

Chairperson's Summary: Committee on Development Effectiveness (CODE)

On December 17, 2007, the Informal Subcommittee of the Committee on Development Effectiveness considered a study entitled *The Welfare Impact of Rural Electrification: A Reassessment of the Costs and Benefits*, prepared by the Independent Evaluation Group (IEG)-World Bank.

IEG Findings and Recommendations

The IEG report reviewed recent methodological advances made in measuring the benefits of rural electrification (RE) and commends them, while noting that the understanding of these techniques shown in project documents is sometimes weak and quality control for the economic analysis in project documents is lacking. One of the main findings was that RE investments could generate sufficient benefits to households and the value of these benefits was above the average long-run supply costs. IEG also noted that analysis of feasible tariff levels could be informed by good-quality economic analysis and endorsed the measurement approaches pioneered by the Philippines Energy Sector Management Assistance Program (ESMAP). IEG found that the Bank RE projects have become more explicitly focused on poverty reduction. However, complementary measures to ensure the highest poverty reduction and social impacts—such as educational campaigns, promotion of productive use, and smart subsidies—have been lacking in Bank projects.

Overall Conclusions

Speakers welcomed the IEG impact evaluation and the methodology used for estimating measurable costs and benefits, particularly with regard to im-

pact on the poor. Questions were raised about the Bank's support for development of the new sources of energy, particularly renewable energy. Members highlighted the importance of using targeted and well-focused cross-subsidies, which could increase the positive impact of RE on the poor. Speakers also underlined the need to strengthen cross-sectoral collaboration and promote local development initiatives. Members also stressed the importance of combining qualitative and quantitative methods while analyzing the impact of the Bank's programs.

Main Issues

The following main issues were raised during the meeting.

Impact Analysis. A number of speakers appreciated the methodology used in ESMAP. At the same time, a member underlined the importance of continued improvement of the analytical tools and asked management to ensure that staff would use such tools in day-to-day work. He also called for the rapid development and application of improved evaluation techniques to contribute to setting up informed and clear objectives and strategies in this sector. A member considered the scope of the IEG report narrow and would have

preferred to see more in-depth analysis of the opportunity costs. He also remarked that development effectiveness of infrastructure projects should be evaluated by the nationwide economic impact, not by the Regional social impact. A speaker encouraged management to conduct an analysis of microscale positive effects that electrification has on small businesses.

Use of New Technologies. Some speakers noted that the IEG report finding about higher costs but lower benefits of off-grid connection compared to grid extension was disputable. They also would have preferred to see recommendations that help the Bank develop its operations in renewable energy. In addition, a member remarked that the Global Environmental Facility grants can be used to promote use of new technologies for electrification in remote areas. *Management explained that grid and off-grid electrification is complementary, and in sparsely populated, remote, or mountainous areas the off-grid connection is the only solution. IEG clarified that there is often a trade-off between connecting, at a higher cost, better-off people in remote locations and poorer ones in nearer locations (including already connected villages) and that this trade-off needed to be made clear and a rationale provided.*

Use of Subsidies. Several speakers commented on the need to further analyze subsidies, because the poverty dimension of RE can be addressed through cross-subsidization. A member noted that recently the International Finance Corporation (IFC) Board of Directors approved the Performance-Based Grants Initiative, authorizing the IFC to provide subsidies to the private sector to extend its infrastructure subsidies to the poor. He suggested the IFC share its experience in this area with the Bank. *Management clarified that the targeted subsidies for connection charges for low-income households, which the report advocates, face implementation difficulties in prac-*

tice. These subsidies are more feasible in the countries with high electrification rates, where the cross-subsidies from industries and commercial and high-income customers are possible. Alternatives also adopted are using low-cost methods for household connections and financing to spread the connection cost over several months.

Community-Driven Mechanisms. Some speakers sought more information about the decision-making process in RE. They wondered whether such processes should be community driven with the involvement of local institutions and producer organizations. In this regard, a member underlined the importance of public awareness campaigns and noted that the poor should be made aware of the services available to them for the low basic tariffs. *IEG responded that in some Regions, particularly in Latin America, community-driven development programs provide financing for RE. Implementation of the community-driven RE programs also increases consumers' awareness of their potential benefits.*

Other Issues

A member expressed disappointment that gender issues had not been more central to Bank projects. He also sought more information about the impact that access to television has on rural households. *Management agreed that the gender element is important in the electrification sector and stressed the importance of developing the appropriate mechanisms to incorporate gender dimensions in analytical and operational work. Regarding the impact of television, IEG clarified that the study had found that TV increased women's health knowledge and so had a fertility-reducing impact, but a similar effect was not found for radio.*

Jiayi Zou, Chairperson