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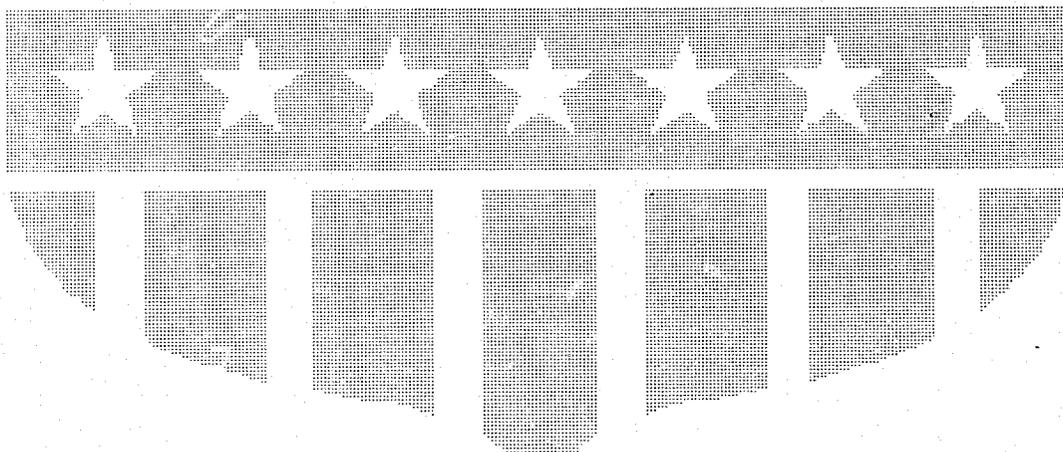
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USAID

MISSION TO PAKISTAN AND AFGHANISTAN

**PROJECT ASSISTANCE COMPLETION
REPORT**

**Private Sector Power
(391-0494)**



*Submitted by Private Enterprise and Energy Division
March 1995*

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LIST OF ACRONYMS

ADB	-	Asian Development Bank
GOP	-	Government of Pakistan
GSP	-	Geological Survey of Pakistan
IFC	-	International Finance Corporation
IRG	-	International Resources Group
JTB	-	John T. Boyd Company
KESC	-	Karachi Electric Supply Company
MinFin	-	Ministry of Finance
MP&NR	-	Ministry of Petroleum and Natural Resources
MW&P	-	Ministry of Water and Power
NDFC	-	National Development Finance Corporation
OCC	-	Office of Contract & Commodities (USAID)
OFM	-	Office of Financial Management (USAID)
OGDC	-	Oil and Gas Development Corporation
PACD	-	Project Assistance Completion Date
PCSIR	-	Pakistan Council for Scientific & Industrial Research
PED	-	Private Energy Division
PPB	-	Private Power Board
PPC	-	Private Power Cell
PSC	-	Personal Services Contract
PSEDF	-	Private Sector Energy Development Fund
PSP	-	Private Sector Power
PW	-	Price Waterhouse
TA	-	Technical Assistance
USAID	-	United States Agency for International Development
USGS	-	United States Geological Survey
WB	-	World Bank
WAPDA	-	Water and Power Development Authority
WPPO	-	WAPDA Power Privatization Organization

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PROJECT ASSISTANCE COMPLETION REPORT

PRIVATE SECTOR POWER (PSP) PROJECT (391-0494) March, 1995

I. BASIC PROJECT DATA

Project Title	Private Sector Power
Project Number	391-0494
Project Officer	Mian Shahid Ahmad
Date of Authorization	27 September 1988
Date of Agreement	29 September 1988
Original PACD	30 September 1998
Pressler PACD	30 September 1994
Amount Authorized	\$170.0 Million
Amount Obligated	\$ 76.4 Million
Rescission Deobligation	\$ 39.1 Million
Amount Expended	\$ 33.3 Million (as of 12/31/94)
Implementing Agencies	Ministry of Water & Power (MW&P), Water & Power Development Authority (WAPDA), National Development Finance Corporation (NDFC), Geological Survey of Pakistan (GSP)
Technical Assistance Contractors	International Resource Group, Price Waterhouse

II. PROJECT GOAL AND PURPOSE

The goal of the Private Sector Power (PSP) Project was to promote socio-economic development in Pakistan through increased electricity generation. The Project purpose was to mobilize private sector resources to finance, own, and operate power plants. It was intended to assist the Government of Pakistan (GOP) to have in place the institutional structure and system for a private sector power program with the capability to attract major financial and corporate investors to finance power projects without GOP funding.

