Report Number: ICRR0021783

1. Project Data

Project ID P101414	**Project Name** 6O-ECERA Eastern Carib. Engy Reg Auth.	
Country OECS Countries	**Practice Area(Lead)** Energy & Extractives	
L/C/TF Number(s) IDA-49350,IDA-49360,TF-16770	**Closing Date (Original)** 31-Dec-2016	**Total Project Cost (USD)** 2,899,060.41
Bank Approval Date 16-Jun-2011	**Closing Date (Actual)** 30-Nov-2018	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	5,600,000.00	300,000.00
Revised Commitment	4,638,738.99	167,446.78
Actual	2,899,060.41	167,446.78

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Project Objectives and Components

a. Objectives

The Project Development Objective as stated in the Financing Agreement (Schedule 1, page 5) and the Project Appraisal Document (PAD, page 6);

"To establish and operationalize a regional approach to the development of the electricity sector in participating countries, by supporting the establishment of the Eastern Caribbean Energy Regulatory Authority (ECERA)".

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Will a split evaluation be undertaken?

No

d. Components

This project, with two of the six independent Organization of Eastern Caribbean Countries (OECS) - Grenada and Saint Lucia- participating in the project, was envisioned as the first phase of a regional approach to developing an electricity market, through establishing and operationalizing a regional regulatory authority (ECERA). The project had two components (PAD, pages 7-8).

1. Setting up the ECERA. (cost at appraisal US$2.61 million; actual cost US$2.32 million). This component aimed at providing technical assistance for activities associated with creating the institutional, regulatory and policy basis for establishing ECERA.

2. Operationalizing ECERA. (cost at appraisal 2.99 million; actual cost US$0.35 million). This component planned to provide financing for the initial three years, once ECERA had been established as a legal entity (including financing the operating costs and costs of specific core regulatory tasks). The actual cost of this component was significantly lower than the appraisal estimate, as ECERA was not operational when the project closed (discussed in section 2e).

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project costs. The project cost at appraisal was US$5.60 million. The actual cost at closure US$2.9 million (including US$0.17 million of the Trust Fund (TF). The actual cost was lower than estimated, as ECERA was not operational when the project closed.

Project financing. The project was financed by an IDA credit of US$5.60 million (US$2.80 million each to Grenada and Saint Lucia) and a TF of US$0.30 million. Amount disbursed at closure US$2.9 million (including US$2.72 million of the IDA credit and US$0.17 million of the TF). Amount disbursed was lower for reasons discussed above.

Borrower contribution. None was planned at appraisal. There was no borrower contribution during implementation.

Dates. The project approved on June 16, 2011 and became effective on June 21, 2012 and was originally scheduled to close on December 31, 2016. The project closed about two years behind schedule on November 30, 2018.

Other restructuring changes. The following changes were made through a Level 2 restructuring on June 24, 2016:

- There was a change in implementation arrangements. The project design envisioned that ECERA once established, was to be in charge of implementing component two activities. Following the Mid-Term Review in March 2015, the National Project Implementation Unit (PIU) of Grenada and Saint Lucia, were responsible for implementing these activities. The status of ECERA changed from an envisioned regulatory authority to an advisory body to the two national PIUs. The ICR (paragraph 25) notes that the project was unable to attract other OECS countries for the regional initiative. This increased the financial burden on Grenada and Saint Lucia and they considered a third-party regulatory agency as irrelevant for their needs.
- Some indicators were dropped to reflect the change in the legal standing of ECERA and new indicators were added (discussed in section 9a); and
- The closing date was extended from December 2016 to November 2018, for completing ongoing activities associated with establishing ECERA as an advisory body, that had been subject to delays during implementation.

