



1. Project Data:		Date Posted : 08/15/2002	
PROJ ID: P010458		Appraisal	Actual
Project Name: Power Sect. Dev. Pro	Project Costs (US\$M)	4,470.0	2,860.9
Country: Pakistan	Loan/Credit (US\$M)	230.0	230.0
Sector(s): Board: EMT - Power (90%), Central government administration (7%), Law and justice (3%)	Cofinancing (US\$M)	0.0	0.0
L/C Number: L3764			
	Board Approval (FY)		94
Partners involved : None	Closing Date	06/30/1999	03/31/2001
Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components

a. Objectives

The objectives of the project were to: (a) set the stage for a gradual restructuring and privatization of the power sector in general, and the Water and Power Development Authority (WAPDA) in particular, through the implementation of a comprehensive Strategic Plan for restructuring and privatization of the Pakistan power sector; (b) support WAPDA's investment program to minimize the country's chronic shortage of electricity at least-cost while further enhancing demand-side management measures, and facilitating the privatization process; (c) enhance resource mobilization and the operational efficiency, autonomy and accountability of the power sector entities; and (d) strengthen the environmental assessment and mitigation capabilities within the sector.

The objectives were defined by the Government of Pakistan (GOP) in 1992 before project appraisal, and modified in 1998 through a Policy Statement on Power Sector Reform Program. While the modification largely retained the original objectives of the reform program, it strengthened the implementation arrangements for management and oversight of WAPDA, and established specific milestones for completing the restructuring of WAPDA.

b. Components

The project included three components:

(1) A restructuring and privatization component to support: (i) the restructuring and corporatization of WAPDA into a holding company with decentralized power generation, transmission and distribution subsidiaries operating as discrete autonomous profit centers; (ii) the establishment of a National Electric Power Regulatory Authority (NEPRA) to set standards and regulate largely privately operated power sector; (iii) the development of a pricing policy which would provide the incentives needed to support the project's privatization objectives; (iv) the development of a labor transition program that would allow the privatization of the power sector to occur in a manner that provides adequate management flexibility to the private sector while addressing the concerns of labor; and (v) the initial offering for sale to the private sector of parts of WAPDA's assets.

(2) An investment component to support a four-year time-slice (FY95-98) of WAPDA's investment program, while improving the reliability of the system in order to make it more efficient and more attractive to private investors.

(3) A technical assistance component to cover consultant services and training for the above mentioned two components, as well as for strengthening WAPDA's environmental capability.

The 1998 Policy Statement on Power Sector Reform discontinued the concept of WAPDA being a holding company. Instead, it indicated that the thermal generation, transmission and distribution functions of WAPDA were to be taken over by a number of independent companies, while a residual WAPDA was to retain the management and operation of the hydropower generation facilities and the development of the country's water and hydropower resources. This was the main revision made to the project's restructuring and privatization component.

c. Comments on Project Cost, Financing and Dates

The project was completed at an estimated cost of US\$ 2,881 million or 36 percent lower than the US\$4,470 million appraisal estimate. The decrease in cost was mainly due to a significantly lower investment made by WAPDA than the one estimated at appraisal (US\$2,861 million in lieu of US\$4,442 million) and a reduction in the costs of the restructuring and privatization (US\$15.0 million in lieu of US\$20.2 million) and technical assistance (US\$5.0 million in lieu of US\$6.8 million). In June 2000, upon request of the GOP, the original US\$230 million Bank loan was reduced to US\$218 million. The GOP on-lent to WAPDA US\$198.0 million to finance investment, technical assistance and part of the restructuring and privatization component. It retained US\$12 million for the component implemented by the GOP. Ultimately, the US\$210 million Bank loan financed equipment and materials (US\$187.4 million), civil works (US\$3.0 million) and consulting services and training (US\$19.6 million) over a period of 6 years. The GOP and WAPDA financed the balance. The loan was closed on March 31, 2001 following two extensions of the loan closing date by a total of 21 months.

