for Implementation



## DISCOM-EAST (LOAN NO:- 2324-IND)

### Investment Programme Implementation Schedule

|  |  | 2007        | 2008                            | 2009 |
|--|--|-------------|---------------------------------|------|
| <b>First Tranche</b>                                 |  |             |                                 |      |
| <b>Distribution East</b>                             |  |             |                                 |      |
|  |  | Procurement | Supply, Delivery & Construction |      |
| <b>HVDS</b>  |  |             |                                 |      |
|  |  | Procurement | Supply, Delivery & Construction |      |
| <b>Remote Metering &amp; Energy Audit</b>            |  |             |                                 |      |
|  |  | Procurement | Supply & Delivery               |      |
| <b>Supply of 11 KV &amp; 33 KV VCB</b>               |  |             |                                 |      |
| <b>(Renovation Of Sub-Station Protection System)</b> |  |             |                                 |      |

### Procurement Plan

|  |  |
|--|--|
| Project Information                        |  |
| Country                                    | India  |
| Name of Borrower                           | Government of INDIA  |
| Project Name                               | Madhya Pradesh Power Sector Investment Program – Distribution Efficiency Enhancement |
| Loan or TA Reference                       | Loan 2324-IND  |
| Date of Effectiveness                      | 14 May 2007  |
| Amount \$ (total from all financiers):     | \$ 65.7 Million  |
| Of which committed                         | \$ 45.0 Million  |
| Executing Agencies                         | Madhya Pradesh Poorva Kshetra Vidyut Vitran Company Limited (DISCOM-E)               |
| Approval date of original Procurement Plan | 4 April 2007   |
| Approval of most recent Procurement Plan   | To be determined   |
| Publication for local advertisement        | March 2007   |
| Period covered by this Plan                | 18 months  |

### Procurement Threshold, Goods & Related Services, Works and Supply and Install

| Procurement Method             | To be used for contract value |
|--------------------------------|-------------------------------|
| ICB Goods                      | Irrespective of Estimate Cost |
| ICB Design, Supply and Install | Irrespective of Estimate Cost |
| <b>Exceptional Methods</b>     |                               |
| None                           |                               |

### Procurement Thresholds, Consultants Services

| Procurement Method                                | To be used for contract value |
|---|-------------------------------|
| No consultants will be required under the project |                               |
| <b>Alternative Methods</b>                        |                               |
| None  |                               |

**List of Contract Packages in Excess of \$100,000, Goods, Works and Consulting Services**

| <b>List of Contract Packages in Excess of \$100,000, Goods, Works and Consulting Services</b> |   |                                    |                           |                                       |                         |                |
|---|---|------------------------------------|---------------------------|---------------------------------------|-------------------------|----------------|
| <b>Loan No:- 2324 -IND</b>  |   |                                    |                           |                                       |                         |                |
| <b>Ref</b>  | <b>Contract Description</b>   | <b>Estimated Cost (\$ Million)</b> | <b>Procurement Method</b> | <b>Expected Date of Advertisement</b> | <b>Prior Review Y/N</b> | <b>Comment</b> |
| 1   | Energy Audit & Remote Metering of 25 HP & above LT industrial connection including installation and commissioning (1,508 nos) | 6.73                               | ICB                       | Jan'08                                | Y                       |                |
|   | Energy audit & Remote Metering of HT connections including installation and commissioning (527 nos)                           |                                    |                           |                                       |                         |                |
| 2   | Supply of 11 KV & 33 KV VCB "Procurement of goods"  | 5.38                               | ICB                       | Nov'07                                | Y                       |                |
| 3   | Turnkey contract for High Voltage Distribution System (HVDS) in Gadawara Dn.  | 12.00                              | ICB                       | Mar-07                                | Y                       |                |
| 4   | Turnkey contract for High Voltage Distribution System (HVDS) in Patan Dn.   | 11.09                              | ICB                       | Mar-07                                | Y                       |                |
| 5   | Turnkey contract for High Voltage Distribution System (HVDS) in Prithivur Dn.   | 8.25                               | ICB                       | Mar-07                                | Y                       |                |
| 6   | Turnkey contract for High Voltage Distribution System (HVDS) in Damoh (S) Dn.   | 6.69                               | ICB                       | Mar-07                                | Y                       |                |
| 7   | Turnkey contract for High Voltage Distribution System (HVDS) in Rewa (O&M) Dn.  | 6.60                               | ICB                       | Mar-07                                | Y                       |                |
| 8   | Turnkey contract for High Voltage Distribution System (HVDS) in Satna (O&M) Dn.   | 9.99                               | ICB                       | Mar-07                                | Y                       |                |



## **SUGGESTED FORMAT OF PROGRESS REPORT**

### **Pro Forma of the Executing Agency's Project Progress Report**

#### **A. Introduction and Basic Data**

Provide the following:

- ADB loan number, project title, borrower, executing agency(ies), implementing agency(ies);
- total estimated project cost and financing plan;
- status of project financing including availability of counterpart funds and cofinancing;
- dates of approval, signing, and effectiveness of ADB loan;
- original and revised (if applicable) ADB loan closing date and elapsed loan period based on original and revised (if applicable) loan closing dates; and
- date of last ADB review mission.

