



<b>1. Project Data:</b>		<b>Date Posted :</b> 05/21/2001	
<b>PROJ ID:</b> P006191		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> Power Sctr Ref Ta &	<b>Project Costs (US\$M)</b>	5.1	4.9
<b>Country:</b> Bolivia	<b>Loan/Credit (US\$M)</b>	5.1	4.9
<b>Sector(s):</b> Board: EMT - Central government administration (100%)	<b>Cofinancing (US\$M)</b>		
<b>L/C Number:</b> C2790; CP900			
	<b>Board Approval (FY)</b>		96
<b>Partners involved :</b>	<b>Closing Date</b>		06/30/1999
<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
Kevin Warr	Fernando Manibog	Alain A. Barbu	OEDST
<b>2. Project Objectives and Components</b>			
<b>a. Objectives</b>			
The project had three objectives :			
<ol style="list-style-type: none"> <li>1. Fine-tune the regulations under the Electricity Law</li> <li>2. Carry out key transition activities for the Capitalization Program</li> <li>3. Complete the restructuring and privatization of remaining government -owned assets, especially Empresa Nacional de Electricidad transmission (ENDE-T), the main isolated systems, and the distribution companies in the smaller cities.</li> </ol>			
<b>b. Components</b>			
The project had seven components :			
<ol style="list-style-type: none"> <li>1. Strengthen the National Secretariat of Energy (NSE) within MOED, and the Technical Group (TG) coordinating the project within the Ministry of Capitalization;</li> <li>2. Fine-tune regulations under the Electricity Law;</li> <li>3. Carry out pricing studies to determine the economic costs of generation, transmission and distribution, and updating the power tariff structure accordingly;</li> <li>4. Improve system dispatch by the National Load dispatch Committee (NLDC);</li> <li>5. Mitigate environmental impacts by (a) identifying possible environmental and social issues associated with ENDE-T privatization; (b) update the environmental legal framework; and (c) implement the environmental assessment mitigation measures;</li> <li>6. Develop a rural energy program;</li> <li>7. Evaluate and implement options for restructuring and privatizing ENDE -T, the isolated systems, and the smaller cities' distribution companies.</li> </ol>			
<b>c. Comments on Project Cost, Financing and Dates</b>			
<p>The project was supported by an IDA credit of US\$ 4.9 million, which was US\$0.2 million under the appraisal figure. The project closed on June 30, 1999, after a six month extension. The Board approved the project in November 1995, but the Credit was not made effective until January 1997, after the Bolivian Congress had approved the Credit. The main reason for the delay was because this relatively small project was not accorded as high a priority as other projects, specifically those dealing with the privatization of the hydrocarbons sector .</p>			
<b>3. Achievement of Relevant Objectives:</b>			
<ol style="list-style-type: none"> <li>1. <b>Fine-tune the regulations under the Electricity Law</b> : <u>This objective was not achieved.</u> A number of studies led to the preparation by the National Secretariat of Energy (NSE) and the Superintendency of Electricity (SE) of draft regulatory changes. However many of these changes have been stalled because of inter -agency rivalry. A supreme decree was issued to correct the calculation of the transmission tariffs; however, draft measures dealing with other key matters, including the fine -tuning of the spot market, are still pending. To date, there is no evidence that the studies carried out under this objective have had measurable impacts on the ground.</li> <li>2. <b>Carry out key transition activities for the Capitalization Program</b> : <u>This objective was partially achieved.</u> <ul style="list-style-type: none"> <li>• The Superintendency of Electricity's operations and performance has been significantly enhanced . SE's</li> </ul> </li> </ol>			

code of conduct and staffing benchmarks have been strengthened using international best practices and guidelines, promoting responsibility and accountability . However, the project failed to strengthen the National Secretariat of Energy . No overall strategy for institutional strengthening was provided . NSE has been slow in making progress on key areas such as the implementation of a rural energy strategy, fine-tuning regulations, and enforcement of environmental standards .

- Eight tariff studies were financed under the project . Average retail tariffs have not changed much in real terms since the reforms began, and are at reasonable levels . The wholesale tariff structure has been adjusted to increase efficiency and reflect the breakup of ENDE . Nevertheless, problems remain with the tariff system. First, there still is considerable cross-subsidization of residential consumption, mainly from industrial users. Second, the regulated price for generation, which the distributors can pass through to consumers, has consistently and increasingly been below the spot price at which the generators sell to the distributors.
- The project had a small but positive impact on the electricity dispatch system, which was already in operation and working well.
- An environmental assessment system has been established in the sector, but implementing capacity is limited. NSE's environmental responsibilities have not been properly performed due to the shortage and high turnover of adequately trained technical specialists .
- A national rural electrification program was designed under the project, with supplementary support from ESMAP. The program has the objective of doubling rural availability of power from 14 percent to 28 percent over about five years, at a cost of US\$ 100 million. However, little progress has been made in implementing the program because Bolivia has not assigned significant resources (from the sector or from general revenue) to rural electrification and because rural electrification is the responsibility of the local governments, which do not always follow the guidelines of the program designed under the project .