III. BACKGROUND

USAID's Project was the culmination of an extended dialogue between the World Bank (WB), USAID and the GOP on the need to involve the private sector in generating electricity to overcome the crisis of "load shedding" in Pakistan.

The PSP Project was authorized in September 1988 for \$170 million and a life of ten years in support of a larger program led by the WB.

In 1985, the GOP had announced its intention to accept proposals for power generation plants from the private sector. By the time USAID's PSP Project was approved and funds obligated, the WB and the GOP were already evaluating proposals from several sponsors. But the process was moving on an adhoc basis in a hostile bureaucracy. No institutional infrastructure was in place to adequately address and implement the totally new concept, so the PSP Project stepped in to address this inadequacy.

The PSP Project had three primary objectives: (1) institutional development to implement the concept; (2) project financing assistance; and (3) financial support to develop projects.

The first objective was to be accomplished by paying for all costs related to establishing appropriate offices and entities within the GOP, by educating the professionals in these entities in the concept and norms of the industry, by providing them long-term resident advisors and short-term technical assistance for on-the-job training to review and approve private sector proposals, and eventually, to leave an independent, appropriately staffed and equipped, capable and responsible entity to evaluate proposals, negotiate contracts, implement policy and promote private power generation projects.

The second objective to be achieved, under the leadership of the WB, was the creation of a multi-donor fund that would be "on-lent" to "approved" projects, under concessionary terms, covering up to 30% of the proposed project costs; and, with the repayments, to have a self-generating, perpetual, subordinated financing facility available to new private projects.

The third objective was to be achieved by cost-sharing with private sponsors, the pre-feasibility, feasibility study, and other costs related to developing and negotiating a power project with the GOP.

A "special study", that later became another major objective of the Project, was to privatize the existing power utility industry in the country. This was to be achieved by the development of a plan to privatize WAPDA, legislation to allow implementation of the plan, the preparation for sale of a thermal power station, and the design of a regulatory body for a private electric power sector in Pakistan.

To achieve the above, the Project planned \$20 million for a five-year institutional development effort, \$125 million to a WB-led Fund, and \$17 million to support the development of private initiatives. Dollars 8 million were budgeted for inflation and contingency.

The "evidence of establishment and staffing of a Private Power Cell in the Ministry of Water and Power; and evidence of establishment and staffing of the Fund and the execution of an administration agreement between GOP and NDFC" were the only two Conditions Precedent (CPs) to any commitment or disbursement of funds under the PSP Project. The creation, staffing, housing, equipping, training and operations of the GOP entities responsible to implement the total program was to be funded under the USAID project, while the administrative agreement for the Fund was to be approved by the WB.

Project Agreement was signed on 29 September 1988 and CPs were met in early 1989. A skeleton GOP staff started functioning, at the Private Power Cell (PPC), the Private Power Generation Cell (PPGC) and the Private Energy Division (PED) (the three primary entities established to implement the GOP/WB/USAID program) in addition to their regular assignments. Immediate initial technical assistance was provided by USAID through short-term consultants, advisors and experts under IQCs or buy-ins to USAID/W contracts. By early 1990, two technical assistance contractors were mobilized in-country and by August, six advisors were resident in Islamabad, Lahore and Karachi supported by short-term consultants on an as-needed basis.

Soon after initiation, however, the Project and the Mission as a whole went through some traumatic events. The "Pressler Amendment" hit in late 1990 and the Gulf War in early 1991. Where the former branded the USAID assignment in Pakistan "terminal", the latter disrupted the momentum we had gained as all expatriate contractors and about half the resident USAID American staff left for the United States. In April 1991, under Pressler, "Useful Units of Assistance" were formulated for each project; LOP amounts were reduced and project completion periods were shortened. In the case of PSP Project the authorized amount of \$170.0 million was reduced to \$76.4 million and the original PACD of September 30, 1998 was forwarded to September 30, 1994. Later in June 1994, in order to meet a mandated rescission of \$56.2 million from the Pakistan portfolio, \$39.0 million was deobligated from the project. What was designed as a \$170 million ten-year effort, ended with \$37.3 million and a six-year life.