#### **B. Utilization of Funds (ADB Loan, Cofinancing, and Counterpart Funds)**

Provide the following:

- cumulative contract awards financed by the ADB loan, cofinancing, and counterpart funds (commitment of funds to date), and comparison with time-bound projections (targets);
- cumulative disbursements from the ADB loan, cofinancing, and counterpart funds (expenditure to date), and comparison with time-bound projections (targets); and
- reestimated costs to completion, need for reallocation within ADB loan categories, and whether an overall project cost overrun is likely.

#### **C. Project Purpose**

Provide the following:

- status of project scope/implementation arrangements compared with those in the report and recommendation of the President (RRP), and whether major changes have occurred or will need to be made;
- an assessment of the likelihood that the immediate development objectives (project purpose) will be met in part or in full, and whether remedial measures are required based on the current project scope and implementation arrangements;
- an assessment of changes to the key assumptions and risks that affect attainment of the development objectives; and
- other project developments, including monitoring and reporting on environmental and social requirements that might adversely affect the project's viability or accomplishment of immediate objectives.

**D. Implementation Progress**

Provide the following:

- assessment of project implementation arrangements such as establishment, staffing, and funding of the PMO ;
- information relating to other aspects of the EA's internal operations that may impact on the implementation arrangements or project progress;
- progress or achievements in implementation since the last progress report;
- assessment of the progress of each project component, such as,
  - recruitment of consultants and their performance;
  - procurement of goods and works (from preparation of detailed designs and bidding documents to contract awards); and
  - the performance of suppliers, manufacturers, and contractors for goods and works contracts;
- assessment of progress in implementing the overall project to date in comparison with the original implementation schedule—quantifiable and monitorable target, (include simple charts such as bar or milestone to illustrate progress, a chart showing actual versus planned expenditure, S-curve graph showing the relationship between physical and financial performance, and actual progress in comparison with the original schedules and budgets, the reference framework or guidelines in calculating the project progress including examples are shown in Appendix 13); and
- an assessment of the validity of key assumptions and risks in achieving the quantifiable implementation targets.

**E. Compliance with Covenants**

Provide the following:

- the borrower's compliance with policy loan covenants such as sector reform initiatives and EA reforms, and the reasons for any noncompliance or delay in compliance;
- the borrower's and EA's compliance with financial loan covenants including the EA's financial management, and the provision of audited project accounts or audited agency financial statements; and
- the borrower's and EA's compliance with project-specific loan covenants associated with implementation, environment, and social dimensions.

**F. Major Project Issues and Problems**

Summarize the major problems and issues affecting or likely to affect implementation progress, compliance with covenants, and achievement of immediate development objectives. Recommend actions to overcome these problems and issues (e.g., changes in scope, changes in implementation arrangements, and reallocation of loan proceeds).

## **FRAMEWORK AND GUIDELINES IN CALCULATING PROJECT PROGRESS**

### **A. Introduction**

1. To ensure that all implementation activities are reflected in measuring implementation progress against the project implementation schedule, the term "physical completion" in the PPR has been changed to "project progress."
2. Physical and pre-commencement activities are considered in calculating project implementation progress. These activities, which may include recruitment of consultants, capacity building, detailed design, preparation of bid and prequalification documents, etc., could constitute a significant proportion of overall implementation and therefore should be counted.
3. Each activity in the implementation schedule will be weighted according to its overall contribution (using time as a reference) to progress of project implementation. These weights will then be used to calculate the percentage of project progress along the entire time span of the project. This is to provide a holistic view of the pace of implementation.

### **B. Framework for Compiling Activity List and Assigning Weights**

4. As implementation activities (with corresponding weights) will vary in terms of project, sector, and country, SAEN will be responsible for incorporating them in the project administration memorandum. The actual project implementation progress of these activities should be reported regularly through the EA's quarterly project progress report. To ensure ADB-wide consistency, the following framework has been established. The application of this framework will be monitored through the PPR.

