

SESSION INPUT NOTE

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Session 2: Re-igniting private sector interest in the electricity sectors of developing countries

Thursday, November 6, 2003
8:30am – 1:00 pm

Chair:

Professor Fernando Roxas, Asian Institute of Management, Manila, Philippines

Panelists:

Introductory Remarks by Mr. Ranjit Lamech, Senior Energy Specialist, Infrastructure and Energy Services Department, Europe and Central Asia Region, The World Bank

Mr. Md Aziz Khan, Chairman and Managing Director, Summit Group of Companies, Bangladesh

Mr. Edgardo Bautista, President, Mirant Philippines

Mr. Anil K. Sardana, Chief Executive Officer, North Delhi Power Ltd, India

Dr. Piyasvasti Amranand, Chairman, Kasikorn Asset Management, Thailand

Dr. Nishantha Nanayakkara, Chairman/Managing Director, Hydro Power International (Pvt.) Ltd.

A. The Question

*How can private sector interest
in the electricity sectors of developing countries be re-ignited?*

B. Introduction

The second session of the workshop looks at the question of re-igniting private sector interest in the electricity sectors of developing countries, an issue which over the last couple of years has become increasingly dominant in discussions related to electricity sector reforms and private participation. A summary of “what power investors are looking for” will start off the panel discussions, and will be supplemented by the remarks from foreign and local private investors, involved in electricity generation as well as distribution. A perspective from a country that has been relatively successful at attracting private investments will further contribute to the debate, as will the remarks by a private renewable energy company highlighting the specific requirements and conditions necessary for allowing for – if not promoting – environmentally sustainable as well as decentralized electricity service delivery.

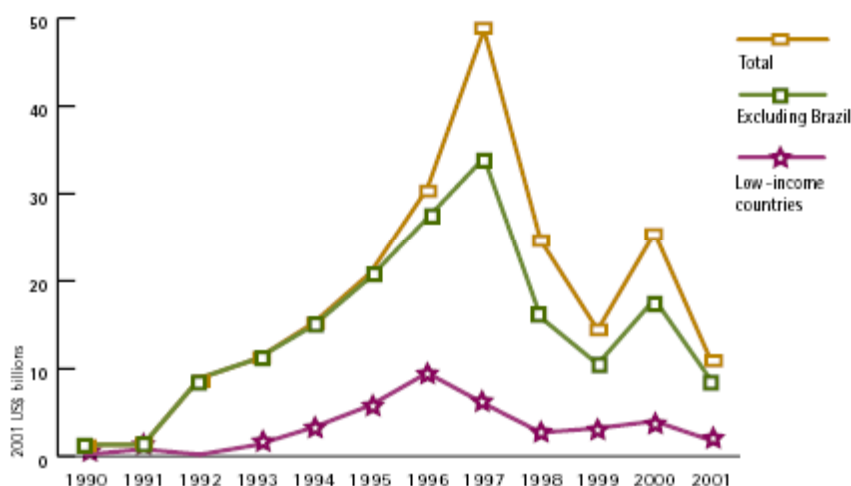
As in the first session, a brief Questions and Answers session will follow the panel presentations. Afterwards the participants will be divided into smaller groups to enable greater participation and engagement with the issues and concerns at hand.

C. Background

Private investments in the electricity sectors of developing countries, as well as in infrastructure more generally, increased steadily during the early to mid-1990s, but have in the late 1990s, particularly since 1997 and the East-Asian financial crises, been rapidly depreciating and in 2001 they were one-fifth of the levels in 1997. These developments are presented graphically in the figure below (Figure 1).¹ With a combination of high risks and low rewards, investors have increasingly withdrawn from the electricity sectors of emerging markets.

Figure 1

Annual Investment in Electricity Projects with Private Participation, Developing Countries, 1990–2001



Source: World Bank, PPI Project Database.

To a certain extent, however, this description of events is somewhat misleading. As seen in both Figure 1 and 2, private power investments during the 1990s were heavily concentrated in a few areas and regions, whilst the majority of developing countries were overlooked by private investors.

This geographical variation in private sector interest *between* countries also tends to be paralleled by an urban-rural divide *within* countries, with a majority of private sector investments going into projects that primarily serve the urban populations. Therefore, the question in many cases is not ‘how to *re-ignite*’ private sector interest, but rather ‘how to *ignite*’ private sector interest, in the poorest of the poor countries as well as in the poorer and, typically, rural areas within countries.