3. Relevance of Objectives

Rationale

Regional context. Following government policies that prioritized infrastructure services in the years before appraisal, the OECS countries had increased access to electricity services, with electrification rates over 95%. The OECS member countries consisted of small island states, of which six- Antigua and Barbuda, Dominica, Grenada, St Kitts and Nevis, St Lucia and St Vincent and Grenadines - were members of the association and IBRD, and the remaining three - Anguilla, the British Virgin Islands, and Montserrat were British Territories. The key challenges in the electricity sector were affordability considerations (electricity prices in the OECS countries were among the highest in the world reaching

US$0.40 per kilowatt in some cases), and financial sustainability of the utilities. While this was partly due to structural reasons that reduced the scope for cost reductions (small size, insularity and dependence on diesel for electricity generation), they were exacerbated by weak regulatory oversight. The PDO of establishing a regional energy regulator was relevant for the OECS countries for addressing electricity sector issues, such as improving regulatory oversight.

Regional and country strategies. The decision to setting up ECERA was endorsed by the OECS Commission, consisting of the Heads of States of the OECS countries in May 2009. The Caribbean Community's Council for Trade and Economic Development supported creating a regional regulatory authority. Improving regulatory environment was particularly important for Grenada and Saint Lucia, given that their electricity utilities were privately-owned and required independent regulatory oversight that the states were individually unable to provide.

Bank regional strategy. The PDO was well-aligned with the Bank's regional strategy for the OECS countries. The Regional Partnership Strategy for the 2010-2014 period noted that establishing a regional electricity sector regulatory authority for the OECS countries, was instrumental for efficiency improvements in service delivery and helping to optimize the utilities' fuel choices. The PDO was consistent with the Regional Partnership Strategy for the OECS for 2015-2019, with respect to enhancing competitiveness (through improving the investment climate) and public sector modernization (through effective and transparent public administration, robust institutional capacity, and stronger partnerships with the private sector).

Despite its overall strategic relevance, except for St. Lucia and Grenada, none of the OECS member countries were committed to a regional approach in the electricity sector. Dominica, the only OECS country with an independent energy regulatory agency had, at the outset indicated its reluctance to transfer its regulatory functions to a regional entity. It was not logical to have a regional regulatory authority for two countries in a sector with no regional market for energy or power. The key driving factors that resulted in project design as a regional approach, excess geothermal energy for export and gas pipeline from Trinidad and Togo, did not materialize. These factors, together with lack of conviction from the individual countries about the inherent supranational powers of the regional regulatory authority and how this might undermine their sovereignty, increased the financial burden on Grenada and Saint Lucia, and a third-party regulatory agency was considered by them to be irrelevant. These aspects were not factored in the original project design that focused on establishing a regional regulatory authority. The PDO was no longer relevant during implementation, as both St. Lucia and Grenada identified the need for strengthening their national regulatory frameworks and capacities for meeting their national targets for sustainable/renewable energy and enhancing private sector participation in the sector.

These factors resulted in diluting the project scope, from establishing a regulatory authority (that is, through a treaty), to establishing an advisory regulatory agency (that is, through an agreement). These changes meant that the mandate of ECERA would only be advisory and it would not have the authority for adopting new licensing recommendations.

Rating
Modest

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective
To establish and operationalize a regional approach to the development of the electricity sector in participating countries by supporting the establishment of ECERA.

Rationale

Theory of Change. Establishing and operationalizing a regional regulatory authority for developing the electricity sector were output-oriented and these were aimed at contributing to adopting new licensing recommendations and designing cost-effective and performance-based tariffs by ECERA for the participating countries. Overall, these were expected to contribute to the higher-level objectives of improving energy efficiency, generating electricity cost savings for consumers and lowering electricity price volatility by reducing reliance on diesel at the regional level. The original design was however unrealistic, given that there were only two participating states at preparation and other member countries showed no interest in joining ECERA during implementation. This resulted in dilution of project scope, from establishing a regional "Authority" to a regional "Agency" and Grenada and Saint Lucia opting for creating their own regulatory bodies and harmonizing their legislative and operational processes to the extent possible.

Outputs. (ICR, pages 22-28).

These activities were completed as targeted.

