ICR Review
Operations Evaluation Department

Report Number : ICRR11036

1. Project Data:		Date Posted :	08/13/2001	
PROJ ID :	P009071		Appraisal	Actual
Project Name :	TEK Restructuring	Project Costs (US$M)	362.7	288.5
Country:	Turkey	Loan/Credit (US$M)	300	254.6
Sector(s):	Board: EMT - Power (100%)	Cofinancing (US$M)	None	
L/C Number:	L3345			
		Board Approval (FY)		91
Partners involved :		Closing Date	06/30/1995	12/31/2000

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2. Project Objectives and Components

a. Objectives

The initial objectives of the project were to support (a) the corporate restructuring of TEK, (b) the implementation of an agreed least-cost investment program for 1991-94 and (c) the strengthening of capacity to assess the environmental impact of power sector Investments. When the project was restructured in 1995 the original objectives were left unchanged and the additional objective of privatization of selected portions of sector infrastructure was added.

b. Components

Initially the project had three components: (i) the implementation of a corporate restructuring plan for TEK; (ii) financing of part of the foreign exchange cost of transmission and distribution facilities included in TEK's 1991-94 investment program; and (iii) technical assistance to build up TEK's capability to carry out environmental impact assessments.

There were minor revisions to the above components to take account of the creation of two entities out of TEK in 1994 (TEAS & TEDAS) and a new component was added following the Marmara earthquake in 1999 to permit the repair and replacement of distribution equipment and lines damaged by the quake.

c. Comments on Project Cost, Financing and Dates

Of the original $300m loan, all but $10 m was envisaged for physical investments, essentially transmission lines, substations and distribution equipment. The original Loan of $300m to TEK was split into two in 1995, following the replacement of the original borrower by two new entities, TEAS ($260m) and TEDAS ($40m). A total amount of US$ 255m for the two loans was disbursed by the final closing date, of which over two-thirds was for transmission investments. The project as a whole financed only a small fraction of the Turkish electricity sector investment program during the 1990s. The creation of the new entities was a major contributor to the five-year delay in completing the project.

3. Achievement of Relevant Objectives:

The project achieved most of its objectives, although more than five years later than envisaged .

The corporate restructuring of TEK entailed the implementation of financial and operational improvement programs, debt restructuring and the production of annual corporate performance plans. The ICR states that these were "generally implemented."

The physical objectives were substantially completed by project closing, since the transmission lines and substations were completed, but the repair/replacement of earthquake damaged facilities was unfinished. According to the ICR, the objective of creating a capacity for environmental assessments was "largely achieved." It states that as a result of the project, TEAS has an environmental unit equipped to supervise environmental assessments of power plants and transmission lines. TEDAS also has acquired a capability to assess the environmental impact of distribution investments.

The main area where progress was rather limited was in privatization of the two entities. It only became apparent *after* loan restructuring that privatization would require a constitutional amendment. Essential legislation was passed only at the very end of the project period and asset sales have yet to begin. In the meanwhile, GoT attempted to lease sector assets to the private sector through a scheme known as 'transfer of operating rights,' but almost none of these deals came to final closure and the program is due to be abandoned imminently.

4. Significant Outcomes/Impacts:

As a condition of Bank assistance, GoT agreed to introduce an automatic process of setting electricity tariffs in US$ terms with monthly adjustments to compensate for high domestic inflation. This measure helped ensure the financial viability of the sector during the 1990s, which had reached near-bankruptcy in the late 1980s. The project contributed to a long-term policy dialog with GOT on energy sector reforms that is still ongoing. However, attributing progress in the reform process to a particular project in a sequence of lending operations would be arbitrary.

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

Lack of progress in privatization during the project period. There has been no progress in reducing energy losses at the distribution level, or in reducing the level of TEDAS's accounts receivable.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Moderately Satisfactory	(a) Ex-post EIRR is only 8%, but this ICR estimate could not be confirmed since details are not provided. (b) Lack of results in achieving the privatization objective.
Institutional Dev .:	Substantial	Substantial	
Sustainability :	Likely	Likely	
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Unsatisfactory	Frequent and destabilizing changes of sector management by GOT; ad hoc approach to privatization; slowness in procurement.
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:

An appropriate legal framework needs to be in place before attempting to privatize power utilities.

8. Assessment Recommended? ○ Yes ● No

9. Comments on Quality of ICR:

The ICR is generally satisfactory despite a few shortcomings. It provides a clear, succinct overview of the difficulties encountered by GOT's privatization efforts in the 1990s.

The main shortcomings of the ICR are:

(a) The lack of detail on the EIRR recomputation. The projected growth in demand is not provided, nor the annual flows needed to verify the calculations.
(b) The quality of the Borrower contribution is poor. It is purely descriptive and contains no analysis of the project nor comments on the quality of Bank or Borrower performance.