

were negotiated in the OECD (the "Consensus" rules), which declared most types of power projects "ineligible" for any kind of tied aid credit short of "pure aid". Despite scepticism in some quarters, these disciplines appear to be holding — only five tied-aid credits for India had been challenged under the new rules as of March, 1995. This is good news for Canadian suppliers, since capital project aid financing and mixed credits are virtually unavailable from Canadian sources. It means that Canadian exporters should not normally be at a disadvantage if they can offer standard EDC-type financing.

More important, though, is to recognize that the situation of India itself has changed. The nation's demand for power investment far outstrips any amounts of foreign aid that donor countries would be willing to provide, and concessional funding is not an issue when it comes to IPPs, the fastest-growing segment of the market.

Moreover, the major sources of "official" development financing, the World Bank Group and the *Asian Development Bank*, require competitive bidding (although co-financing by export credit agencies is frequently involved as well). Funding from Japan's Overseas Economic Cooperation Fund (which accounts for up to 50 per cent of all bilateral power-sector aid) and much of the co-financing provided by its EximBank is also in principle open to foreign procurement.

The coming of IPPs is shifting the focus towards "innovative" financing. Since IPPs are generally undertaken on a limited-recourse basis, must be largely financed from abroad, and may involve a large number of players from several countries, putting

together project finance is a complex business that is becoming an industry in itself. This is one reason why Canadian firms interested in becoming involved in IPPs are advised, for the most part, to work with a lead developer or a broader international consortium.

Sources of Financing

The *Multilateral Development Banks* — the World Bank and the Asian Development Bank (Boxes 3.6 and 3.7) — have traditionally been important sources of power sector funding in India. Over the last two years, in concert with some bilateral aid agencies, they have shifted their approach from direct funding of discrete projects to encouraging — or insisting upon — the reform process in the SEBs, more investment in transmission and distribution, and major private sector participation.

Procurement under projects involving MDB funding is subject to international competitive bidding. To "stretch" the impact of their funding, however, these agencies are making increasing use of co-financing arrangements as part of an overall financing package. Suppliers of equipment and services may, therefore, be asked to include in their bids an offer of financing from their export credit agencies or other sources. EDC has engaged in several co-financing arrangements of this sort on behalf of Canadian exporters.

India is also mobilizing new *internal resources* for power investment. The *Power Finance Corporation (PFC)* was established in 1989 to provide funding both to Central agencies (NTPC, NHPC and Powergrid) and