- The draft agreement for ECERA was approved and ECERA was established as an advisory agency.
- The ECERA agreements were approved and signed by the participating countries on April 25, 2017. The ECERA Board of Directors were appointed.
- Amendments to domestic legislation to operationalize ECERA at the national level were approved and published in the Gazette by the legislature in Grenada and Saint Lucia.

These activities were not completed when the project closed.

- The negotiations for hiring the ECERA Project Coordinator, Executive Assistant and Legal Expert were in progress and the agency was not staffed.
- The self-financing mechanism for ECERA was not operational.

- Licensing rules enabling new investments in electricity generation were not yet completed in Grenada and Saint Lucia.

Outcomes.

- Although ECERA was established, it was not operational when the project closed, due to delays associated with hiring the requisite staff. The revenue streams that would finance and self-sustain ECERA (from license and permit fees), was not specified. Further, both Grenada and Saint Lucia were not able complete the work on regulations and hence the national regulatory agencies were not self-sustaining, when the project closed.

Rating
Modest

OVERALL EFFICACY

Rationale

Given the design changes, many activities were not completed as envisioned and the revised design ended up financing a much narrower scope of activities.

Overall Efficacy Rating	Primary Reason
Modest	Low achievement

5. Efficiency

Economic analysis. A traditional economic analysis was not conducted at appraisal. The PAD (paragraph 59) notes that given the institutional nature of the Project, not all of the benefits were quantifiable. However, the costs associated with the project (namely the cost of establishing and operating ECERA), were expected to be offset by the benefits from improved regulation at the regional level. The annual operating cost of establishing and operationalizing ECERA was estimated to be East Caribbean Dollar of 0.60 cents per Kilowatt delivered, if Grenada and Saint Lucia joined ECERA (less than 1% of customer bills) and annual operating costs were expected to come down if other OECS member states participated in ECERA during implementation. No other state joined ECERA during implementation and ECERA as envisioned was not set up as a regulatory authority. No changes were made to the economic and financial analysis at restructuring.

Cost effectiveness considerations. Cost savings were expected from the decision to host ECERA in one of the participating countries and these savings were expected to come from proximity to the daily operations of the regulators and independence from regional organizations. However the regulations on licensing and permits were not put in place when the project closed. The ICR (paragraph 35) notes that the operating cost of the National Regulatory Authorities in Grenada and Saint Lucia were not being covered from electricity bills and that they were financed through the national budget in each country. A total of US$2.50 million was spent from Bank funds (US$0.50 million in preparation and US$2.00 million in supervision, and an additional US$0.30 million in Trust Funds to facilitate wider participation, for a project that eventually disbursed less than 50% (US$2.89 million) of the total grant and Trust Funds.

Administrative inefficiencies. The project took five years for preparation and seven years for implementation. There were delays associated with establishing ECERA and this contributed to non-realization of operationalizing ECERA as envisioned and ECERA was not self-financing at completion. Further, an additional factor affecting performance was an ongoing dispute between Grenada Private Power Limited, the 50% shareholder of the operator (Grenlec) and the parent company with the Government of Grenada. Following this dispute, a request for arbitration was filed with the Bank's International Center for Settlement of Investment Disputes. This arbitration had not yet been concluded when the project closed.

Taking into consideration the above-mentioned factors, efficiency is rated as negligible.

Efficiency Rating

Negligible

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 ☐ Not Applicable
ICR Estimate		0	0 ☐ Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

Relevance of the PDO at the regional level and the Bank Regional Strategy is rated Modest, reflecting significant shortcomings at appraisal. Efficacy of the single objective - to establish and operationalize a regional approach to the development of the electricity sector in participating countries by supporting the establishment of ECERA - is rated Modest, given that ECERA as envisioned was not operational, when the project closed. Efficiency is rated as negligible, given that ECERA was not self-financing at completion and delays associated with several aspects of design and implementation, resulted in high preparation and supervision costs as compared to actual disbursements.