Within the early months it was apparent that the Project was facing a hostile bureaucracy in Pakistan. As a strategy, it was determined that the Project focus and concentrate on key individuals and agencies if the effort was to move forward. It was decided to support only the three agencies which were new and had been created in support of private power - the PPC in MW&P, the PPGC in WAPDA and the PED in NDFC. A deliberate effort was made to keep away from the Energy Wing (EW) in the Planning Commission and no unnecessary efforts were made to try and establish a Coal Mining Cell (CMC) in the Ministry of Petroleum and Natural Resources (MP&NR).

The EW had a lot more on its plate than just promoting private power. The EW would anyway be involved in the review of plans presented by the PPC as a part of the overall energy strategy for Pakistan and did not need our direct support to survive. The CMC was a different story.

USAID was always keen to develop the coal resources of Pakistan as an indigenous fuel for power and had three components in another project, the Energy Planning & Development Project, exclusively aimed at this objective. However, meetings and discussions with the MPNR and the WAPDA Coal Power Projects Department convinced us that the creation and support of a CMC in the MP&NR would not be productive. The key reason for reaching this conclusion was the fact that coal was not really a responsibility of the MPNR but responsibility for coal had been relegated to the Provinces in the Constitution. The Provinces guarded their interests very carefully and looked on Federal involvement as meddling in their authority. Therefore, work at the Federal level could not be effective without a more significant program with each province.

IV. PROJECT COMPONENTS

The PSP Project had three major components: (1) institutional development; (2) project financing assistance; and (3) financial support to develop projects.

1. Institutional Development

The project financed technical assistance, training, supply of commodities and all operational expenses to strengthen the staff of the institutions responsible for (1) the GOPs review and approval of private sector proposals, and (2) operation of the Energy Development Fund. The three primary agencies supported by the Project were the Private Power Cell (PPC), the Private Power Generation Cell (PPGC) and the Private Energy Division (PED).

The PPC, located within the MW&P, was established to solicit, receive, review and evaluate proposals from the private sector and was responsible for overall coordination of the GOP program. Additionally, the PPC was responsible for negotiating the Letter of Intent (LOI) and the Implementation Agreement (IA) on behalf of the GOP with project sponsors. With the advancement of the process from the "cost-plus negotiated tariff" to a "published bulk power purchase tariff", the PPC graduated from a Cell under one Ministry, to an autonomous Private Power and Infrastructure Board (PPIB) under representatives from key Federal Ministries and all the Provincial Governments.

The PPGC was renamed the WAPDA Power Privatization Organization (WPPO) when it took on additional responsibilities as a result of a GOP decision in 1991 to privatize WAPDA. The WPPO is responsible for negotiating the terms for purchase of the power output from private sector generation facilities and all Power Purchase Agreements (PPAs) are negotiated and signed with the WPPO. In addition, the WPPO also works with the Privatization Commission of the GOP in their effort to privatize WAPDA.

The PED is located within the National Development Finance Corporation (NDFC). The NDFC, a leading development financing institution (DFI) reporting to the Federal Ministry of Finance (MinFin), was approved by the WB to administer the Fund. The PED is responsible for the multi-donor Private Sector Energy Development Fund (PSEDF) to provide limited

subordinated debt financing as a means of attracting private and commercial sources of debt and equity for power projects. The PED is also responsible for reviewing the financial and technical aspects of proposals to establish the viability of selected projects for financing, and for monitoring implementation and construction progress of projects. The PED administers the PSEDF for NDFC under an "Administrative Agreement" with the GOP. It functions per a WB-provided "Operations Manual" and recommends loans from the Fund under the WB guidelines.

2. Project Financing

The second component of the project financing assistance was made by a direct contribution to the WB-led PSEDF. USAID had initially indicated a contribution of \$125 million but eventually committed just \$7 million - the amount the Hub project needed to cover the cost of U.S. goods and services in the \$1.8 billion project.

