WORLD BANK OPERATIONS EVALUATION DEPARTMENT

OED REACH

October 30, 2003

Private Sector Development in Electric Power: A Review of World Bank Group Experience

Based on the joint OED/OEG/OEU evaluation, *Power for Development: A Review of the World Bank Group's Experience with Private Participation in the Electricity Sector*

- The World Bank Group (WBG) should continue to support private sector development in electric power (PSDE) as a key objective. Well-implemented Bank Group PSDE activities can improve sector efficiency in countries politically committed to the advancement of power sector reforms.
- Outcomes of IFC and MIGA transactions have been positive, but the Bank's project-level PSDE outcomes were disappointing, mostly because the Bank underestimated the complexity and time required for reforms to achieve lasting and equitable outcomes. At the sector level, PSDE outcomes have been poor—or, at best, mixed—except in countries fully committed to reforms.
- PSDE is a work in progress, because the power sector reform process is complex, resource-intensive, time-consuming, and requires phasing and careful sequencing to create the conditions for sector transformation.
- Much work remains to integrate poverty reduction and environmental mainstreaming into the design of power sector reform and PSDE strategies, which to date have focused mostly on sector efficiency and macro-fiscal objectives.

This study evaluates the performance of the World Bank Group during the 1990s in promoting private sector development in the electric power sector (PSDE). This joint review by the Bank Group's three independent evaluation units (the World Bank's Operations Evaluation Department, the International Finance Corporation's [IFC] Operations Evaluation Group, and the Multilateral Guarantee Agency's [MIGA] Operations Evaluation Unit) aims to inform the implementation of the Bank Group's 2001 Energy Business Renewal Strategy. It is based on an evaluation of the Bank Group's PSDE assistance in 80 countries through Bank analytical and advisory work, 154 Bank projects, 29 mature IFC investment operations, and 8 mature MIGA projects.

The report's main message is that PSDE has delivered its expected benefits and good outcomes where countries were committed, reforms have advanced, and PSDE programs were properly implemented. PSDE has delivered results in some Latin American countries, as well as in Eastern European countries seeking accession to the European Union. In these cases, shortages have been reduced, energy access has increased, service quality has improved, fiscal gains have grown, and financial subsidies have declined.

Generally, the quality of outcomes depended on the objectives pursued and on the types of assistance provided. Most countries remain in the early stages of reforming and deepening private sector involvement in their power sectors. The Bank—pursuing multiple and complex reform objectives through a range of instruments across all Regions—achieved good results only in the context of country ownership and sustained political commitment. It obtained poor—or, at best, mixed—results where reforms were weak or were reversed. IFC and MIGA—focusing on the single reform objective of private sector participation, and responding to market demand for new generation (typically to address shortages)—achieved good project-level outcomes overall.

Region	*Overall PSDE Status*
Africa	PSDE achievements are few, recent, and at risk
Middle East and North Africa	PSDE efforts are just being initiated
Europe and Central Asia	PSDE progress has shown mixed results, and sustainability is uncertain
Latin America & Caribbean	Most advanced Region in PSDE; power sector transformations have been most profound
East Asia & Pacific	PSDE progress is threatened by financial and political risks
South Asia	Innovative and intensive PSDE reforms are at risk of backsliding

At the sector level, evidence on positive gains from PSDE has been emerging in a few countries where outcomes have been systematically monitored. For example, Bank-supported PSDE activities in Peru transformed the sector from a drain on the public treasury (a loss of $300 million in 1990) to a source of operating profits ($300 million in 1998). At the same time, it increased efficiency, reducing transmission and distribution losses from 21.8 percent in 1993 to 12.4 percent in 1998. Access was also improved as service coverage expanded from 53 percent in 1993 to nearly 70 percent in 1998.

The study points out that there is no single blueprint for sector reform and PSDE. It is an evolving menu of options that covers a variety of combinations and sequences of reform steps driven by country-specific objectives and conditions. In addition, poverty reduction and environmental mainstreaming ("doing good" in addition to "doing no harm") have not been intrinsic components of sector reform and PSDE strategies. Independent power producers have had a critical role to play in relieving supply bottlenecks, leveraging public sector financing capacity, and producing early wins. But lack of timely reforms in the distribution subsector can jeopardize the gains in the generation subsector.

The Bank Group's PSDE assistance is a "work in progress" that requires learning by doing. But countries should set clear objectives and take the lead, supported by sound World Bank Group advice drawn from lessons of experience in other countries in similar circumstances. Joint Country Assistance Strategies (CASs) have been more effective at supporting PSDE than Bank-only CASs, but coordination through CASs alone is insufficient.

Overall, the World Bank Group's advice and assistance in PSDE continue to be in demand, even in the current global environment of reduced private capital flows, heightened macroeconomic and political risks, and scant sponsor/investor interest. The Bank Group has a particularly crucial—and urgently needed—role to play in slow-reforming and low-income countries with high political risk and regulatory deficiencies that make them less attractive to investors.

The study recommends that the World Bank Group continue to pursue PSDE. In doing so, it should:

- Provide more detailed operational guidance to staff on when and how to continue promoting PSDE.
- Foster greater integration of poverty reduction and environmental objectives into the design of future PSDE strategies.
- Encourage operational innovations to ensure greater consistency between its practices and instruments and its PSDE goals, including improvement through more systematic monitoring and evaluation of impacts.

Management Response

Management agrees that the WBG should continue to support private sector development in the electric power sector. It also shares the report's assessment of the challenges faced in promoting private sector development in the electric power sector. Management broadly supports the recommendations of the report and indicates that many of them are being addressed. Specifically, the Energy Sector Anchor has begun preparing a Guidance Note for PSDE that will address the relative roles of the Bank, IFC and MIGA. The note will focus on the urgent issues associated with arresting the decline in PSDE and the need for protection of public good through improved governance. The WBG has been addressing the facilitation of private sector investments in distribution through policy dialogue, support of private interventions, and new instruments. However, management notes that the prospects for increasing local private sector involvement in small-scale or decentralized projects are modest because the limited financial resources available tend to be allocated to other high risk/high return investments. Regarding operational innovation, management notes that half of the CASs and CAS progress reports in fiscal years 2001 and 2002 were prepared jointly by the Bank and IFC, and this effort is being sustained in fiscal 2003. Work is also underway in the PSI VPU and the energy sector family/Sector Board to establish methodologies and data for monitoring and evaluation.

Task Managers: Fernando Manibog (OED), Rafael Dominguez (OEG), Stephan Wegner (OEU)

Directors: Ajay Chhibber (OED), William Stevenson (OEG), Aysegul Akin-Karasapan (OEU)
OED Reach available @ http://worldbank.org/oed