

### COMPARISON OF FINANCING MODALITY FOR IND: ASSAM POWER SECTOR INVESTMENT PROGRAM

Issues	Comparison		Remark
	MFF	Project Loan	
1. Flexibility of modality	MFF allows blending physical and non-physical investment to achieve long term objectives in power sector.	Project loans have limited ability to blend non-physical investment at optimal level given the short term engagement.	Non-physical investments are critical for Assam power sector given the weak institutional capacity.
2. Front loading analytical work	MFF allows front loading most of the analytical work allowing allocation of more time and resources for project implementation.	Project loans don't provide this opportunity.	Weak capacity in Assam requires special attention on implementation.
3. Policy dialogue and reforms	MFF modality's long-term funding commitment provides better opportunities for policy dialogue with the government.	Project loans provide limited opportunities for policy dialogue and reforms.	The proposed MFF utilizes this window of opportunity to undertake necessary reforms on financial management, asset accounting, auditing and reporting, and overall operation system change by introducing enterprise resource planning system.
4. Long term funding commitment and sequencing of investment according to readiness	MFF modality allows sequencing of physical investments according to the project readiness.	Project loans may not provide this flexibility.	The project with highest readiness – Lakwa power plant replacement – is executed first. Hydropower projects in India require many approvals, obtaining which take long time. Lower Kopili hydropower plant will be approved last in the MFF. Long term funding commitment of MFF provides incentive for the Assam government to actively seek the necessary approvals.
5. Project readiness	MFF modality support high level of project readiness.	Project loans may not necessarily ensure readiness.	Preliminary design of the Lower Kopili hydropower plant is already prepared. Studies on geological uncertainties, biodiversity, soil quality, and various other aspects are on-going.
6. Safeguards	MFF provide opportunity for executing safeguard plans up front.	Project loans don't provide this opportunity.	Environment Assessment and Review Framework, Resettlement Framework and Indigenous People's Planning Framework are already in place. They provide structured framework and guidance for safeguard assessments in subsequent tranches.