The PSEDF was established by an initial \$150 million contribution from the WB, a similar amount by Japan ExIm and an indicated \$125 million contribution from USAID. The multi-donor PSEDF anticipated additional contributions or concessionary loans to the GOP from the other countries. The PSEDF was designed to cover up to 30 percent of the total cost of private sector projects (the limit has since been raised to 40%), which would be lent to borrowers at commercial interest rates and be made subordinate to commercial debt. Repayments by borrowers were to be used to perpetuate the PSEDF and allow for continuing loans for private sector power generation projects.

When Pressler hit USAID had obligated \$46 million of the \$125 million funding for this component. USAID had been hoping to support three projects with the \$125 million - \$20 million for Hub, \$55 million for Uch and \$50 million for Kabirwala. The Mission and the sponsors were concerned that \$46 million was not enough to go around. So during the Gulf "storm", when most of the Project personnel were evacuated to the U.S.A., discussions were held with USExIm bank to explore the possibility of blending USAID's \$46 million with ExIm guaranteed funds, in a 35/65 ratio, for soft loans to procure U.S. goods and services for private power projects in Pakistan. The idea found favor in Washington D.C., and by late 1991, USExIm-GOP agreed in principal on the concept and in early 1992, USAID and USExIm signed an Interagency Agreement for the PSP Project. As mentioned above, however, only \$20 million of the blended funds (7 from USAID and 13 guaranteed by ExIm) were eventually called upon by PSEDF for the Hub Project.

3. Support to Develop Projects

The third component set aside up to \$18.5 million for (1) financing special studies in support of the development of private sector power generation in Pakistan; (2) financial support for US and Pakistan firms submitting proposals to supply electricity to the GOP; and (3) project evaluations and audits. The financial support to firms would cost-share the effort of U.S. and Pakistani engineering firms in preparing detailed feasibility reports for projects which could later be tendered by the PPC for private sector power generation.

V. INPUTS

A. USAID Inputs

USAID inputs under the PSP Project are set forth in the following table:
(\$ 000)

Project Line Items	Original Budget	Revised Budget Post Rescission	Expenditures (12/31/94)
Technical Asst.	14,110	24,130	23,706
Training	885	790	783
Commodities	2,117	1,050	1,035
Other Costs	20,407	4,330	3,653
Contingency	7,471	0	0
Capitalization Fund	125,000	7,000	4,075
TOTAL	170,000	37,300	33,252

The PSP Project provided across-the-board assistance to the GOP in introducing and implementing the concept of private power. The Project paid for all costs related to establishing offices, furnishing and equipping the offices, staffing them, providing communication and transport, operating them, maintaining them and advising them on how to proceed. Technical assistance was provided in engineering, legal and financial fields related to electric power generation and electric utilities, including project appraisals, power purchase agreements, project finance, computer applications and environmental assessment. The private power industry could not have progressed even close to where it is now, had it not been for the quality and quantity of technical assistance that USAID provided.

For providing GOP technical assistance, the Mission selected, through a process of competitive bidding, two teams. Each was a joint venture of firms. The first led by International Resources Group (IRG), included Hunton & Williams, ITECO, John T. Boyd, Florida Power & Light and EBASCO; and the second, led by Price Waterhouse (PW), included RCG Hagler Bailly, Latham & Watkins, and Burns & Roe. They assisted the PPC, Wppo, MWP, GSP, SCA, PED, KESC, the Privatization Commission and the private sector. The Project required close and continual cooperation and coordination between the two contractors.

Both the contracts were signed for a base period of four years with an option for a fifth. During the course of the contract, the option was exercised, not for time but for funds. The funds set aside for the fifth year were rolled up in the original four and an accelerated level of effort was expended to achieve the objectives of the Project in the shorter "Presslered" time.

The IRG contract for \$15 million required four resident advisors, three in Islamabad and one in Lahore, supported by 290 person-months of short-termers over the five years. The PW contract for \$5 million had positions for two residents in Karachi and an allocation for 120 person-months of short-termers. Although all the funds were expended, the actual short-term person-months acquired were less than planned. The Project had to pay for quality as against quantity to satisfy the intent of the Project. Private power is a relatively new concept worldwide and world class experts were needed to give confidence to the GOP that they were agreeing to do the "right" thing. A total of more than 30 salary waivers were processed to acquire the services of such specialists.