#### **1. Compilation of Activity List**

5. SAEN should identify and include major implementation activities in the implementation schedule. The implementation schedule should follow the critical path of the project's major activities in project implementation taking account of various country, sector, and project constraints.

#### **2. Assignment of Weights**

6. Corresponding weights for each activity should be assigned to ensure that "project progress" measures the percentage of achievement (non financial except when the project has credit components) for all events during the entire duration of the implementation schedule. To avoid disproportionate assignment of weights, to the extent possible these should be evenly distributed along the implementation schedule. When activities are concurrent, avoid "double counting."

#### **3. Computation of Project Progress**

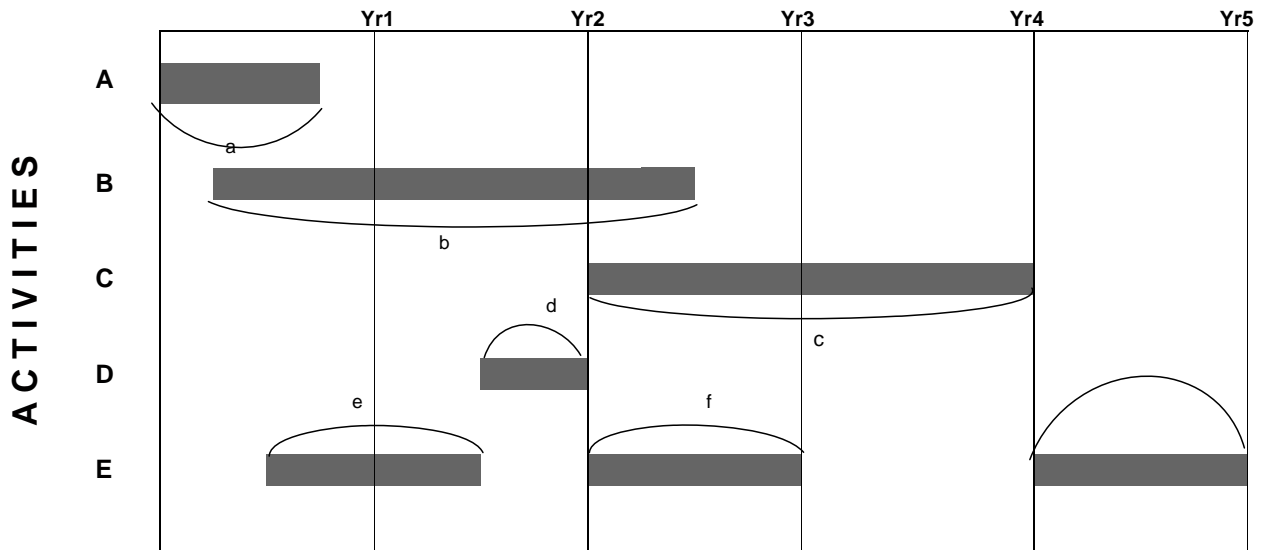
7. Once all activities are identified and corresponding weights assigned, project progress should be calculated using the following steps:



- (i) Determine the actual percentage progress (non-financial) of each activity.
- (ii) Multiply these percentages by the assigned weight of each activity to arrive at the weighted progress.
- (iii) Add up the resulting weighted progress of all activities to determine the project progress.

Below is an illustration of this calculation using a generic sample implementation schedule, and the Appendix 14 shows a specific schedule for this Project.

### Implementation Schedule with Activities and Weights



1. Sum of all weights should equal 100 percent ( $a+b+c+d+e+f+g = 100\%$ )
2. When calculating the percentage of "project progress," all completed activities should be counted as accomplished, regardless of when they were scheduled to be completed. For example, when calculating the percentage of "project progress" after year 3, if activity D is completed in year 3 rather than in year 2, it should still be included in the computation.
3. Total weight of each activity is as follows: Activity A— $a$ ; Activity B— $b$ ; Activity C— $c$ ; Activity D— $d$ ; and Activity E— $e + f + g$
4. Project progress of a project is the summation of the actual percentage of progress for each activity multiplied by the total weight of each activity.