3. **Complete the restructuring and privatization of remaining government -owned assets, especially Empresa Nacional de Electricidad (ENDE) transmission (ENDE-T), the main isolated systems, and the distribution companies in the smaller cities :** This objective was partially achieved . ENDE-T became a separate transmission company and was privatized through a competitive bidding process . Privatization was attempted for the largest isolated system, SETAR, in Tarija and for the distribution company, SEPSA in Potosi . However, only one bid was received for each of the companies, and the bids were well below book value . Because of the low bids, lack of competition and opposition from unions and local political leaders, the Government canceled both privatizations . GOB chose not to use project funds for the restructuring and privatization of these companies . Privatization of the smaller isolated system in Trinidad has been delayed as well.

#### 4. Significant Outcomes/Impacts:

None.

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

A significant shortcoming of the project is, for many of its components, the lack of measurable impact on the ground, especially the implementation of the regulatory changes, the rural electrification program, and the environmental assessment system.

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome :</b>	Satisfactory	Moderately Satisfactory	The ICR rates outcome as moderately satisfactory, however, this is not a formal rating for the ICR. OED concurs with the ICR's assessment of outcome and rates it Moderately Satisfactory .
<b>Institutional Dev .:</b>	Partial *	Modest	While the Superintendency of Electricity is functioning well, the National Secretariat of Energy, which has responsibility for sector policy, regulatory changes, environmental assessments and rural electrification, remains operationally weak
<b>Sustainability :</b>	Likely	Likely	The benefits of the project are likely to be sustainable, but, as the ICR notes, further progress is uncertain. While key regulatory functions are well accepted by the operators and the general public, the gradual increase in residential tariffs over eight years may eventually encounter popular resistance, especially given

			Bolivia's current political and social strife . However, privatization has proven to be almost impossible to reverse in Latin America during the past decade, and there appears to be no major threat in this direction.
<b>Bank Performance :</b>	Satisfactory	Unsatisfactory	Project preparation was too slow and, according to the ICR, the task manager spent much of the time reviewing policy recommendations within other IDA-financed studies, rather than moving ahead with project processing . However, after the task manager changed, the relationship between IDA and the Government improved. Also, supervision of the project was thin on quality and usually consisted of only one person spending less than a week on the project . The supervision reports were overly optimistic and did not fully reflect the difficulties faced in privatizing the smaller systems, implementing the rural electrification program, or strengthening NSE.
<b>Borrower Perf .:</b>	Satisfactory	Unsatisfactory	The Government shares responsibility with IDA for the project's slow preparation . The interest shown in the project during identification dissipated, especially after the project was reduced in size . Government ownership of the project was weak. As a result, project negotiations were carried out two years after identification, and the credit became effective 14 months after Board approval . The lack of adequate budget made it difficult for NSE to hire and retain qualified staff for sector policy formulation, carrying out regulatory fine-tuning, implementing the rural electrification program, and carrying out its environmental responsibilities . Moreover, the coordination between the project agencies was inadequate during the project's implementation (but has since improved).
<b>Quality of ICR :</b>		Exemplary	

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

#### **7. Lessons of Broad Applicability:**

- In technical assistance projects, as with all the Bank's AAA work, a focus on impact is particularly important . Regardless of the quality of the studies (which is generally high), it is not cost efficient to carry out studies with recommendations that the implementing agency does not have the capacity to implement .
- Additionally, the ICR provides a set of very cogent lessons :
  - A well-defined legal and regulatory framework, and transparency throughout the reform process, are prerequisites for successful privatization, and for maintaining the credibility of the approach through changes in government administration;
  - In smaller cities, privatization is likely to be harder to accomplish than in major centers because of lower attractiveness to foreign bidders;
  - Policy design and implementation are best carried out by a strong local core of permanent government professionals with a dependable administrative budget . Budgets that depend on external project financing are vulnerable when those projects end . This was the case for NSE.
  - Reform of the power sector is a long-term process that requires continuous adjustments . Even with sound sectoral and regulatory laws, as is the case in Bolivia, there can be tension between the executive power

and the regulatory agencies, and conflicts with the private utilities . Regulatory systems will have to be continuously adapted based on both the lessons of experience and technical progress .

**8. Assessment Recommended?** ☐ Yes ☒ No

**9. Comments on Quality of ICR:**

The quality of the ICR is exemplary . It very clearly and objectively addresses the key issues of the project paying careful attention to the lessons learned . The ICR is also notable in that its preparation was particularly challenging given the lack of comprehensive project documentation .