The advisors within the PPC consisted of the IRG Chief of Party (COP) who was from the private power utility industry, an Advisor-Environment, an Advisor-Coal (later converted to position for Advisor-Power) and support staff. The advisor at WAPDA, Lahore was a power utility expert. He also had a support staff. The two at Karachi with the PED were the COP for the PW contract, who was from the banking sector, and a technical advisor who was from the power engineering industry.

NDFC posted the required staff to the PED and WAPDA also deputed some staff to the PPGC, but the PPC had only a Director General. When the plan to staff the PPGC and the PPC by the GOP proved nearly unworkable, the IRG contract was amended and the positions in the PPGC and the PPC were filled by staff hired under the IRG contract.

Besides the six long-term resident positions in country, short-term advisors were available to the project. Short-term individuals were selected and scheduled on an as-needed basis. Each task was described, approved and implemented with a Control Work Plan (CWP). Each CWP was developed in response to a specific need identified by the GOP, USAID or the Contractor. A CWP included a description of the task, an estimate of the level of effort required to accomplish the task, the persons to be assigned to the task, a schedule for implementation and a review of the contractual authority for the task. The CWP was concurred with by the GOP entity for whom the task was being performed and approved by the USAID Project Officer before implementation.

The Project encouraged participation in international conferences and also conducted or sponsored several in-country conferences. GOP and Project personnel were sent to conferences in New York, Los Angeles, San Francisco, Chicago, Washington D.C., London, Singapore, Kuala Lumpur, Manila, Hongkong, and Bangkok. Such participation exposed them to the latest trends in the industry and also promoted the Pakistan program.

B. GOP Inputs

The GOP contributed Rs.13.4 million in kinds to the Project.

VI. ACCOMPLISHMENTS

The major accomplishment of the Private Sector Power project has been the creation of a sustainable private sector in Pakistan's electric power industry through the involvement of the PPIB, the WPPO and the PED, and the successful marketing of the opportunity.

When the Project started in 1988 there was no private electric power sector in Pakistan. Six years later, an enabling environment is in place and a formal structured process has been established for the industry. Pakistan has many private firms competing for the opportunity to provide electricity to the national power grid. Twenty-four projects have been approved by the GOP against performance guarantees of \$20 million for almost 6,000 MW of power. A major private power plant is under construction and 70% of the civil works have been completed.

Institutional Development

The most important achievement during the first year of the project was the establishment of organizations at the PPC and WPPO along with office space in which to operate. Although office equipment and vehicles for the PED were also provided by the PSP Project, staffing and operations of the PED were monitored and influenced more by the WB than USAID. The effort to staff and equip the three offices took over one year before it was completed, but as a result, they were established with individuals that formed the basis for development of professional organizations.

Development of Model Negotiating Documents

The PED was run by manuals and guidelines provided by the WB. However, the PPC and WPPO were entirely assisted by the consultants of the PSP Project. Office procedures were developed that specified how proposals were to be processed and established responsibility for this work. Two primary documents -- the Implementation Agreement (IA) and the Power Purchase Agreement (PPA) -- were developed with the PPC and WPPO. The IA covered the concessions and assistance to project sponsors that the GOP had granted as part of the initiative to establish private power and defined/allocated the risks and schedule to be assumed by the project sponsors, the GOP and WAPDA during the course of project construction, implementation and operation. The PPA between WAPDA and the project sponsor defined the conditions of sale and purchase of power. These two agreements required approval by several Ministries and agencies of the GOP and took several months to publish approved versions. However, once published, these documents served their intended purpose.

Many other 'models' were developed for the PPC and WPPO. The initial understanding of the GOP and the sponsor was established by the Letter of Support (LOS) and the LOI. The LOS established the parameters for a project, e.g., size, location, fuel, type, etc., and was valid for a specified time to allow the sponsor to formalize a proposal. The LOI awarded a project to a sponsor if his proposal was evaluated and accepted. A Fuel Supply Agreement (FSA) was also developed to cover the responsibility of state-owned oil or gas companies in projects where the sponsor sought fuel for his project from the GOP. A brochure was developed that advertised

the PSP Program at trade conferences and to respond to inquiries about the program. This document was revised and updated several times during the Project life. The latest (1994) "Policy Framework and Package of Incentives for Private Sector Power Generation Projects in Pakistan" published by the GOP is based on these documents and discussions/negotiations thereon.