**LOAN-2324: PERCENTAGE OF PROJECT IMPLEMENTATION PROGRESS**

| No.  | Description  | Weight (a) |        | Progress (b) % |       | Weighted Progress (a)x(b)/100 |
|------|--|------------|--------|----------------|-------|-------------------------------|
|      |  |            |        |                |       |                               |
| I.   | Initial Activities [6]   |            |        |                |       |                               |
|      | a- Establish and Staffing of PMO   | 3.0        |        | 100            |       | 3.00                          |
|      | b- Loan Negotiations /Signing /Effectiveness   | 3.0        |        | 100            |       | 3.00                          |
|      |  |            |        |                |       |                               |
| II   | Projects (\$ 84.89M) [94]  | \$M        | Weight |                |       |                               |
| D-07 | Lot I: HVDS in Gadarwara Division of Narsighpur district (Bid Amount: INR 670.5 million) | 16.97      | 18.8   | 30             | 70.00 | 3.95                          |
|      |  |            |        | 70             | 0.00  |                               |
|      | Lot II: HVDS in Patan Division of Jabalpur District (Bid Amount: INR 587.4 million)      | 14.87      | 16.5   | 30             | 70.00 | 3.46                          |
|      |  |            |        | 70             | 0.00  |                               |
|      | Lot III: HVDS in Satna O & M Division of Satna District (Bid Amount: INR 564.6 million)  | 14.29      | 15.8   | 30             | 70.00 | 3.32                          |
|      |  |            |        | 70             | 0.00  |                               |
| D-08 | Lot I: HVDS in Prithvipur Division of Tikamgarh District (Bid Amount: 488.6 million)     | 12.37      | 13.7   | 30             | 70.00 | 2.88                          |
|      |  |            |        | 70             | 0.00  |                               |
|      | Lot II: HVDS in Damoh (S) Division of Damoh District (Bid Amount: 353.8 million)         | 8.96       | 9.9    | 30             | 70.00 | 2.08                          |
|      |  |            |        | 70             | 0.00  |                               |
|      | Lot III: HVDS in Rewa O & M Division of Rewa District (Bid Amount: INR 330.3 million)    | 8.36       | 9.3    | 30             | 70.00 | 1.94                          |
|      |  |            |        | 70             | 0.00  |                               |
| D-11 | Lot I: Supply of 33kV Vacuum Circuit Breakers (VCB) (Estimate: INR 130 million)          | 3.29       | 3.6    | 30             | 40.00 | 0.44                          |
|      |  |            |        | 70             | 0.00  |                               |
|      | Lot I: Supply of 11kV Vacuum Circuit Breakers (VCB) (Estimate: INR 200 million)          | 5.06       | 5.6    | 30             | 40.00 | 0.67                          |
|      |  |            |        | 70             | 0.00  |                               |
| D-14 | Remote Metering & Energy Audit (Estimate: INR 28 million)                                | 0.71       | 0.8    | 30             | 0.00  | 0.00                          |
|      |  |            |        | 70             | 0.00  |                               |
|      |  |            |        |                |       |                               |
|      | Total Weight and Progress  | 84.89      | 94.0   |                |       | 24.74                         |

A. Establishing and Staffing of PMO [I-a]:

20%: Initial Set-up, ..... , 100%: Full Staff

B: Loan Negotiation/ Signing/Effectiveness [I-b]:

20%: Negotiation; 50%: Signing; Effectiveness: 100%

C: Procurement and Turnkey [II]

30%: Bidding Process

(Draft Bid Doc. Sub.: 20%; Bid Doc. Issuance :40%; Bid Close: 50%; BER Sub.: 70%; Signed Contract Sub.: 100%)

70%: Contract Implementation (%: (Disbursement) / (Contract Amount))

Asian Development Bank

14 May 2007

Mr. Arvind Mayaram  
Joint Secretary  
Department of Economic Affairs  
Ministry of Finance  
Government of India

Dear Mr. Mayaram:

**Subject: Loan Nos. 2323/2324-IND: Madhya Pradesh Power Sector Investment Program (MFF) – Projects 1 and 2 (First and Second Tranches)  
FINANCIAL REPORTING AND AUDITING REQUIREMENTS**

ADB is required, by its Charter, to ensure that the proceeds of any loan made, guaranteed, or participated in by ADB are used for the purposes for which the loan was approved. In this regard, ADB requires accurate and timely financial information from the borrowers/executing agencies.

To assist the executing agencies in preparing the required financial report, we attached ADB's *Handbook for Borrowers on the Financial Governance and Management of Investment Projects Financed by the ADB* (the Booklet).

For Loan 2323-IND, the requirements are stipulated in Schedule 5, paras. 8 and 9 of the Loan Agreement dated 12 April 2007 between the ADB and the Government of India, and Section 2.09, (a) and (b) of the Project Agreements dated 12 April 2007 between the ADB and State of Madhya Pradesh, and Madhya Pradesh Power Transmission Company Limited (TRANSCO).

