

ICR Review  
Operations Evaluation Department

## 1. Project Data :

OEDID :  
 OEDID: L3389  
 Project ID : P007170  
 Project Name : Power Sector Technical Assistance Loan  
 Country : El Salvador  
 Sector : Electric Power & Other Energy Adjustment  
 L/C Number : Loan 3389-ES  
 Partners involved : IDB, USAID, Japan  
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## 2. Project Objectives, Financing, Costs and Components :

The Power Sector Technical Assistance Loan for US\$ 11.0 million equivalent was approved in FY 92 and closed on March 31, 1998, 21 months after the original schedule . A total of US\$0.92 million was canceled. The Technical Assistance (TA) project was cofinanced by the USAID /NRECA (US\$1.5 million of which US\$1.0 million disbursed); the IDB (US\$1.25 million equivalent); and a Japan/PHRD grant (US\$0.72 million equivalent). The appraised cost of the project was US\$14.13 million and the actual cost was US\$ 13.55 million, i.e. 4.1 percent below appraisal. The primary objectives of the TA project were to assist the Government in improving the efficiency of the energy sector by providing a sound legal, institutional and regulatory framework, attracting private sector participation to the power sector, and strengthening the efficiency and management of Comision Ejecutiva del Río Lempa (CEL), the state-owned public utility. These objectives were to be met by : (a) carrying out sector studies aimed at drafting a new electricity law establishing a modern organization of the sector, setting up a regulatory body, proposing an action plan for implementing a methodology for electricity pricing, assessing the power distribution assets of CEL to allow its privatization; (b) engineering studies for CEL including pre -feasibility studies for hydroelectric projects, a feasibility study for a thermal plant, an evaluation of a geothermal field, an evaluation of the reliability of the transmission system and quality of service of the distribution networks; and organization studies aimed at developing proposal to improve the management and overall efficiency of CEL; (c) acquiring vehicles, electrical and measuring testing equipment, and data processing hardware and software for planning, electricity tariffs design, power system reliability analysis, and for billing and collection; and (d) carrying out a training program for government

officials and management and technical staff of CEL . The IBRD loan made to the Government, of which US\$ 9.4 million were on-lent to CEL, was allocated to finance most of the studies, the procurement of vehicles, the equipment, and the training program. The IDB cofinanced the feasibility study of a power plant at the Berlin geothermal field . The USAID cofinanced some of the engineering and management studies . The Japanese grant financed the feasibility study on a thermal power plant. Local supplies and services amounting to about US\$ 0.5 million (i.e. 0.8 percent less than the appraisal estimate) were financed by CEL and the Government .

### 3. Achievement of Relevant Objectives :

The TA project achieved all its objectives . A new electricity law was enacted in 1996, which reformed the sector by establishing a sound legal and regulatory framework and created a sector regulator (Super Intendencia General de Electricidad y Telecomunicaciones, SIGNET), restructured CEL, established new rules for the design of electricity prices based on marginal costs, and initiated the operation of a wholesale electricity market through a power Transaction Unit. The project provided training to Government officials and CEL staff on technical matters and it also prepared a sector environmental assessment as a basis for an action plan intended to correct existing environmental problems and to implement environmental impact assessments and mitigation techniques for new projects . Moreover, the reform of the sector is now enabling ample private participation .

### 4. Significant Achievements :

The most significant achievements were indeed the enacting of the new electricity law on October 10, 1996 the creation of SIGNET, initiating activity of the wholesale power market transaction unit, the enforcing of the new electricity pricing methodology and the unbundling and privatization of the power distributions facilities of CEL after completion of an assets valuation . Prices to end consumer are capped, transmission and distribution tolls are regulated, and generation prices (spot) are open to competition.

### 5. Significant Shortcomings :

Other than the delays incurred in giving the initial momentum to project implementation (establishing and staffing the commission in charge of the TA project, CEPE ), and solving a few minor procurement issues, there are not significant shortcomings worth to be mentioned .

| 6. Ratings : | ICR          | OED Review   | Reason for Disagreement /Comments  |
|--------------|--------------|--------------|--|
| Outcome :    | Satisfactory | Satisfactory | El Salvador is a relatively small country and the power sector model adopted assumes that the country will also benefit from interconnection with the market of its neighboring countries. A more definite judgment about the successful outcome |

|                                  |              |   |
|----------------------------------|--------------|---|
|                                  |              | and sustainability of the project and its overall country and regional impact will only be possible in several years .  |
| Institutional Dev .: Substantial | Substantial  |   |
| Sustainability : Likely          | Likely       | See comment on Outcome above.   |
| Bank Performance : Satisfactory  | Satisfactory | The Bank gave significant support to the  |
|                                  |              | Government and CEL throughout project preparation and implementation. It was flexible in reallocating funds and extending the closing date to allow disbursement of funds needed to complete the project. |
| Borrower Perf .: Satisfactory    | Satisfactory | See lesson (b) in para. 7 below.  |
| Quality of ICR :                 | Satisfactory |   |

#### 7. Lessons of Broad Applicability :

(a) It is possible to design a full-fledged liberalization of the power sector in a relatively small country if due consideration is given to the potential benefits derived from the markets of its neighboring countries; (b) Once again it is observed that successful implementation of a sector reform and privatization (in this case the privatization of power distribution) hinges on top-level political support, enacting sector legislation and rules beforehand, close collaboration with employees of the utility, and fully informing the public through a well designed public relations program; (c) it is important for a smooth project implementation to set up the project executing unit well before loan effectiveness and have it staffed with senior professionals with adequate experience in technical, administrative and legal matters.

#### 8. Audit Recommended?    Yes    No

Why? The project should be audited together with the Energy Sector Modernization Project financed with Loan 3920-ES approved in September 1996 and expected to close in June 2000. At that time, it will be possible to evaluate the actual outcome and impact of this apparently very successful project .

#### 9. Comments on Quality of ICR :

The ICR is satisfactory. It provides a concise account of the TA implementation and achievements . It notes that future operation of the project and its likely sustainability is ensured by the follow up Energy Sector Modernization Project (Loan 3920-ES). However, the ICR could have been enriched by including more information (e.g., methodology used and time taken ) about the unbundling and privatization process of CEL 's power distribution facilities. Comments from cofinanciers were not sought .

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