Transfer of Technology

Initially, proposals from the private sector were reviewed almost exclusively by the consultants, however, as the GOP organizations were staffed and as confidence in their own ability to deal with project sponsors increased, these organizations took over the lead in negotiations and reviews. By the last nine months of the project, only occasional assistance was needed, mostly in resolving legal issues. (Two different local lawyers were retained at different times to assist the PPC and WPPO, however, the breadth of knowledge required not only of Pakistani law, but also of international law, the technical background required to understand the issues and the specific contractual requirements of private power required an experienced full service law firm. Such firms are few in Pakistan and there was not enough funds available in the "Presslered" Project to employ, develop and train such firms.)

Reviews were also conducted of environmental assessments conducted by projects sponsors including a review of their mitigation plans. In most projects, sponsors needed guidance on how to conduct an environmental assessment.

A very successful conference was held in Karachi to promote the coal find in Thar and another successful seminar was held in Lahore to promote the cogeneration opportunities associated with sugar mill operations. Cogeneration was subsequently marketed in conferences at Karachi, Lahore, Rawalpindi and Islamabad.

The Project also paid for a Trade Mission from California which visited Karachi, Lahore, Faisalabad and Islamabad. The Trade Mission focussed on cogeneration and several projects and agreements developed as a result.

Impact

Even in its short life, the Private Sector Power Project made a significant and lasting impact on the power sector in Pakistan. Evidence of this is clear from the achievements highlighted below:

- GOP thinking has evolved from seeing private power investors as adversaries to be defended against to seeing them as essential partners in building a power system which can meet Pakistan's needs.
- Workable negotiating documents, acceptable to the GOP, the private investor/sponsor community and the international lending community, have been created for private sector power.

- The Thar coal reserve has been identified and its use as the major fuel resource for power has been promoted through the Thar Coal Conference.
- Co-generation has been accepted as a valuable source of low cost power for WAPDA and income for industrialists (resulting in the first sale of private power to WAPDA in late 1993).
- The GOP has a Strategic Plan for privatization of the electric power industry and has enacted legislation to implement it.
- Plans and legislation for a National Electric Power Regulatory Authority (NEPRA) have been submitted to the GOP Cabinet for approval.
- An effective program was conducted for pre-construction cost sharing with private power sponsors, through the Trade Development Program of the Department of Commerce, NDFC and Interbank.
- The refurbishing and 18 months operation of an atmospheric monitoring station at Gadani resulted in the first meteorological report of its kind issued in Pakistan. (The 100 meter tower station was turned over to the PPC in excellent condition in April, 1994.)
- Criteria were developed delineating the requirements for an Environmental and Social Soundness Assessment (ESSA). (The ESSA is a combination of the standard environmental assessment along with the social impact of a proposed project.)

VII. LESSONS LEARNED

- **The reduction in funding and time as a result of the Pressler Amendment and changing U.S. foreign aid and foreign policy priorities was a significant constraint.**

In April 1991, under Pressler, useful units of assistance were formulated for each project; LOP amounts were reduced and project completion periods shortened. In the case of PSP the authorized amount of \$170.0 million was reduced to \$76.4 million and the original PACD of September 30, 1998 was forwarded to September 30, 1994. Concurrent with the scaling-down of Pakistan projects was a reduction in interest and support by USAID/Washington. By early 1993 this shift in interest was combined with an Administration thrust toward rescission of obligated funds from USAID programs of low priority in Washington -- with USAID's work in Pakistan heading that list. USAID/Pakistan worked under a cloud of an impending large rescission from early 1993 until June 1994, when the rescission finally hit taking \$56.2 million away from the funds which had remained after earlier Pressler deobligations. While the final amount deobligated from PSP was \$39 million, the impending "hit" over such a long time was disruptive and precluded adequate programming of funds pending the final outcome.

