ICR Review

Operations Evaluation Department

Report Number : ICRR10187

1. Project Data :	
OEDID:	C2237
Project ID :	P001000
Project Name :	Energy
Country:	Guinea-Bissau
Sector:	Refining Storage & Distribution
L/C Number:	Credit 2237-GUB
Partners involved :	European Union, EIB
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2. Project Objectives, Financing, Costs and Components :

The project, supported by a credit of US$ 15.2 million equivalent, was approved in FY91, formally restructured in 1995 and closed in FY98, two and a half years behind schedule, at which time US$ 2.5 million were cancelled. Actual project cost was US$ 13.7 million, 41 percent less than appraisal, largely due to the cancellation of a project component upon restructuring.

Project objectives were to: (i) improve the safety and efficiency of the petroleum products distribution system; (ii) improve the supply and distribution of electricity; and (iii) strengthen the institutional capacity of the state-owned power utility (EAGB) and petroleum distribution company (DICOL) and of the Ministry of Natural Resources and Industry (MNRI). These objectives were fully relevant but probably too ambitious for a single operation given the Borrower's limited institutional capacity

The **original project included:** (i) a *power component* including rehabilitation and expansion of EAGB's generation facilities, extension of its distribution network and training; (ii) a *petroleum component* including the rehabilitation of DICOL's storage and import facilities, training and TA, and the set up of a revolving fund for the purchase and importation of petroleum products; and (iii) a *MNRI component* including studies, training and TA as well as miscellaneous equipment and vehicles to strengthen Government's planning an monitoring capabilities. Upon project restructuring, most of the petroleum component was dropped as a result of the Government's decision to liquidate DICOL and liberalize this sub-sector; also, the scope of the power component was reduced due to the non-materialization of the expected co-financing from EU and EIB.

3. Achievement of Relevant Objectives :

Policy objectives in the petroleum distribution sub-sector have been substantially achieved, albeit through the privatization and liberalization of the sub-sector rather than the strengthening of the monopolistic DICOL and the introduction of a revolving fund, as originally envisaged; competition among private operators has already led to more efficient pricing while regulatory reforms are being introduced. Physical and financial objectives in the power sector were only partially achieved as the expansion of generation capacity fell far short of appraisal targets, largely due to unavailability of the expected co-financing; and the positive impact of tariff increases was offset by increased losses and poor bill collection. On the other hand, ex-post ERRs on the Bank-financed power components range from 17 to 26 percent and good progress was made in the institutional strengthening of EAGB (in preparation for its privatization) and the restructuring of the power sector (incl. enactment of a new Electricity law) --efforts which are to be supported by a follow up Bank project currently under preparation.

4. Significant Achievements :

Full liberalization of the petroleum products distribution market. Good progress on the set up of a regulatory framework for the energy sector. And progress made towards the restructuring and privatization of the power sector.

5. Significant Shortcomings :

Persisting weakness of the power sector, characterized by a continued capacity deficit, high losses and unsatisfactory (albeit recently improving) finances --resulting in non-compliance with loan covenants.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Marginally Satisfactory	In spite of notable progress on policy and institutional fronts, power sector remains weak (in this case, project is assessed against restructured objectives because restructuring was in response to a positive change in the policy environment (petroleum sector liberalization) and to exogenous factors (non-materialization of co-financing)
Institutional Dev .:	Substantial	Substantial	
Sustainability :	Uncertain	Uncertain	Largely dependent on continued Government commitment to sector reform and resolution of current civil conflict
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	Uneven progress in the petroleum and power sectors. On balance, satisfactory given the very ambitious nature of the project
Quality of ICR :		Exemplary	

7. Lessons of Broad Applicability :

(i) combining two distinct sectors like petroleum and power in a single project makes for excessively complex design and loan conditionality, and is likely to result in delays when Borrower's institutional capacity is limited; (ii) performance-based management contracts with a private firm do not usually provide enough incentives and autonomy of decision to the private operator; (iii) risks that co-financing may not materialize (as happened in this project for EU and EIB) need to be carefully assessed at appraisal; and (iv) large tariff increases should be accompanied by improvements in electricity service and stricter commercial management, lest they be offset by a higher incidence of fraud and non-payments.

8. Audit Recommended? ○ Yes ● No

9. Comments on Quality of ICR :

ICR is rated as exemplary. Report is very thorough and includes all required tables and annexes (including detailed aide-memoire and Borrower contribution) as well as ERR recalculation. Conclusions are sound and lessons are fully relevant. ICR could have been improved in one specific respect: by including specific indicators of performance for the petroleum distribution sub-sector (admittedly, an aspect not dealt with in-depth in the SAR)