

A World Bank Group Evaluation Workshop

***Electricity Sector Reforms and Private Participation:
Experiences, lessons and outlook***

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**SESSION II:
Re-igniting Private Sector Interest in
Developing Country Electricity Sectors**

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Re-igniting Private Sector Interest in Developing Country Electricity Sectors

Greetings from Bangladesh. Bangladesh and the world community have never come across a better time to utilize domestic private sector to develop electric power. Never has a time come when two very basic infrastructures like local capacity development and electricity can be developed hand in hand.

I thank the organizers, evaluations units of the World Bank's different bodies, for arranging such an illuminating workshop and allowing me to be a panelist.

Since the privatization of utilities from 1980s, the world started looking towards huge multinationals to develop and implement infrastructure in general and electric power in particular of developing countries. The World Bank and other multilateral agencies obliged in the comfort of assurances of large corporations.

In the developed economies today, corporate governance is in question, large global economies are in recession, and the possibilities of foreign direct investment have dried up, there has been wholesale withdrawal of electricity companies from investing in developing countries. This has created a vacuum for investment. However, developing countries demand for electricity, and desire to develop is ever growing.

Domestic private sector must take up the challenge to develop their own countries' electric sector and other infrastructures. Given the opportunity the domestic private sector will rise to the occasion. Fortunately, for last 20 years some of the businesses in developing countries have learned about infrastructure. With appropriate support from multilateral agencies like the World Bank, domestic private sector can face up to the challenge. The support necessary is an understanding of the weaknesses of a particular country and removing them, comprehending the possibilities and facilitating them.

The Importance of Domestic Private Sector

It is important to build domestic private sector sponsor capacity for many reasons, among them are the following:

- There is a greater acceptance in community when the sponsor is local (politically not as sensitive).
- Equity may be in local currency, therefore requiring less foreign exchange component in the project, which would make the project more viable given that project's revenues are usually in local currency.
- As domestic private sector capacity builds up, it provides the Government more options to develop different types of projects.
- Domestic private sector can be just as competitive as foreign sponsor. Recently in Bangladesh a 450 MW Sirajganj Power Project was bid by

Summit at 2.789 cents/kwh tariff. This compares favorably to the AES projects in Bangladesh, or other projects anywhere in the world.

- Local sponsors can be more competitive than the foreign sponsors to the extent that tariffs don't have to be fully indexed to the dollar to provide the sponsor with adequate return. Summit's smaller 11MW power projects' equity returns are indexed to local currency.

Role of Government

In Bangladesh, the government needs to:

- Believe in the domestic private sector. The government needs to be realistic and promote the domestic private sector locally and abroad.
- Be politically less demanding. Politicization of business results in reduction of efficiency by almost 50% by keeping politically non-aligned companies out of business. It is imperative to keep politics out of business.
- Implement reforms necessary to attract investment, while mitigating political risks.
- Develop the domestic capital and debt markets. Bangladesh's stock exchange need to be strengthened and attract funds, while the debt market, banks, financial institution require to understand project financing and provide long term debt. This requires hiring experts having the necessary experiences to pen a long-term development plan for the capital and debt market.
- Strengthen and establish reliable legal system that would assist in developing investors' confidence.

Role of Multilateral Agencies

- To create the enabling environment for private sector and shifting the role of government from owner-producer to facilitator-regulator, huge cost and capacity build up is necessary. Hence, multilateral agencies can play a significant role in taking up programs that facilitate this transition. Multilateral lending agencies should strongly emphasize market oriented funding strategies for projects that can generate revenues and be implemented by the domestic private sector.
- The World Bank needs to reduce its over reliance on developed countries' private sector to implement developing countries' electrical power sector. Another aspect is to amend the various archaic guidelines probably meant for states or state owned enterprises, such as procurement guidelines, environmental guidelines and make them progressive. As an example, in procurement guidelines technical qualification criteria would perpetually keep developing countries domestic sector out of competition. In the environmental guidelines, the noise level and emissions are sometimes already higher than allowable limits in most developing countries' cities. What matters are competitiveness of tariffs and reliability and efficiency standards of service to consumers. In any event, since the private sector project is being chosen on the basis of competitiveness of tariffs, imposing procurement guidelines on a private sector project would not benefit the end consumer.

- The need for multilateral institutions to support local currency funding is very important. Since project's revenues are in local currency, it is important to maximize local currency debt (indexation to foreign exchange makes the project more risky). However, since only short maturities are generally available in the local market, local currency financing is usually not a viable option. Multilateral support is needed to extend local currency debt maturities (e.g. through back-stop liquidity mechanisms, etc.).

Public/Private Partnership

Wholesale condemnation of public sector is incorrect. We must think of innovative "public/private partnership" mechanisms to promote project development by the private sector and leverage public funding and capacity.

- Projects may require upfront grants to buy down capital costs to make the project viable for private sector investors (e.g. rural electrification distribution). The level of the grant required can be bid out (the sponsor that bids for the lowest upfront grant wins the project.)
- Some projects can be structured to have more public sector investment in the beginning, but with a clear strategy to sell Government stake as the project becomes commercially viable. This strategy may require providing upfront grants or subordinated loans. Government can retain a carried interest in the project in case the project returns exceed "normal" returns to a private investor.

Bangladesh, with its huge natural resources, 130 million people with only 20% having access to electricity, with current low prices of generating equipment and very low interest rates must seize the opportunity to develop its domestic private sector, electric power sector and the country. The time is now.

Thank you.

Muhammed Aziz Khan