For Loan 2324-IND, the requirements are stipulated in Schedule 5, paras. 8 and 9 of the Loan Agreement dated 12 April 2007 between the ADB and the Government of India, and Section 2.09, (a) and (b) of the Project Agreements dated 12 April 2007 between the ADB and State of Madhya Pradesh, and Madhya Pradesh Poorv Kshetra Vidyut Vitaran Company Limited (DISCOM-E).

Copies of the Loan Agreements and Project Agreements are enclosed for onward transmission by your Office to your Executing Agencies (EAs) and the auditor(s) concerned, together with a copy of this letter.

The following are the main requirements:

- ADB requires the EA to maintain separate project accounts and records exclusively for the Projects to ensure that the loan funds were used only for the objectives set out in the Loan Agreements. The project accounts comprise of full audited financial

statements including its detailed specification of investments as well as cost expenditures financed by the ADB.

The first set of project accounts to be submitted to ADB covers the fiscal year ending 31 March 2008. As stipulated in the Project Agreements, they are to be submitted as soon as available but not later than six (6) months after the end of the fiscal year. For this loan, the deadline is by 30 September 2008. A sample report format with explanatory notes is attached as **Annex A**.

- The accounts and records for the project are to be consistently maintained by using sound accounting principles. Please stipulate that your external auditor is to express an opinion on whether the financial report has been prepared using international or local generally accepted accounting standards and whether they have been applied consistently.

ADB prefers project accounts to use international accounting standards prescribed by the International Accounting Standards Committee. Please advise your external auditor to comment on the impact of any deviations, by the EAs from international accounting standards.

- Please ensure that your external auditor specifies in the Auditor's Report the appropriate auditing standards they used, and direct them to expand the scope of the paragraph in the Auditor's Report by disclosing they key audit procedures followed. Your external auditor is also to state whether the same audit procedures were followed by all supplementary financial statements submitted.

ADB wishes that auditors conform to the international auditing standards issued by the International Federation of Accountants. In cases where other auditing standards are used, request that your external auditor to indicate in the Auditor's Report the extent of any differences and their impact on the audit.

- The external auditor's opinion is also required on whether
  - the proceeds of the ADB's loan have been utilized only for the project as stated in the Loan Agreements;
  - the financial information contains data specifically agreed upon between the Ministry of Finance/TRANSCO or DISCOM-E and ADB to be included in the financial statements;
  - the financial information complies with relevant regulations and statutory requirements; and
  - compliance has been met with all the financial covenants contained in the Project Agreements.
- The Auditor's Report is to clearly state the reasons for any opinions that are qualified, adverse, or disclaimers.



- Actions on deficiencies disclosed by the external auditor in its report are to be resolved by the Ministry of Finance/TRANSCO or DISCOM-E within a reasonable time. The external auditor is to comment in the subsequent Auditor's Report on the adequacy of the corrective measures taken by the Ministry of Finance/TRANSCO or DISCOM-E.

Compliance with these ADB requirements will be monitored by review missions and during normal project supervision, and followed up regularly with all concerned, including the external auditor.

Yours sincerely,

(Original Signed)  
Thevakumar Kandiah  
Director, Energy Division  
South Asia Department

Enclosures

cc: Mr. Navin K. Chaudhary, Deputy Secretary  
Department of Economic Affairs, Ministry of Finance

Mr. U. Chatterjee, Under Secretary (ADB-II)  
Department of Economic Affairs, Ministry of Finance

Shri Ashok Bamwal, Director, Institutional Finance,  
and Additional Secretary, Finance Department  
Government of M.P. Bhopal

Mr. Sanjay Bandopadhyaya  
Secretary, Energy Department  
State of Madhya Pradesh

Mr. R. K. Verma  
Chairman and Managing Director  
Madhya Pradesh Power Transmission  
Company Limited (TRANSCO)

Mr. Pankaj Agrawal  
Chairman and Managing Director  
Madhya Pradesh Poorv Kshetra  
Vidjut Vitaran Company Limited (DISCOM-E)