a. Outcome Rating

Highly Unsatisfactory

7. Risk to Development Outcome

Government and regional commitment. There is High risk to development outcome, as ECERA was not operational (either with staff or approved financing mechanism), when the project closed. Besides Grenada and Saint Lucia, none of the other OECS countries joined ECERA. It is also possible that the National Regulatory Agencies of Grenada and Saint Lucia may focus on an individual country approach, given that there is no regional power trade (ICR, paragraph 32). As the ICR acknowledges in paragraph 71, without strong regional leadership and a sustainable financing mechanism " there is considerable possibility that ECERA will not materialize in the near future and remain an unfinished entity".

8. Assessment of Bank Performance

a. Quality-at-Entry

The project was prepared based on lessons from Bank-financed regional operations in OECS (Eastern Caribbean Telecommunications Authority) and the analytical underpinnings of a study by the Pubic Private Infrastructure Facility in 2007. Lessons incorporated at design, included structuring ECERA as a full-fledged authority with a lean staff. The implementation arrangements were appropriate, with the Project Management Unit, established within the OECS Secretariat. Once ECERA was set up, it was to implement component two activities. Several risks were identified at appraisal, including substantial risks associated with delays in establishing ECERA, difficulties of getting regional consensus on regulatory decisions and financial risks associated with limited capacity for a regional project. Mitigation measures incorporated at design, included efforts to enlarge the number of participating countries, guidance to the OECS Secretariat for strengthening its role, and training on financial management. With mitigation measures, project risk was rated as Moderate (PAD, pages 13-14). Appropriate arrangements were made at appraisal for fiduciary compliance (discussed in section 10b).

There were severe shortcomings at Quality-at-Entry. First, there was no clear rationale for a regional project, given limited regional readiness. At design, only two OECS participated in the project (Dominica had indicated its reluctance to transfer its regulatory functions to a regional entity). The key driving factors for a regional approach, excess geothermal energy for export and gas pipeline from Trinidad and Togo, did not materialize. The reluctance of other OECS countries to participate, undermined creation of a regional regulator: Second, the design did not adequately consider country-specific conditions. Since Grenada and Saint Lucia did not have a national regulator, an adequate understanding of energy sector conditions in the countries was necessary: This design flaw meant that ECERA could only work, after the national regulators had been created: Third, financial sustainability considerations were not considered. The ICR (paragraph 65) notes that "there would have been no economies of scale for ECERA to operate as a regional entity, given the differences between financing a regional energy regulator *vis-à-vis* a regional telecom regulator (such as through a fee for use of a bandwidth): As the ICR (paragraph 71) acknowledges, with no regional electricity trade, there is the distinct possibility that "ECERA will not materialize in the near future and will remain an unfinished entity". Overall, the project preparation took as many as five years. There were M&E shortcomings (discussed in section 9).

Quality-at-Entry Rating
Unsatisfactory

b. Quality of supervision

Thirteen Implementation Status Results (ISRs) Reports were filed over a implementation period of eight years. The support provided by the team aided in fiduciary compliance (discussed in section 10). Although efforts were in vain, the supervision team attempted to attract other OECS countries to join ECERA through briefings, workshops and missions. Following the Mid Term Review, the project was restructured to reduce the project scope, given the low commitment to ECERA at the regional level.

There were severe shortcomings during implementation. First, although the key driver for the regional project no longer existed during implementation, the project was restructured on June 24, 2016, four years after effectiveness and six months before the originally scheduled closing date. Given the change in project scope, a more timely restructuring would have helped in completing the reduced scope of national level activities. Second, while the need for creating National Regulatory Agencies (NRAs) was recognized following restructuring, no arrangements were made for financially supporting the NRAs. This contributed to the non-completion of NRAs. Third, there were no appropriate indicators for monitoring national level activities (discussed in section 9b), and fourth, project implementation was hampered by delays, due partly to frequent changes in the Bank team (with four task team leaders during the project lifetime).