- **In a project of this size and complexity, while good relations and easy, informal communication channels with World Bank and other donors involved in the sector are necessary, USAID must maintain the lead in implementation.**

USAID could have been gained much more if it had been in a leading role in the PSP Project. The situation created by USAID's agreement to follow the WB design of the Project created predictable conflict situations. The WB view of the Private Sector Power Project was restricted to the Xenel/Hawker Sidley Hub Project and consequently all their efforts and decisions were geared to achieve the success of Hub. While the WB view that if Hub goes through, everything else will follow, may in hindsight have proved true, it came at a tremendous cost in terms of time lost. Since USAID was looking to institutionalize a new concept and create a sustainable organizational infrastructure and environment to benefit the people of Pakistan, the exclusive attention to Hub at times went counter to the USAID effort. The stress on moving Hub forward encouraged adhoc decisions and at times jeopardized the long term interests of institutionalizing the concept. The fact that the process has recently (late 1994) become a 'juma bazaar' of MOUs is a reflection of the weakness of the process. Where the high profile and protracted negotiations of Hub were an excellent learning curve for the GOP, the exclusive attention to Hub at the expense of others established 'favoritism' as the norm.

Besides the ostensibly divergent objectives of the WB and USAID efforts (short-term project vs long-term institutional, respectively) in this project, there was a very clear argument for USAID to have been in the lead. The persons who implemented the USAID Project were physically in Pakistan and interacting with the GOP daily. USAID was responsible for the institutional development of the concept, while the WB just looked at use of the Private Sector Energy Development Fund.

The Private Energy Division, answerable to the WB, has not attained the ability to function independently nor matured as an entity in comparison to the PPIB or, to a lesser extent, even the WPPO, both of which were answerable to USAID. Modifications, innovations and flexibility in selecting routes to the same destination were discouraged by the detailed and voluminous WB manuals and guidelines dictating operations of the PED, thus it has not become the capable, independent private power development bank that was envisioned. The PED bogged down early into a bureaucratic role of watching the slow progress of Hub Project development and financing. Two successive Chiefs of Party under the USAID contract with Price Waterhouse were able to exert little influence to move the PED out of its limited, bureaucratic mind-set. The PED played no promotional role in encouraging any other power plant investor/sponsor to come to Pakistan.

- **A change in USAID project management philosophy and practice to greatly strengthen the role, scope and authority of the technical Project Manager, putting him effectively in charge of the financial, procurement, engineering and technical aspects of his project, with broad authority to match his responsibility, would enhance effective project implementation.**

A project needs one manager, not several, and that manager should have full financial control

over project expenditures, including authority to commit funds and authorize expenditures within fairly broad project budget guidelines. A serious constraint in project implementation was the long process of approval of the person(s) designated as short-term advisor(s). Clearances and approval of salaries, country approval for their visit and specific security approvals could take as long as two months. Short-term specialized expertise was invariably required at short notice to address specific issues arising unexpectedly in the evolving scenario of private power introduction in Pakistan. It was always difficult to establish such assignments several weeks in advance of the task. Alternatively, events would overtake the issue and the Project would have to make do with other than the best alternative.

- **The USAID financial management and reporting system is not geared to project management needs. There is a need for a project financial monitoring system to MACS.**

The MACS financial accounting system is structured to meet USAID internal administrative and accounting requirements. A project manager needs monthly statements of his commitments, expenditures, accruals and remaining balances, classified by the line items of his project and contract budgets. Such information cannot be extracted from the MACS reports, which classify all funding activity under broad headings of Technical Assistance, Training, Commodities, Other Direct Costs, etc. which bear no necessary relationship to the way the project contracts are constructed. At present, project managers must develop such a system on their own while still fulfilling Mission financial reporting requirements for MACS.

- **Where USAID has a sizable technical portfolio such as energy but cannot provide USDH career professionals to manage it, the USPSCs hired to manage it must be recognized as members of the management team.**

Mission management is conducted by U.S. direct hires. The inability of USAID to provide any USDH staff in the energy field (all resident expatriate energy sector professionals working with the Mission since 1989 were PSCs or employees of institutional contractors) had an adverse impact on the office's ability to operate effectively in the Mission management framework. USAID should reshape its way of utilizing PSC services. If USAID cannot maintain a staff of tenured career professionals knowledgeable in the current technical disciplines of international development, it should recognize that engaging professionals under term contract is an appropriate, effective and preferred way to attain development objectives. PSCs should be recognized as integral members of teams and they should share in the policy and management decision processes at the top Mission levels.

