



1. Project Data:		Date Posted : 09/30/2003	
PROJ ID: P048756		Appraisal	Actual
Project Name: Private Participation In Infrastructure Technical Assistance	Project Costs (US\$M)	18.5	18.5 (see 2.c below)
Country: Guatemala	Loan/Credit (US\$M)	13.0	8.0
Sector(s): Board: PSD - Central government administration (91%), Postal services (7%), Law and justice (1%), Power (1%)	Cofinancing (US\$M)	Government: 4.9; USAID: 0.6	Government: 10.0 (see 2.c below); USAID: 0.5
L/C Number: L4149			
	Board Approval (FY)		97
Partners involved :	Closing Date	06/30/2001	08/31/2002
Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components

a. Objectives
The Private Participation in Infrastructure (PPI) Technical Assistance (TA) project sought to prepare selected infrastructure sectors - ports, power (electricity), telecommunications, roads and highways, and the postal service - for privatization and concessioning, within a sound legal and regulatory framework .
To accomplish this objective, the project provided TA to :
- draw up regulations for existing sectoral legislation and develop new legislation where required;
- strengthen regulatory agencies and sectoral ministries charged with overseeing the infrastructure sectors listed above;
- restructure and prepare for privatization entities within these sectors; and
- strengthen the ability of the Government to manage and implement the program of privatization and concessioning in the infrastructure sector.

b. Components
By sector, the project components were the following :
1) Ports (US\$ 1.8 million or 10% of total estimated project costs): TA to assist in the concessioning process, draft sector legislation, conduct environmental audits and prepare environmental regulations, develop a strategy for the minor ports, and conduct a training program for the staff in port authorities
2) Electricity (US\$ 4.7 million or 27% of total estimated project costs): TA to establish the electricity wholesale market, restructure the *National Institute of Electricity* (INDE), privatize the *Guatemala Electricity Company* (EEGSA), procure equipment, train staff of the *National Electrical Energy Commission* (CNEE, the sector regulator) and the *Ministry of Energy and Mining* (MEM), develop all required regulations, conduct environmental audits and produce environmental regulations.
3) Telecommunications (US\$ 5.0 million or 28% of total estimated project costs): Provide training and equipment to the regulatory body, draft detailed regulations for interconnections, prepare the state -owned telecommunications company, GUATEL, for privatization (funded by the Borrower), assist in auctioning and monitoring of the radiospectrum including the purchase of software, and develop regulations dealing with the radiospectrum .
4) Roads and Highways (US\$ 0.7 million or 4% of total estimated project costs): TA to identify roads for possible concessions and to develop model concession agreements and bidding documents .
5) Postal Services (US\$ 1.6 million or 9% of total estimated project costs): Assist in the development of a regulatory framework; prepare concession documents and the strategy for postal services; offer TA to prepare a management contract; and train staff for a new regulatory role .
6) Cross-sectoral Activities (US\$ 3.8 million or 22% of total estimated project costs): Fund a public information campaign, study tours and the promotion and dissemination of investment opportunities; handle project management (funding for implementing unit, procurement agent and external audit); and offer TA and training for additional privatization requirements and cross-sectoral issues.

Revised components :

Municipal Services : At the request of the new Administration following the 1999 elections, the project also financed diagnostic studies and provided recommendations related to improving service delivery (improve coverage, efficiency and financial sustainability) of municipal infrastructure (electricity, water and sanitation, and solid waste) through private sector participation. The overall project objective, however, was not affected by this change .

c. Comments on Project Cost, Financing and Dates

As noted in Annex 2 of the ICR, the Borrower had failed to provide information on actual project costs, hence, the above breakdowns of costs are based on the estimated project costs as set out in the Project Appraisal Document .

- Whilst Bank disbursements were less than estimated (US\$ 5.0 million of Bank loans were cancelled) due to delays in project implementation, total project costs were at closing still estimated by the ICR at US\$ 18.5 million based on the assumption that the Government may make up the difference and later complete the project without Bank financing.
- In response to the addition of the municipal infrastructure services sub -component by the new Government Administration in 2000, the project was extended by one year until June 30, 2002. The Government requested a second extension but was unable to fulfill the Bank's requirements for a credible rescheduling of pending activities to achieve project development objectives, thus, the loan finally closed on August 31, 2002.

3. Achievement of Relevant Objectives:

To prepare selected infrastructure sectors - ports, electricity, telecommunications, roads and highways, and postal services - for privatization and concessioning within a sound legal and regulatory framework . Mainly due to the lack of ownership and support for the project by the Government, and particularly the Portillo administration, *this overall objective was at best modestly achieved*, though the achievements differed by sector .