Quality of Supervision Rating
Unsatisfactory

Overall Bank Performance Rating

Unsatisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The key outcome indicator- establishment ECERA - was output-oriented. There were no indicators aimed at quantifying the benefits that was expected to flow to the beneficiaries.

The Project Management Unit was in charge of M&E. Information and data from the annual reports of the participating countries electricity companies, was to be used for monitoring performance during implementation.

b. M&E Implementation

Following project restructuring and reduced scope of project activities with respect to setting national regulatory agencies, there were no appropriate indicators for monitoring their performance.

c. M&E Utilization

The ICR provides no credible evidence that the M&E framework was used for purposes other than monitoring project performance.

M&E Quality Rating

Modest

10. Other Issues

a. Safeguards

The project was classified as a Category C project, under the Bank's safeguard policies. No safeguard policies were triggered at appraisal, as the project only envisioned establishing a regional regulatory agency and supporting analytical studies (page viii). The ICR (paragraph 58) does not report any environmental or social issues during implementation.

b. Fiduciary Compliance

Financial management. An assessment of the implementing agency's ability to address financial management issues conducted at appraisal, concluded that the arrangements were satisfactory (PAD, page 16). However, the financial management risk was rated as substantial, given the challenges of coordinating activities in two countries. Mitigation measures incorporated at design, included appointment of a qualified consultant and audits by a qualified private sector firm. The ICR (paragraph 60) notes that the appropriate financial reports were prepared, although with some delays. The ICR also reports that that the audit reports were satisfactory and there were no ineligible expenses during implementation.

Procurement. An assessment of the procurement management capacity of the implementing agency conducted at appraisal, concluded that the procurement management risk was moderate (PAD, page 16). The ICR paragraph 60) notes that there were procurement delays during implementation but does not report of any mis-procurement.

c. Unintended impacts (Positive or Negative)

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d. Other

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11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Unsatisfactory	Highly Unsatisfactory	IEG agrees with the ICR’s ratings of modest efficacy and negligible efficiency, and assesses the relevance of objectives as modest.
Bank Performance	Moderately Unsatisfactory	Unsatisfactory	There were major shortcomings in preparation and supervision.
Quality of M&E	Modest	Modest	
Quality of ICR	---	Substantial	

12. Lessons

The ICR draws the following main lessons from the experience of implementing this project, with some adaptation of language.

1. For regional projects, a careful consideration of political economy is required, both at design and during implementation. The motivation for designing a regional approach stemmed from two key regional developments: (a) excess generation capacity from geothermal investments in Dominica, that could have resulted in regional power trade; and (b) plans for Trinidad and Tobago to export liquified natural gas to regional countries. Dominica did not join ECERA from the outset and exports of liquified gas from Trinidad and Tobago did not materialize. The lack of substantial regional buy- in at project approval undermined regional level activities.

2. Variations in national sector-specific factors need to be considered for a regional project. The key aspects of design of this project, establishing a regional regulatory agency, was based on the success of the model used in a prior Bank-financed regional telecommunications project. However the telecommunications sector had unique features such as the same company providing telecom services across the regional countries. The situation in the energy sector was quite different, where each country had a different structure and holding for power utilities (state-owned in some countries and private sector-owned in others). Therefore, the key design of the telecommunications sector could not be directly applied to a regional energy sector project.

3. Timely restructuring of the project could aid in project implementation. Given that the key driver for the regional project no longer existed during implementation and there was no regional power/energy market as envisioned, the project should have been restructured much earlier (and not four years after effectiveness).

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR is well-written, concise and candid. It candidly discusses the issues associated with the regional dimension of the project, that contributed to reducing the project scope to national level activities of the two participating countries. The lessons drawn by the ICR from the experience of implementing this project were thoughtful, candid and constructive. The ICR is consistent with the guidelines.

The ICR largely framed the project's results in terms of outputs rather than outcomes, more could have been done to go beyond the evidence from the project indicators.

a. Quality of ICR Rating

Substantial