SESSION 1: TIMING, SEQUENCING AND PRE-CONDITIONS FOR REFORMS AND PSDE

Panelist Remarks by

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1. I would like to start my comments by commending the comprehensive evaluation done by the evaluation team of the World Bank Group. It is timely, relevant, and it's potentially useful for devising the strategies for development institutions as a whole to move forward. For those of us in the evaluation field, we know that being relevant and useful is almost the highest praise we can realistically hope for about our work. My comments today will focus on two points: (i) PSDE as a means not an objective; and (ii) What do we do if a country's policy, institutional and market environment is not yet conducive for PSDE, but it desperately needs power? I will attempt to illustrate both points through a case study of Bangladesh's power sector based on our recent evaluation of ADB's assistance's in the sector over the past 30 years.

A. PSDE as a means not an objective

2. Most participants to this workshop would probably agree that PSDE itself is not an objective (although this point could have been better highlighted in the report). Rather, it is the means to achieve some objectives that more directly contribute to the goal of economic development and poverty alleviation. The report summarizes 7 such "objectives" including (i) commercialization, (ii) corporatization, (iii) arm's-length regulation, (iv) unbundling, (v) private participation in generation, (vi) private participation in transmission and distribution, and (vii) building competitive markets in generation, transmission, and distribution. For each of these objectives, linkages between its fulfillment and improvement in the power supply and, thus, economic development are assumed or implied. While such linkages do exist for most of them, the exact nature the linkages, i.e., the effectiveness, is often less than clear-cut, and could vary considerably across different countries. I agree with the report's assessment that PSDE operations should be country-specific and there is no one-size-fits-all formula. Since not all these reforms can take place overnight, the issue of timing and sequencing of the reform measures becomes relevant.

B. What do we do if a country's policy, institutional and market environment is not conducive for PSDE, but it desperately needs power?

3. The report found that good sector improvement has been achieved in many Latin American and European countries with long standing commitment to reforms in the structure and ownership of their power sectors. By contrast, in African countries, where reforms have not progressed, operational documents continue to report financial bankruptcy of state-owned utilities. An important question for me is where most Asian countries fall on this scheme, and if the Asian experience deviates significantly from this pattern. It would appear that Asian countries have had fairly heterogeneous experience in power sector development and reforms. On the one hand, you have economies including Korea, Singapore, Thailand, and the People's Republic of China where the power sector until recently was almost entirely stated owned with some IPPs active in generation, and yet, the operational financial performance has been

basically sound. On the other end of the spectrum, there are countries such as Bangladesh where the power sector suffers very high system losses, poor service quality, and financial insolvency. In between there is a large number of countries including the Philippines, Indonesia and Pakistan where progress has been made in generation capacity expansion particularly by IPPs, sector unbundling and corporatization, but the sector continues to experience problems such as poor financial performance, high dollar-based tariffs or a tariff structure that does not reflect cost of supply, and unreliable services. The case of Bangladesh is particularly difficult and challenging because the sector's institutional and market environment is not conducive to full-sale PSDE, but the country is in desperate need of electricity.

C. The Case of Bangladesh and Lessons Learned

4. The Operations Evaluation Department of the Asian Development Bank has recently completed a sector assistance program evaluation for ADB's assistance to Bangladesh's power sector over the past 30 years. Bangladesh has a population of about 130 million, of which less than 30% have access to electricity. Over the years, with the assistance from development partners or donor agencies, the main state owned utility, Bangladesh Power Development Board (BPDB), has been broken into different generation, transmission, and distribution entities, including Dhaka Electric Supply Authority (DESA), Dhaka Electric Supply Company (DESCO), which jointly serve the greater Dhaka area, and Rural Electrification Board (REB), which serves all rural areas. Private sector participation is all in the generation market. The installed capacity of IPPs currently stands at about 1000 MW and accounts for most of the new generation capacities. As mentioned earlier, BPDB and DESA both suffer from high system losses of about 30%, at least half attributable to thefts, large account receivables, and low collection rates. They jointly owe about $1 billion to the Government in unpaid capital costs and interest charges. Government agencies, on the other hand, owe a large (though lesser) sum of money to BPDP and DESA in unpaid electricity bills.

5. Development partners including the World Bank and ADB have had a long history of providing assistance to the sector. However, the assistance experienced a significant gap between 1989 and 1995 due to the government's apparent non-compliance with loan covenants related to reduction of system losses and account receivables. Since 1995, ADB has resumed its lending activities while the World Bank was not convinced that reform had gone far enough at this stage and has preferred not to make any new loan commitments. But it has continued to promote a policy dialogue with government and provide some technical assistance. ADB's assistance program has been comprehensive, including public sector lending, technical assistance, and private sector lending and credit guarantee to IPPs. Through the lending activities, ADB appears to have gained more 'teeth' in pushing for reforms. The piecemeal and piloting approach adopted by ADB often involves creating new commercial companies in generation and distribution, including Rural Power Company (RPC), which is a hybrid of public and private share-holding company, and DESCO. These new companies have been created to demonstrate that better financial and operational performance is achievable even in Bangladesh through commercialized operations. Despite criticism (some motivated by jealousy), the model has had some definite but modest success in that the performance of these companies has been satisfactory and the morale of the employees is much higher than those of BPDP and DESA. On the whole, the sector's performance is far from satisfactory, but significant progress has been made particularly in rural electrification, reduction of system losses, and improvement in collection.

6. Three key lessons were drawn from the evaluation at the strategic level. First, ADB's approach to sector reform which is based on piloting of change and learning by doing can work

more effectively than one based on a complete blueprint. This is arguably the most important lesson in light of the alternative approach based on a well thought-through roadmap for reforms and the “No Reforms No Money” approach as has been favored by the World Bank. Second, the pace of privatization in an environment such as Bangladesh, especially in transmission and distribution, will continue to be slow and it is important to prioritize. Third, attaining commercial viability takes time and requires a financial and commercial overview of the sector, particularly over issues such as tariffs and debt defaults among sector entities and the Government. Development partners such as the World Bank and ADB can be an important help in all of these areas.