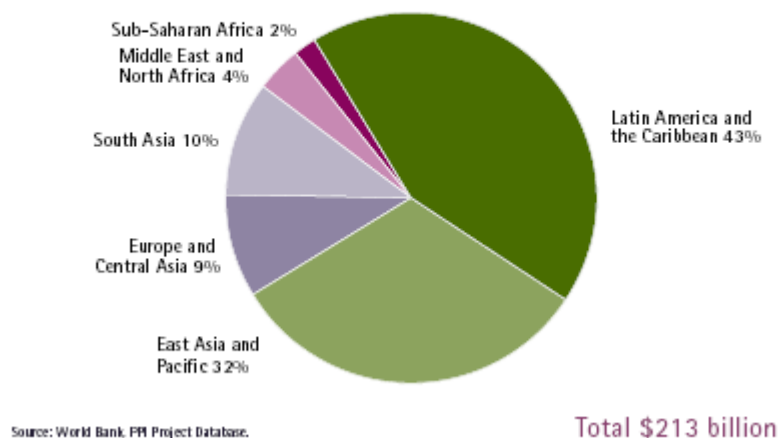
Private power investments have also tended to be focused on specific segments of the electricity sectors of developing countries, with a majority being invested in power generation facilities, to the relative neglect of transmission and distribution investments, as well as decentralized

¹ The graphs in this paper are taken from World Bank (2002) *Private Participation in Infrastructure: Trends in Developing Countries in 1990-2001 – Energy, Telecommunications, Transport, Water*, Washington D.C.: The World Bank.

electricity service provision. Private power investments, moreover, have during the 1990s mostly been directed at the divestiture of existing assets rather than in greenfield investments.

Figure 2

Cumulative Investment in Electricity Projects with Private Participation by Region, Developing Countries, 1990–2001



A discussion of re-igniting private sector interests in the electricity sectors of developing countries, hence, has to pay attention to these broader concerns: private participation in *which developing countries* (middle-income vs. low-income); *which areas* of developing countries (urban vs. rural); *which segments of the electricity sectors* (generation vs. distribution); as well as the *type* of private sector involvement (divestiture vs. greenfield).

D. Further lead-in issues for discussion

How then can private sector interest in the electricity sectors of developing countries be re-ignited? In answering this question, please address the following three issues:

1) What are private power investors looking for in the first instance? What can developing countries do to meet the requirements or “deal breakers” of private power investors? Are the needs and requirements of the private sector compatible with the longer term poverty-reduction and development requirements of developing countries? What are the costs and trade-offs involved in re-igniting private sector interests? Are other parties’ interests at stake? Do the answers to these questions differ depending on whether the private sector:

- (i) is investing in generation, transmission and/or distribution
- (ii) is investing in grid-connected or decentralized electricity provision
- (iii) is local or foreign

2) What should be done in the absence of private sector interest? Should private investments be pursued even in circumstances of little private sector interest? With what implications for market concentration and competition? What alternatives exist in these instances? What role is there for public investments and provision?



3) Despite the World Bank Group’s policy shift in the early 1990s *towards* creating an “enabling environment” for private participation, and *away from* public-sector lending in order not to crowd out potential private investments, the electricity sectors of most developing countries have been characterized by a relative absence of private sector interest. This brings to the fore the need to think more carefully and innovatively about the roles of the private *and* the public sectors, as well as the role and purpose of the World Bank Group in assisting the electricity sectors of developing countries. To help fill the void left by the departure (and in some cases the very absence) of private power capital, the World Bank Group has recently announced – particularly in the new Infrastructure Action Plan – its return to renewed assistance to the infrastructure sectors. What role, strategy, new instruments, and potential public-private partnerships should the World Bank Group pursue in this endeavor?

E. Small Group Discussions - *Good Practices and Examples?*

Taking the above debates and questions into account, in your Small Groups please consider the following additional questions:

- What are *good practices (including reforms)* for attracting private power investments in the electricity sectors? Are there any specific good practices for attracting private power investments in lower-income countries? In rural and poorer areas? In distribution sectors? For greenfield purposes? In decentralized service provision, including renewable energy? What practices, including public sector reforms and public power investments, should be pursued in the absence of – or where there is very little – private sector interest?
- Are there any practices of countries, public or private sectors, donors, labor unions, non-governmental organizations that should be highlighted as *good examples* for how to successfully deal with the questions related to attracting private power investments? A corollary of this is to highlight *good examples* of how to deal with the *absence of* private power investments, including public-private initiatives as well as public sector investments in the electricity sector.