3. Achievement of Relevant Objectives:

The project objectives were partially achieved. A legal and regulatory framework for the power sector was enacted. It unbundled the power generation, transmission and distribution functions. The completion of the Strategic Plan for restructuring and privatization of WAPDA is expected by end-2002. The project financed part of the WAPDA's investment program which together with investment made by private independent power producers (IPPs) are contributing to alleviate the country's chronic shortage of electricity and to decrease power cuts and energy losses. Also, partial autonomy and accountability of the power sector entities has been achieved. The strengthening of the environmental assessment and mitigation capabilities of the sector was not achieved.

4. Significant Outcomes/Impacts:

The National Electric Power Regulatory Authority (NEPRA) was established under the Regulation and Generation, Transmission and Distribution of Electric Power Act in 1997. NEPRA is responsible for regulating and overseeing the power sector, in particular for setting electricity tariffs for all regulated activities. WAPDA functions have been reorganized into 3 generation companies (GENCOs), 8 distribution companies (DISCOs) and the National Transmission and Dispatch Company (NTDC). A 1,600-MW thermal power station was privatized in 1996. Extra high voltage transmission lines (1,900 km), secondary transmission grid lines (5,500 km) and power transformer capacity (4,259 MVA) were built and added to the Pakistan power system. Also, 2.2 million new customers were connected to electricity service.

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

- (a) WAPDA's management and staff had no prior experience in dealing with issues involved in restructuring an integrated utility into a number of independent operations and, before 1998, were not committed to restructure WAPDA. Some of these weaknesses in institutional capacity, which contributed to significant delays in project implementation, could have been overcome by seeking expert advice and availing of training opportunities offered by the technical assistance component of the project.
- (b) Although the pricing of electricity tariffs is done in a transparent process, the prices approved by GOP do not reflect the full cost of supply. NEPRA sets the regulated electricity prices based on petitions made by the suppliers and results of public hearings. However, NEPRA in setting tariffs has to also taken into consideration the GOP's economic and social policies which tend to price electricity below the values dictated by purely economic principles.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Satisfactory	The enacting of the power sector reform Law, the initial steps taken by the GOP to implement it fully in the years to come, and the physical investment made to improve the power sector support the satisfactory rating. This is in spite of the low ERR of the physical investment, and the failure of the project to achieve progress in the environmental front.
Institutional Dev.:	Modest	Modest	
Sustainability:	Likely	Likely	This rating assumes that the new legal framework for the power sector will

			permit the allocation of resources to NEPRA to enable it operate autonomously in overseeing the power sector and setting electricity tariffs based solely on economic principles.
Bank Performance :	Satisfactory	Satisfactory	The Bank was very flexible in accepting project delays resulting from a complex implementation of the reform program within the economic and political context of the country, and because of the interest the Bank had in maintaining a standing dialogue with the GOP on power sector privatization.
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:

(a) A program to unbundle and restructure a large organization is not likely to succeed if implemented from within the organization. It would be advisable to undertake the reform program through a management team and agents who are at the same time committed to the reform and empowered by the Government with a full mandate and authority to carry out the restructuring and unbundling.

(b) In the power sector, a privatization program should give initial priority to the privatization of the power distribution companies rather than the privatization of the power generation plants.

(c) An active campaign of public awareness and dissemination of the power sector reform will help employees, customers, others stakeholders and public at large to understand the rationale and benefits/costs entailed by the reform program. Radio and TV media, the Internet, and seminars and workshops would be the appropriate instruments to carry out the campaign.

8. Assessment Recommended? Yes No

Why? Several matters are at issue: (i) the actual implementation of the restructuring of WAPDA and the privatization of distribution companies; (ii) the way a wholesale or pool power market will be established and managed; (iii) the financing of NEPRA's operating budget; and (iv) the setting of electricity tariffs and its impact on the financial position of WAPDA. Moreover, the environmental objectives of the project were not achieved.

9. Comments on Quality of ICR:

The ICR complies satisfactorily with the Bank guidelines for the preparation of ICRs. It presents a detailed description and evaluation of the project results. It would have been enriched had the legal and regulatory framework been explained in more detail, and the results of the project mid-term review reported. The review of the ICR by a technical editor might have help to fill a few gaps and correct minor mistakes (examples: the estimated cost of the investment component of the project was US\$4,443 million and not US\$4,470 million; no data was provided in the table for Project Financing by Component; and in Table 4-Bank Inputs, the mid-term review mission was not listed).