

Power Sector Challenges

*Presentation to the
Pakistan Development
Forum*

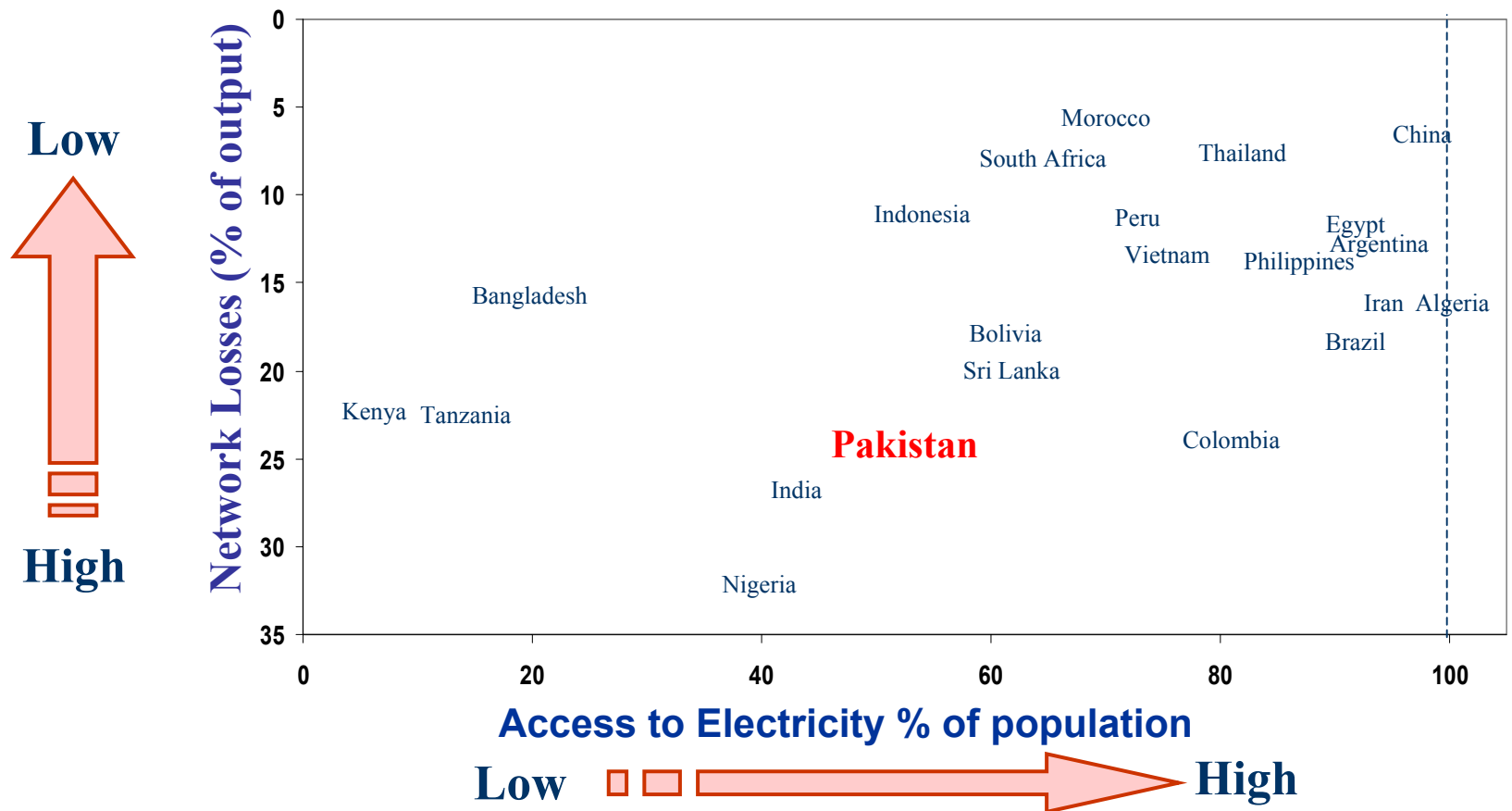
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Pakistan's power sector is in crisis

