Public and Private Sector Roles in the Supply of Electricity Services

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World Bank Energy Week
March 11, 2004
Real Investment in Electricity Projects with Private Participation in Developing Countries 1990-2002

US$Bn

- All low and middle income countries
- Low income countries
Why a guidance note?

- Decline in private investment and interest in developing country power sector
- OED/OEG/OEU evaluation of Bank-supported private participation in the sector
- CODE request for guidance to staff
- Infrastructure Action Plan
Developing reform strategies

Strategic priorities
- Access
- Financial viability
- Efficiency

Present conditions
- Macro-fiscal environment
- Political economy of pricing and reform
- Investor interest
- Domestic capital market development
- Size of market
- Prices relative to cost

Private Participation
- Enterprise Reform

Sector Restructuring
- Competition
- Unbundling

Regulatory Reform

More and Better Power Services
- Reliable
- Efficient
- Affordable

Development Objectives
- Poverty Alleviation
- Economic Growth
- Environment
A Framework for interventions

- Formulate strategies in context of CAS, PRSP: ensure broad approach including PERs for determining priority expenditures, investment climate assessments
- Use sector work (e.g. REDI s) to monitor progress
- Consider full range of options for support from WBG – mobilize cross-institution teams: general preference for Bank products that do not represent a claim on taxpayer resources
Generation

- Private financing for thermal preferred:
  - Public support often required (e.g. guarantee products, IFC investments)

- Undertake public financing of generation where:
  - Market test indicates no interest
  - Credible reform plan in progress
  - Investments represent priority public expenditure
  - Project is consistent with least cost expansion plan

- Public financing role important for large hydroelectric projects with complex features: even then potential for private participation
Distribution

- Emphasis on service delivery, financial viability
- Where public utilities working well or improving, scope for public financing underway
- Consider broad range of WBG interventions to support private participation:
  - IBRD/IDA lending for investment or OBA subsidies
  - IFC equity/loans
  - MIGA or WB guarantee coverage
- Options such as management contracts can be considered as interim step
Transmission

- Opportunities for private participation can be substantial under favorable policy framework
- Scope for public lending, guarantees and insurance opportunities
- Emphasize sound overall sector reform program
- Minimum corporate governance standards when lending to the public sector
Regulatory frameworks

- Recognize time required to develop capable independent regulators
- Fix key terms and conditions in main regulatory instruments for medium-term period
- Transparency: place key regulatory instruments (licenses, concession contracts) in public domain
Regional integration

- Selectivity required: projects likely to provide benefits only if country sectors also reforming
- Private participation in some cases may require guarantees
- Public sector keen on integration, but incentives for cost-reducing trade often weak
Fiscal Space: Infrastructure and the Budget

Anand Rajaram, PREM

Energy Week 2004
Outline

- **Guidance note - public and private sector roles in energy infrastructure**
- **My focus is on the public sector role:**
  - The concept of fiscal space
  - Integration with Bank thinking and instruments on public spending
  - Process suggestions to put infrastructure on an even playing field with other sectors in CAS and PRSP
The Concept of Fiscal Space

- A realistic estimate of medium term fiscal resource availability (including sustainable, non-inflationary financing) net of ongoing expenditure commitments
- **Reality – limited fiscal space –**
  - Investment as a residual after other calls on the budget
  - Inter-sectoral competition for investment projects
  - Apparent bias towards HD ("pro-poor") spending
- **Recent guidance:** develop “what if” scenarios to identify effects of greater external financing on MDGs
Using Bank analytical instruments

- Public expenditure reviews (PER) help governments with
  - Medium term budget planning and management
  - Defining fiscal space and “what if scenarios”
  - Identifying strategic spending choices and consequence for efficiency and equity

- Often based on detailed sector studies which define the public-private role in the sector

- PERs and fiscal studies are key in helping PRSP countries prioritize public spending

- Infrastructure sectors currently under-represented in PERs
Some key “process” suggestions

- “Silo” approach not a good option as Bank turns to budget support framework
- Discuss the fiscal space and development priority issue with country/fiscal economist
- Contribute to the PER - articulate the case for public spending on infrastructure in terms of overall growth and development strategy
- Build government capacity for policy and project evaluation, procurement and budget and asset management
Enterprise Restructuring in the Power Sector

Challenges for the World Bank

Alan Townsend

Infrastructure, Economics and Finance Department

Energy Week
March 2004
Enterprise Restructuring:
What does the Operational Guidance Note Say?

- Recognizes continuing ownership and operational role for the state in the power sector
  - Particularly state-owned transmission and system operator (TSO) companies
  - “Hard Case” distribution companies
- Highlights importance of improvements in management and corporate governance
Pre-privatization investments also need to be considered

- Long lead-times mean that even entities programmed for privatization may need investment and capacity-building

- Two key options
  - Assistance to existing public sector management
  - Performance-based Management Contract
Capacity-building of state-owned companies

- World Bank invests in ASSETS
- Capacity-building needs to focus on improved ASSET MANAGEMENT

**People**
- HR Systems
- Training
- Incentives

**Information**
- Financial
- Customer
- O&M
- Metrics

**Asset life-cycle processes**
- Planning
- EPC
- Operations
- Maintenance
- Retirement

Customer satisfaction with services
Barriers to effective asset management

- Corruption
- Political interference
  - Or indifference to normal shareholder concerns
- Poor performance by regulatory authority
- [possibly] Unwillingness of client to borrow for technical assistance
- Unhappy customers
Principles for successful capacity building engagement

- Strongly tied to investment program
  - Comprehensive asset management approach
- Client-driven – but what does this mean?
  - Support enterprise transformation
  - Strengthen the enabling framework: regulation, investment climate
- Best-practice approaches
  - Accounting and operational separation
  - Out-sourcing/disposal of non-core activities
  - Performance metrics
- Recognition that “change” in successful organizations should be a continuous process
What can the Bank do now?

- Develop enterprise restructuring components within investment operations
  - Standard methodologies, modular delivery
- Support global benchmarking – REDI-type approach to firm level
  - Facilitate participation of state-owned utilities?
- Lower barriers to successful engagements
  - Regulatory, investment climate assessments
  - Matching grants to reduce reluctance to borrow for technical assistance?
Results Chain

**Inputs**

Better Asset Management
- Operations
- Maintenance
- Risk management
- Client-focused

**Outputs**

Services that are:
- Sustainable (for operators)
- Fair (for customers)
- Efficient (for the economy)

**Outcomes**

- Sector Development
- Economic Growth
- Poverty Reduction
Different Aspects of the Guidance Note on Private Participation in Power

Market Structure

John E. Besant-Jones
Guidance Note on Market Structure

What the Guidance Note Says about Market Structure – and Why

• Case by case approach (starting conditions)
• Extent and order of restructuring (unbundling)
• Roles of public and private participants
• Competitive trading
Transition to a new structure

- Requirements for market operation
  - Single Buyer, Multiple Buyer/Seller
- Pace - gradual versus big bang
- Pre-private participation reforms
# Implementing the Guidance

## Illustrative Classification of Power Systems

<table>
<thead>
<tr>
<th>Factor</th>
<th>Classification</th>
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<tbody>
<tr>
<td>System size</td>
<td>small</td>
</tr>
<tr>
<td>Access to electricity</td>
<td>low</td>
</tr>
<tr>
<td>Investment climate</td>
<td>poor</td>
</tr>
<tr>
<td>Institutional capacity</td>
<td>weak</td>
</tr>
<tr>
<td>Governance</td>
<td>poor</td>
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