The achievements of the objectives related to the sub -components of the **ports**, and **roads and highways** sectors *were negligible*, and benefits are potentially at risk in the other sectors, especially in the **postal** sector. **Ports**: There has been almost no progress in terms of private participation in the ports sector since the beginning of the project . Whilst the project helped the Government draft a legal framework (the Port and Maritime Bill), the law has never been enacted. A TA through the Public-Private Infrastructure Advisory Facility (PPIAF) was requested by the Bank to follow up on the progress of these activities . **Roads and highways** : Only one concession has been operating since 1998. However, this concessioning process was not supported by the project as the bidding process, along with the social and environmental assessments, were not deemed satisfactory by the Bank . **Postal sector** : The 5-year management contract with International Postal Services (IPS) Ltd from Canada helped improve coverage, reliability and efficiency, but delays in concessioning puts the future benefits from these achievements at risk . The reasons why the management contract with IPS was not renewed, is not clear from the ICR, however . **Electricity sector** : Future benefits are also at risk in the electricity sector, due to the continued existence of unsustainable and non-targeted residential subsidies and potentially also due to the semi -independent nature of the regulatory agency . **Telecommunications sector** : Benefits in the telecommunications sector have been restricted to the urban, and relatively better-off, segments of the country . These limitations have also been exacerbated by the somewhat unclear institutional framework for rural and suburban telephone services caused by having two institutions, GUATEL (the entity in charge of some 2,000 rural community telephones remaining after the separation and privatization of TELGUA in 1997) and FONDETEL (an OBA-fund established by the telecommunications law), with somewhat overlapping roles and responsibilities . Again, the semi-independent nature of the sector regulator may, as above, pose future difficulties .

Despite these limitations, in the sectors where the Government had shown substantial commitment to reform prior to the project was initiated, specifically, the **electricity** and **telecommunications** sectors where the Guatemalan government already had made the initial steps towards restructuring (putting in place appropriate implementation arrangements, passage of legislation, setting up of regulators, etc), *some of the objectives related to these sub-components were substantially achieved*. **Electricity sector** : The TA successfully aided, in addition to the privatization of the main generation and distribution entities, the unbundling of INDE and the restructuring of the power sector, the creation of a wholesale market (administered by the *Administrator of the Wholesale Market*, AMM), and the creation of a regulatory agency (the CNEE), as well as the passage of key regulations including tariff setting and quality of service. **Telecommunications sector** : Since the 1996/7 reform, the sector has been fully privatized and liberalized, and a new legal and regulatory framework has been established .

Municipal Services : As this subcomponent was not part of the original project it was not rated by the ICR .

4. Significant Outcomes/Impacts:

- The restructuring of the **electricity sector** in Guatemala has been impressive, and equity concerns (in the sense of increased coverage and access) have been well incorporated alongside improved reliability and efficiency . That is, power supply has become more reliable and efficient, and the implementation of a rural electrification program, using output-based aid (OBA) financed by privatization proceeds, has resulted in an increase in electricity coverage from 56% in 1997 to 82% in 2001. Indeed, Guatemala, which used to have one of the lower electrification rates in Latin America now rates well above the regional average (the electrification index for Guatemala may reach as high as 90% by 2004).

- Since the 1996/7 **telecommunications sector** reform, fixed lines have almost doubled from 430,000 to 756,000 lines (an increase of 76%), whilst the more competitive mobile telephone market has seen a 20 fold increase from 64,000 to 1,126,000 mobile lines.

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

- The semi-independent nature of the regulatory agencies in both the electricity and telecommunications sector may potentially in the future undermine the benefits and achievements to date .
- Future benefits are also at risk in the electricity sector due to the continued existence of unsustainable and non-targeted residential subsidies .
- The complex and somewhat overwhelming design of the project - aiming to restructure as many as 5 different infrastructure sectors, at different stages of reform - has to be considered a factor in the overall unsatisfactory outcome.
- Given that the Bank's support for PPI is supposed to be conditional upon strong, pre -existing government commitment and moves towards reform, a more selective approach should have been adopted where the Bank would support only those sectors (electricity and telecommunications) where the Guatemalan government already had made the initial steps towards restructuring (putting in place appropriate implementation arrangements, passage of legislation, setting up of regulators, etc).
- As Guatemala had just recovered from civil war, the Bank should have anticipated the potential risks of political uncertainty and powershifts during the project cycle . As such, more emphasis should have been placed on public-education campaigns, stakeholder participation, and other efforts aimed at building greater consensus around the need for infrastructure reforms, so as to generate a broader coalition for reform .

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Unsatisfactory	Moderately Unsatisfactory	[the ICR's 4-point scale does not allow for a "moderately unsat." rating]. As noted above, some progress was achieved in the electricity and telecommunication sectors.
Institutional Dev .:	Modest	Modest	
Sustainability :	Unlikely	Unlikely	
Bank Performance :	Satisfactory	Satisfactory	The complex design and lack of selectivity of the project did, however, contribute to the project's unsatisfactory outcome .
Borrower Perf .:	Unsatisfactory	Unsatisfactory	
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. As the processes and stages of infrastructure reform frequently differ from sector to sector, PPI project designs should not be overly complex and should only concentrate on a few sectors at similar stages of reform .
2. The Bank should only support PPI where there is clear government commitment and ownership of reforms, as seen by actual steps made towards restructuring prior to Bank involvement . It is important to recognise in this regard that government commitment to reform in some infrastructure sectors may not necessarily signify similar commitments to reform in other sectors.

8. Assessment Recommended? Yes No

9. Comments on Quality of ICR:

The quality of the ICR was satisfactory . It is internally consistent, and for the most part provides sufficient evidence to support its ratings. More information and data could, nevertheless, have been provided on a range of issues (actual project costs; costs of privatization - including economic impact of redundancies caused by restructuring; usage of proceeds from privatization) so as to better assess and comprehend the benefits and costs of the project . The lack of data is partly due, however, to the failure of the Borrower to in the first place make them available .