Mr. Tadashi Kondo  
Country Director  
ADB/India Resident Mission

**Loan 2324-IND: Madhya Pradesh Power Sector Investment Program – Project II**  
**Major Loan Covenants**

| <b>Covenants</b>  | <b>Reference</b>          | <b>Responsible Agencies</b>      | <b>Compliance Status</b>  |
|---|---------------------------|----------------------------------|---|
| <b>Project Implementation</b>   |                           |                                  |   |
| 1. The State, acting through DISCOM-E, shall be the EA for the Project and shall be responsible for the execution of the Project.   | LA, Schedule 5, para 2    | Government/<br>GOMP/<br>DISCOM-E | Complied.   |
| 2. The Project Management Unit (PMU), established within DISCOM-E, shall be headed by a PMU Manager. The PMU Manager shall report all Project related matters to the Chairman and the Managing Director of DISCOM-E. The PMU shall comprise technical, financial, procurement and safeguard sections.   | LA, Schedule 5, para 3    | DISCOM-E                         | Complied. The PMU has been established, headed by Mr. S. V. Dubey, Executive Director (W&P) and adequately staffed.         |
| 3. An Investment Program Coordinating Committee, chaired by the Chairman and the Managing Director of DISCOM-E, shall be established to coordinate and monitor the overall implementation of the Investment Program. The Coordinating Committee shall report to the PD through a Program Implementation Unit (PIU) to be established within the PD and to MPERC.  | LA, Schedule 5, para 4    | DISCOM-E                         | Being complied.   |
| <b>Financial and Sector Reforms</b>   |                           |                                  |   |
| <b>Sector Reforms.</b> The Government and GOMP will continue to emphasize and support the autonomy of DISCOM-E with respect to commercial, administrative, and operational activities.  | LA, Schedule 5, para 7    | Government/<br>GOMP/<br>DISCOM-E | Being complied.   |
| <b>Capacity Development.</b> GOMP will ensure timely implementation of the capacity development program (financed by DFID).   |                           | GOMP                             | Being complied.   |
| <b>Counterpart Funding.</b> The Government and GOMP will ensure and cause the availability and timely release of counterpart funding for the timely implementation of each subproject.  | LA, Schedule 5, para 6    | Government/<br>GOMP              | Being complied. GOMP provides the timely release of the counterpart funding, as required.                                   |
| <b>Cash Management Responsibilities.</b> GOMP will ensure that the cash management responsibilities are transferred to DISCOM-E from 1 April 2009 and DISCOMs from 1 April 2009, so that the EAs can commence commercially independent operations, with any deficits met by commercial borrowings or other satisfactory means.  | LA, Schedule 5, para 7    | GOMP/<br>DISCOM-E                | Will be complied.   |
| <b>Audits.</b> The EA will engage independent private audit firms, whose qualifications, experience and terms to conduct annual financial and procurement audits.<br><br>In addition the EAs will ensure that independent auditors whose qualifications, experience, and terms of reference are acceptable to ADB and GOMP conduct (i) energy audit for distribution reconfiguration and corporatization and divestment, and (ii) business process and performance audits in all operational areas. | LA, Schedule 5, paras 8-9 | DISCOM-E/<br>ADB/GOMP            | An independent private audit firm for statutory audit of company is appointed by the CAG of India.<br><br>Will be complied. |

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| <p><b>Corporate Governance.</b> The GOMP will ensure the accountability and transparency of EAs is maintained through the stakeholders meeting and publication of its agendas, actions through the duration of the investment program. The EAs will ensure that the following measures to strengthen corporate governance will have been completed by 31 December 2007:</p> <ul style="list-style-type: none"> <li>(i) independent directors at the board level are recruited;</li> <li>(ii) board-level committees, including audit and risk management committees, are formed;</li> <li>(iii) internal audit functions strengthened and internal audit guidelines in line with best practices are developed (internal audit scope to cover revenue audit and internal audit reports to the audit committee of the board);</li> <li>(iv) internal controllers reporting to the chairmen and managing directors of the respective EAs on a regular basis are appointed.</li> </ul> | LA, Schedule 5, paras 10-11 | GOMP/<br>DISCOM-E | <p>Complied.</p> <p>(i) one independent director recruited; 3 government nominees and an executive CMD.<br/>(ii) audit committee formed.<br/>(iii) internal audit being done by chartered accountants.</p> <p>(iv) internal controllers appointed.</p> |
| <b>Debt Service Coverage Ratio.</b> The EAs will maintain a debt service coverage ratio of 1.2 from 2007 and onwards.  | LA, Schedule 5, para 15     | DISCOM-E          | Will be complied.  |
| <b>Self Financing Ratio.</b> The EAs will maintain historic self-financing ratio of 20% from 2010 onwards (3 years moving average capital expenditure).  | LA, Schedule 5, para 16     | DISCOM-E          | Will be complied.  |
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| <b>Commercial</b>  |                             |                   |  |
| <b>Corporate Social Responsibility.</b> DISCOMs will conduct extensive public awareness campaigns through installing appropriate signs, issuing flyers to the public, and placing newspaper and television ads in local language to ensure that people are aware that HVDS networks may result in serious injury or death in case of attempts to illegally connect to overhead circuits.   | LA, Schedule 5, para 17     | DISCOM-E          | Being complied.  |
| <b>Tariff.</b> DISCOMs' Multi-Year Tariff will be effective as of 1 April 2007.  | LA, Schedule 5, para 18     | DISCOM-E          | DISCOM has filed MYT with effect from 01 Apr 2007. MPERC has issued tariff order for the year 2007-2008.   |
| <b>Billing and Collection Efficiency.</b> DISCOM-E will ensure improved collection efficiency from 92% in 2006 to 96% by not later than 31 December 2010.  | LA, Schedule 5, para 19     | DISCOM-E          | Will be complied.  |
| <b>Loss Reduction.</b> DISCOM-E will ensure that agreed loss-reduction targets are met as follows: by 31 December 2007 to 32.5%, by 31 December 2008 to 29.5%, and by 31 December 2009 to 26.5%.   | LA, Schedule 5, para 20     | DISCOM-E          | Will be complied.  |
| <b>Customer Service Centers.</b> The State shall ensure that by not later than 31 January 2009, DISCOM-E shall have established, made operational and fully staffed with specialists with appropriate skills, a number of customer service centers in large cities.  | LA, Schedule 5, para 21     | DISCOM-E          | Will be complied.  |
| <b>Turnkey Contracts.</b> The EAs will (i) ensure utilization of turnkey contracts, where appropriate; (ii) negotiate longer terms of guarantees on equipment; and (iii) include long-term maintenance provisions in the turnkey contracts.  | LA, Schedule 5, para 13     | DISCOM-E          | Complied.  |