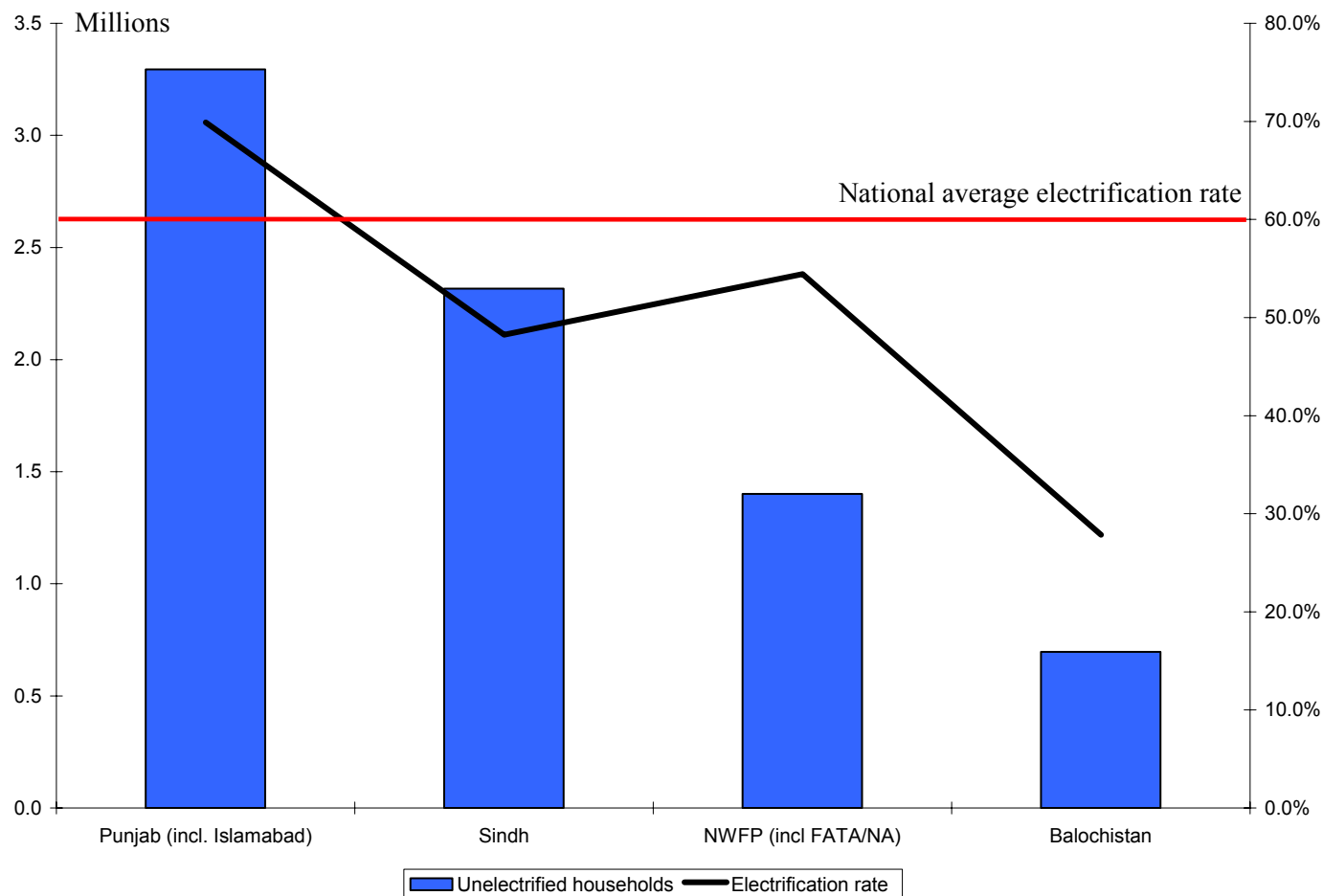
- ◆ The power sector should be a growth driver – but:
 - High operating losses consume >1.4% of GDP
 - » Equivalent to 75% of education, 200% of health budget
 - » Would pay for 2-3 million household connections
 - Poor service – and high perceived corruption
 - High tariffs and low reliability hurt industrial competitiveness
 - » Outages alone cost firms almost 6% of annual revenues
 - Investment can't keep pace
 - » More shortages and outages by 2007
 - Projected 5-year cash needs of Rs 400 bn for WAPDA alone

Falling Behind on Efficiency and Access



Source: World Bank and IEA, year 2000 data

The Access Gap: 7 million households without power



Short-term actions can begin to turn the sector around

Short-term action might focus on:

- ◆ Reducing costs
- ◆ Locking in better governance

... and setting the stage for:

- ◆ Planning and financing investment
- ◆ Rationalizing tariffs and subsidies

Cost Reduction: Options for meeting the challenge

- ◆ Early options for reducing costs:
 - Making more gas available
 - Tackling technical losses in generation, transmission and distribution
 - Improving collections
- ◆ A 3-pronged challenge requiring:
 - Policy decisions
 - Investment
 - Actions to improve governance

Corporate Governance: The Challenge of Culture Change

- ◆ Unbundling WAPDA was a major step, but WAPDA successors still require:
 - A clear mandate to focus on commercial performance and better consumer service;
 - The financial and operational independence necessary to meet this mandate.

