ICR Review
Operations Evaluation Department

Report Number : ICRR11355

1. Project Data:		**Date Posted :** 08/14/2002		
PROJ ID :	P071196		**Appraisal**	**Actual**
Project Name :	Ke Emergency Energy Credit	**Project Costs (US$M)**	120.6	82.8
Country:	Kenya	**Loan/Credit (US$M)**	72	54.3
Sector(s):	Board: EMT - Oil and gas (58%), Power (42%)	**Cofinancing (US$M)**		
L/C Number:	C3425			
		Board Approval (FY)		01
Partners involved :		**Closing Date**	12/31/2000	12/31/2001

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2. Project Objectives and Components

a. Objectives

According to the Memorandum, the project objective was to assist Government implement emergency measures to address an ongoing power supply crisis, which was crippling economic activities and hindering delivery of social services. The crisis was primarily due to climatic factors which had reduced hydropower production by 67% -- in a normal hydrological year hydro would provide 70% of power production. Chronic policy, institutional and management failures exacerbated the crisis. A secondary objective was to use the project as leverage to induce a faster rate of reform.

The Implicit outcomes projected were that the project would :

1. Prevent a severe contraction of the economy and consequential job losses and increases in poverty; and
2. Accelerate reforms of the power transmission and distribution system as a first step towards creating a more competitive and private sector-led system as agreed in the Interim Poverty Reduction Strategy Paper (IPRRS) and Public Sector Reform Credit (C3406-KE.) An Action Plan (AP) was to be prepared for restructuring Kenya Power and Lighting Company (KPLC) in the short term and of the entire sector in the medium-to-long-term.

b. Components

The total ICR cost of $82.8 million comprised:

1. Capacity purchases (38%.)
2. Fuel Purchases - IPP Plants (52%.)
3. Fuel Purchases - Existing Plants (10%.)

Specifically the project would finance the following transactions :

- Government's purchase of electricity and associated fuel from short-term independent power producers (IPPs) and from fuel suppliers for about six months;
- Working capital for fuel purchases by Kenya Electricity Generating Company (KenGen) for thermal plants (the need having arisen because of drought-induced changes in power generation mix, between hydro and thermal sources, and from reduced revenue caused by loan shedding .)

c. Comments on Project Cost, Financing and Dates

Costs were lower than anticipated at appraisal - rainfall was heavier than expected (increasing hydro supply), while lower international energy costs reduced fuel costs. Most of the Bank's cancellation came from reduced "Fuel Purchases - Existing Plants." A substantial proportion of the project costs was financed by revenue receipts, which were deposited in an escrow account, that had a balance of $ 23 million at closure.

3. Achievement of Relevant Objectives:

1. The project achieved its objective of mobilizing short-term power supply, and 99MW was installed within 5 months, and by January 2001 load shedding had been discontinued. By the end of the project $71 million had been collected from power sales, of which $54 million was deposited in an escrow account and the balance retained by KPLC to cover transmission and distribution costs and bad debt provision ..
2. The second objective, implementation of measures to mitigate against future power crises was partially achieved. The Government did not voluntarily accelerate institutional and policy reforms that would place the sector on a sound footing in the medium to long-term. However, by suspending disbursements temporarily, the Bank did succeed in pressuring the Borrower into some reorganization at KPLC's corporate headquarters and

awarding contract to the consultants for the Financial Management Review (FMR.) Additionally, by agreeing to amend permitted uses of the escrow account, the Bank financed the retrenchment of nearly 1000 KPLC staff ($ 12.6 million) and payment of arrears to KenGen ($13.4 million.)

4. Significant Outcomes/Impacts:

1. The innovative contractual, financial and implementation arrangements for the project were highly successful and, by involving a key business leader as head of the Emergency Power Technical Team (EPTT), fostered an environment of accountability and transparency .
2. The strong Borrower commitment to the program for reducing power shortages resulted in exemplary implementation. The processing of payments was expeditious and the escrow account well managed, reducing risks and giving confidence to the fuel and emergency power suppliers .
3. Preparation was so successful that 75MW of planned capacity was installed and connected to the grid by the time of Board Approval. The Country Director for Kenya commented that "It may be the first time a project financed by the Bank (anywhere) has been implemented before financing is finally provided ."

5. Significant Shortcomings (including non-compliance with safeguard policies):

The government did not comply with commitments to fast-track reform. The poor performance delivering an AP contrasted with exemplary on the purchase supports . Government implemented neither the "Organization and Management Restructuring" nor the FMR for KPLC during the 14-month project duration, although contracts for both were awarded.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Satisfactory	
Institutional Dev .:	Negligible	Negligible	
Sustainability :	Unlikely	Unlikely	
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

NOTE: ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

1. Practical and workable solutions to complex problems can be designed and implemented in a timely manner, given a sound policy and administrative framework, strong project leadership, professional Bank staff and a committed Borrower,
2. Escrowing of project proceeds under strict auditing arrangements, combined with large special accounts for the IDA credit, can be an adequate substitute for Government guarantees to IPPs . Timely ex-post verification of transactions through monthly audits by independent auditors are also necessary .
3. The project design was vindicated, incorporating lessons learned from recent experience in Mozambique and Madagascar, as well as internal Bank publications . Amongst these lessons were (a) the simpler the design, the better; (b) the institutional framework and strategic management of the emergency operation is crucial for successful outcomes; (c) procurement management needs to be flexible and started early . The design incorporated few contracts, rapid preparation / appraisal, completion of contracting from advertisement to awards in 4 weeks, and strategic program oversight from the highest levels of government (Office of the President.) On the other hand the lesson that "mitigation measures should always be included against repeat disasters " was not sufficiently well-heeded by the Borrower and reduced benefits from what they might have been .

8. Assessment Recommended? ○ Yes ● No

9. Comments on Quality of ICR:

Satisfactory.