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| <p><b>Execution of Civil Works Contracts.</b> The EA shall ensure that, subsequent to award of civil works contract under any subproject, no section or part thereof under the civil works contract shall be handed over to the contractor unless the applicable provisions of the RF/RP and the EARF/EMP have been complied with.</p> <p>Any changes to the location, land alignment, or environmental impacts on account of detailed designs or related subproject shall be subject to prior approval by ADB and/or the EA, as the case may be, in accordance with the selection criteria and process stipulated in Schedule 4 to the FFA.</p>  | LA, Schedule 5, paras 36-37 | DISCOM-E                             | Not applicable.   |
| <p><b>Human Resources</b></p>   |                             |                                      |   |
| <p><b>Recruitment.</b> By not later than 31 December 2008, the EAs will have appointed directors for operations, information technology, commercial functions, and finance; and will have recruited (i) chartered accountants, (ii) information technology specialists, and (iii) specialists in commercial areas. The EAs will have established management training programs in finance, operations, and commercial functions.</p>   | LA, Schedule 5, para 14     | DISCOM-E                             | Will be complied.   |
| <p><b>Pension Funds.</b> The EAs will have legally established trust funds to cover pension arrears by 31 December 2008.</p>  | LA, Schedule 5, para 22     | DISCOM-E                             | Will be complied.   |
| <p><b>Safeguards</b></p>  |                             |                                      |   |
| <p><b>Land Availability, Resettlement and Indigenous Peoples.</b> GOMP will cause respective EAs, subject to compliance with the relevant provision of the RF and RPs and EARF and EMP and in accordance with all applicable laws and regulations of the Government and MP, to acquire or make available the land and rights to land free from any encumbrances, and cleared the utilities, trees, and any other obstruction from such land, required for commencement of construction activities in accordance with the schedule agreed under the related civil works contract.</p> <p>GOMP will cause respective EAs to ensure that all land and rights-of-way required by the subprojects will be made available in a timely manner and that the provisions of the RPs, including compensation and entitlements for affected households and persons, will be implemented in conformity with all applicable laws and regulations of the Government, GOMP and ADB's policy on <i>Involuntary Resettlement</i> (1995), and the agreed RF.</p> | LA, Schedule 5, paras 23-31 | Government/<br>GOMP/<br>DISCOM-E/ADB | Existing network is being strengthened therefore land acquisition and resettlement is not required. |