What's to be Done?

◆ Focus on commercialization

- More commercial managers and directors – with autonomy and accountability
- Improve monitoring and evaluation
- Create scope for rewarding performance
- Let the MoF act as a pro-active shareholder
- Target and report GOP subsidies to WAPDA

◆ Stay committed to privatization

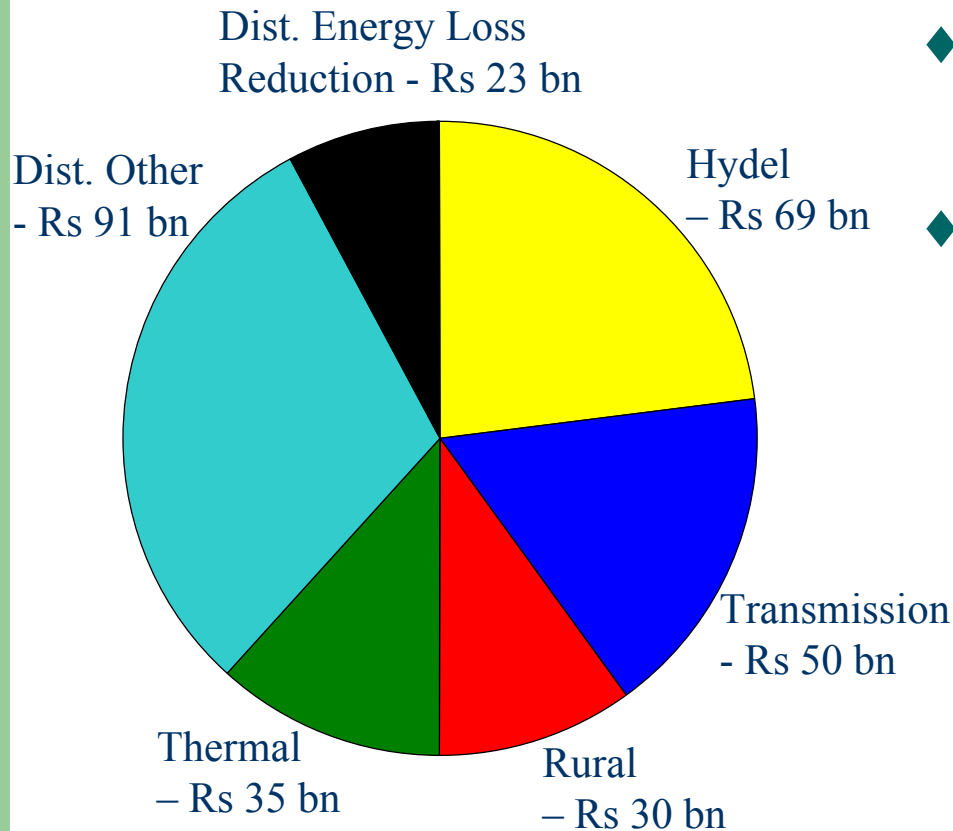
- Key means of locking in better performance
 - » Easiest for thermal generation, but key for distribution, too
- Source of new resources for the sector

Benefits of Reform: Big Gains in 5 Years

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Energy Sales (GWh/year)	+19%	+79%	+82%
Energy Losses (%)	-50%	-68%	-63%
Net receivables (days)	-27%	-38%	n.a.

Source: Table 8, Global Electric Power Reform, Bacon & Besant-Jones, World Bank, June 2002

Meeting Growing Demands (The 5-Year Rs 250 bn + Investment Challenge)



- ◆ Government needs to take the policy lead.
- ◆ The private sector can play an important role, but there will still be a funding gap – this needs to be met through borrowing, privatization proceeds, price increases and/or taxation.

Tariff Strategy: Key for Sector Survival

- ◆ The inescapable reality: for sector survival, over time tariffs have to cover costs
- ◆ Tariff structure needs to be rationalized – for productivity and fairness
 - High industrial and commercial tariffs undermine competitiveness
 - Lifeline is not well-targeted
- ◆ The political economy challenge: Adjusting and realigning tariffs and targeting subsidies in pace with service improvements

In Conclusion: A Moment of Opportunity

- ◆ Pakistan has taken a number of key reform steps over recent years – creating a potentially strong base for sector recovery
- ◆ The challenge now is to capitalize on this base – pursuing short-term remedial actions while building a strong medium-term strategy
- ◆ World Bank commitment to coordinating with other donors to support the GoP in implementing a sector recovery plan.