- **The creation of three separate groups -- Private Power Cell, WAPDA Power Privatization Organization and Private Energy Division -- with overlapping roles led to conflict and confusion.**

The GOP/WB and USAID Project required that three groups -- PPC, WPPO and PED -- be created, each of them having similar or identical tasks. Each of the three was tasked with a technical evaluation of a prospective project and each was tasked with institutionalizing this

function. Each analyzed the project financially and even though each group was examining the same data supplied by a sponsor, each had to develop their own financial model to analyze the information. The predictable conflict thus arose between these three groups from the outset and subsequently, confused sponsors who had been told to expect to deal with only one GOP. Each group strongly defended its right to examine all aspects of a prospective project. It was after three years of operation in this conflict mode that the GOP eventually formed a Private Power and Infrastructure Board (PPIB) as the 'one window' to prospective sponsors.

- **The involvement of international (neutral) advisors in the development plans of Pakistan gives confidence to the GOP and to foreign investors of the seriousness and transparency of the process.**

The presence of international neutral advisors during the transformation of the power sector structure offered an effective buffer against political pressure and expediency. Conversely, the identification of the Thar coal reserves was a great technical triumph and it was well publicized within the GOP and to the investment community. However, the absence of neutral and objective advisors made it difficult for the GOP to take a coherent lead in steering toward a rational, orderly successful development of Thar.

- **Being a US Government agency, a bureaucracy itself, USAID is not structured to promote privatization.**

In USAID, stress is often more on form than on substance. The management and control functions in USAID require the rigid pursuit of procedures. Innovation and interpretation of rules to address an immediate priority issue is not permitted. (Support offices blame the Line office of "poor planning".) The "Handbooks" do not allow the Project Officer to improvise to meet a deadline, nor do they encourage the most efficient use of funds for such institutional development work. The late Administrator Wood had said, USAID has "venture capital" funds for furthering economic development in countries. Managing venture capital successfully requires courage to cross barriers and violate norms. However, USAID operates as a game keeper rather than a poacher (policy dialogue, institutional change/reform, privatization are issues that 'poach' on the rice bowl of an entrenched bureaucracy).

VIII. SUSTAINABILITY

Pakistan has a published Policy on Energy to govern the induction of private investment in the power sector. The policy document is based on the several years of discussion and negotiation the GOP had with the international private sector in opening the sector for private investment, and ownership. These discussions were possible because the GOP were supported by world class experts on their side funded under the PSP Project.

The creation of the private power market has been followed eagerly by the media and the common man. Initial skepticism has given way to seeing an opportunity for growth. Private power is now an accepted and acknowledged factor in Pakistan's economy. The several projects which have developed (all directly a result of the PSP Project assistance), or are currently under negotiation, have had a major impact in the financial sector of the country.

Stocks of private power companies are trading on the stock exchange and the Corporate Law Authority has had to intervene to arrest the abuse by sponsors of the populations interest in the stocks of at least one private power company.

The infant offices established in 1989 to promote the concept have grown in to knowledgeable and powerful organizations, warding off political pressures, to effectively and efficiently establish a private power market that will sustain itself with minimum regulation by the GOP.

A plethora of consulting, supply and contracting companies, engineering and service, are in the market for assisting private power projects. The knowledge and intricacy of the new expanding market is being discussed in offices, seminars and conferences. Norms are being established even as the market expands and evolves.

All banks, leasing and investment companies and financing institutions in the country are actively involved in seeking investment portfolios in the private power market. Currently the market is dominated by the overseas banks.

GOP has signed 30 years PPAs with sponsors and WAPDA has bought power from small power producers.

The GOP has signed agreements for over \$3 billion and MOUs for over \$7 billion with foreign investors in the power market. The dependence of the economy on salvaging the starved energy sector through private investment and the international exposure of Pakistan's commitment to private power, now makes the process irreversible.