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| <p>GOMP will cause respective EAs to ensure that affected persons by each subproject are fairly compensated in a timely manner on replacement values in accordance with the related RPs and RF, such that their living standards are not adversely affected. The EAs will submit progress and completion reports on land acquisition and resettlement under the quarterly progress reports for each subproject. In addition, the external monitoring report shall be submitted to ADB on a semiannual basis for review.</p> <p>GOMP will cause respective EAs to ensure that prior to land acquisition and any resettlement under each subproject, the related RP including its update based on consensus of AP, is disclosed with all necessary information made available to persons affected by the subproject and confirm that it be uploaded onto ADB's web site. EAs will ensure that essential public infrastructure that may be affected under land acquisition and resettlement is replaced as appropriate in an expeditious manner in accordance with the RPs.</p> <p>GOMP will cause respective EAs to ensure that construction contracts contain binding requirements for construction contractors to fully reinstate pathways, other local infrastructures, and agricultural land to at least their pre-project condition upon construction completion. Provision should be made for adequate recording of the condition of roads, agricultural land, and other infrastructure prior to transport of material and construction commencement.</p> <p>GOMP will cause respective EAs to ensure that the requirements set out in the IPDF and the Government's and GOMP's applicable loans on IP will be implemented.</p> <p>In order to strengthen the effectiveness of stakeholder consultation and participation in the implementation of the Investment Program, GOMP will cause each EA to undergo a full consultation and participation (C and P) process including: (i) stakeholder analysis, (ii) provision and disclosure of documents to the stakeholders, (iii) announcement of the date for consultation on specific issues, and (iv) adequate monitoring of the C And P process.</p> |  |  |  |
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| <p><b>Environmental.</b> GOMP through the EAs will ensure that proposed investments under the MFF are undertaken and that all subproject facilities are operated and maintained in accordance with all applicable laws, rules, and regulations of the Government and ADB's <i>Environment Policy</i> (2002). For each subproject, EAs will prepare and implement the necessary IEE, environmental impact assessment, and EMP (with budget) in accordance with the EARF. For subprojects not defined prior to approval of the MFF, the environmental categorization and assessment procedures defined in the EARF will be followed as part of subproject appraisal. For any category A or B sensitive subprojects, a Summary Environmental Impact Assessment (SEIA) or IEE for subsequent tranches will be prepared and made available to the general public 120 days before a PFR is submitted to ADB. EAs will monitor, audit, and report to ADB twice a year on the implementation of the EMPs for each subproject.</p>   | LA, Schedule 5, paras 32-35 | Government/<br>GOMP/<br>DISCOM-E/ADB | The project did not pass through wildlife sanctuaries. Necessary reports submitted during processing stage.  |
| <b>Performance Monitoring and Reporting</b>   |                             |                                      |  |
| <p>The Borrower shall ensure that within 3 months of the Effective Date, a Project Performance Monitoring System (PPMS) shall have been established by the EA in a form and with a composition acceptable to ADB in accordance with the Investment Program and Project performance indicators. The EA shall undertake periodic Project performance review, and also the Investment Program in accordance with the PPMS to evaluate the scope, implementation arrangements, progress and achievements of objectives of the related subproject and overall Investment Program.</p> <p>The EA shall prepare quarterly progress reports and shall submit these to ADB within 30 days of the end of each quarter. These reports shall provide (i) a narrative description of progress made during the period (progress on compliance with environment and social requirements including EMP and RF shall also be included), (ii) changes in the implementation schedule, (iii) problems or difficulties encountered, and (iv) work to be carried out in the next period. The progress reports shall also include a summary financial account for the components, including subprojects, consisting of expenditures during the period, total expenditure to date, and reports on environmental, resettlement and benefit monitoring.</p> <p>The Borrower shall ensure the submission to ADB of a Project Completion Report within 3 months of physical completion of the Project by the EA, and the Facility Completion Report within 3 months of physical completion of the Investment Program. These reports shall cover a detailed evaluation of the Project and the Facility respectively, covering the design, costs, contractors' and consultants' performance, social, environmental and economic impact, economic and financial rates of return, and other details of the Project and the Facility, as may be requested by ADB.</p> | LA, Schedule 5, paras 38-40 | Government/<br>GOMP/<br>DISCOM-E/ADB | <p>Will be complied. The ADB guidelines will be provided to MPPKVCL.</p> <p>Will be complied, Progress reports shall be submitted as per scheduled.</p> <p>Not yet due. PCR will be submitted after completion of the project.</p> |
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| <b>Review</b>   |                             |                                 |   |
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| <p>ADB, the Borrower and the EA shall meet regularly as required to discuss the progress of the Project and any changes to implementation arrangements or remedial measures required to be undertaken towards achieving the objectives of the Project and the Investment Program.</p> <p>A mid-term review of the Project shall be undertaken by ADB and the EA. The mid-term review shall include a review of issues and any problems or weaknesses in implementation arrangements, and agree on any changes needed to achieve the objectives of the Project and the Investment Program.</p> | LA, Schedule 5, paras 41-42 | ADB/<br>Government/<br>DISCOM-E | <p>The first review mission was fielded on 7-17 Jan 2008. The next review mission will be fielded towards the middle of the year.</p> <p>The mid-term review mission will be fielded in 2009.</p> |