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PRIVATE SECTOR PARTICIPATION IN ENERGY

**A Strategy for Private Sector Power Generation
in
Asia and the Near East**

**Energy And Natural Resources Division
Bureau for Asia and Near East
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FORWARD FROM THE ASSISTANT ADMINISTRATOR

Capital constraints and reconsideration of the effectiveness of public provision of services are leading to major revisions of the traditional public-private sector roles. A primary focus of rethinking has been power generation. Its critical role in development and modernization and extraordinary capital demands have forced this reexamination. Increasingly countries are concluding power generation is not a natural public monopoly and there is a significant private sector role. Several Asia and Near East countries are playing a leading role in the adoption of policies and programs to promote private investment in power generation facilities.

Private sector capital mobilization and efficiency gains evolving from a competitive power generation environment offer considerable promise. The redefinition of the public-private role is instructive for redefining the roles in other key infrastructure and social service sectors.

The strategy establishes the confluence of a key development need, the provision of adequate power for development and modernization, with U.S. trade and investment interests. Recognizing resource limitations, the strategy defines an A.I.D. catalytic role focused on provision of technical assistance and training for policy and institutional development as well as a catalytic role mobilizing multilateral bank and donor resources to finance private power project initiatives. A.I.D. has recently made a major investment in institutional and capital support for Pakistan's private power program and A.I.D. missions in other ANE countries are considering activities to promote further this significant economic restructuring.

The strategy is designed to assist Missions in their consideration of this exciting new trend in the economic policies of ANE countries. I hope it accomplishes this objective.



Assistant Administrator
Bureau for Asia and Near East

PRIVATE SECTOR PARTICIPATION IN ENERGY

A Strategy for Private Sector Power Generation in Asia and the Near East

INTRODUCTION

The involvement of the private sector in power generation offers one of the most significant opportunities for fundamental policy and structural reform in developing countries today. The fiscal and economic environment and power conditions in many countries are conducive to the introduction of privately developed, owned and operated power plants for the purpose of selling electricity to the national utility or directly to industrial and rural consumers.

A Private Sector Power Generation Initiative can be a major vehicle for carrying out the cross-cutting ANE Bureau themes of Trade and Investment, Science and Technology and expanded private sector activity. Power is a critical ingredient to accelerating economic growth; unavailability and unreliability of electricity are serious constraints to both agricultural and industrial growth in Pakistan, India, The Philippines, Indonesia and elsewhere.

There are significant U.S. trade and investment issues embedded in a Private Sector Power Initiative. Private power is a meshing of trade and investment interests with development needs to meet a critical ANE development problem--the provision of adequate and reliable power for development. U.S. financial and technical expertise and equipment manufacturers can be drawn upon to finance, develop and operate private power plants as well as advise on policy and institutional issues.

Development in Asia and the Near East will depend partly upon successful technology linkages between the U.S. and ANE countries. The U.S. has historically been at the forefront of power sector technology development and, despite growing competition, has the capacity for significant technology transfer of advanced technologies including cogeneration, combined cycle gas systems and coal fluidized bed combustion systems. The U.S. government's \$5 billion Clean Coal Initiative, focused on the development of advanced clean burning coal technologies, may provide a vehicle for linking U.S. technology development efforts to power development needs in many ANE countries. Similarly the U.S. Committee on Renewable Energy Commerce and Trade (CORECT) provides a focus for the transfer and application of U.S. renewable energy technologies.

Congressional concern about the growing power problems in developing countries has been expressed by the House Committee on Appropriations. In response to their request, the Administrator submitted a Report to Congress on the power crisis describing the power requirements for future development, the magnitude of the demand for capital and alternative approaches including private sector generation.

The growing concern about global warming and increasing fossil energy CO2 emissions has renewed focus on the efficiency of energy use. Among Secretary Baker's first public statements was a call to responsible action including increased efforts on energy efficiency. A private sector strategy is an effective approach to accelerating use of cogeneration systems (inherently efficient) and bringing private international standards to powerplant operation in developing countries.

This strategy describes the conditions fostering interest in private sector involvement, the power generation potential and impediments to policy and institutional changes, AID/ANE Bureau's role and approaches for development of private sector power generation.

I. BACKGROUND/PROBLEM

A critical problem facing many developing countries is the provision of adequate and reliable power for development needs. Two underlying causes of inadequate power are (1) constraints on capital availability that restrict generation expansion, and (2) centralized parastatal electric utility inefficiencies.

In many countries energy comprises the largest or second largest share of capital development budgets with power accounting for most of the need. In India the energy sector was to receive approximately 35 percent of the capital budget in the last Five Year Plan with power receiving around three-quarters of that.

The impact of inadequate and unreliable power translates into economic losses for industrial and agricultural production. In Pakistan, for example, the estimated impact of outages on industry in one year was a reduction in value added of \$400 million or 8.2% of industrial production including export losses of \$75 million. Compounding such losses are widespread investments in diesel generators in industry.

These conditions have forced reexamination of the centralized public utility approach and consideration of private sector initiatives.

Pertinent to this reexamination is the U.S. regulatory reform over the past decade which has resulted in significant decentralization and competition in electricity generation. The Public Utilities Regulatory Policy Act (PURPA) of 1978 opened up the opportunity for private entities to generate electricity for sale to utilities resulting in over 10,000 MW of decentralized generation (about twice the size of Pakistan, Thailand or Indonesia's national power systems) utilizing hydropower, geothermal, agricultural wastes, industrial cogeneration and other sources.

Competitive bidding systems have emerged in 14 states to bring forth innovative and cheaper power projects than would have been conceived by the traditional approach. The competitive approach is drawing a wide range of proposals leading to a least-cost generation result.

II. POTENTIAL FOR PRIVATE SECTOR POWER GENERATION IN ANE COUNTRIES

A.I.D.-supported assessments have been done to determine the potential for private investment in new power generation in Pakistan, India, Thailand, Indonesia and The Philippines. The assessments indicate that a minimum of 15-40% of future generation needs over the next decade could be met through private sector power generation investments with appropriate policies.

Primary focus of the assessments was on the potential for private generation projects to sell electricity to the national grid or for direct sale to industrial parks or rural customers.

The assessments found strong private sector interest--both domestic and international. Numerous proposals to build, own and operate private power plants exist.

Economic private generation options under favorable resource and policy conditions can include:

- large scale gas, oil, coal or geothermal systems that are undertaken in place of some of the state utility expansion projects,

- industrial cogeneration systems which generate both process heat and surplus electricity for sale to the grid, and

- renewable energy and agriculture waste-based systems (such as wind, small hydro, rice husks, bagasse and wood-waste systems).

III. THE DEVELOPMENT BENEFITS OF PRIVATE SECTOR INVOLVEMENT

The development benefits of private sector involvement in power generation can include:

- (1) Mobilization and Efficient Allocation of Capital: A sound policy and economic private power generation framework can attract private capital into economic power generation investments, increase capital allocation efficiency and be a significant vehicle to foster domestic capital market expansion.

- (2) Increased Efficiency and Competition: Private sector skills, management experience and financial expertise can bring efficiency to the power system and provide a competitive model against which the parastatal operations can be assessed.

- (3) Environmental: There is emerging worldwide concern about the Greenhouse Effect; rapid introduction of high efficiency, cleaner burning technologies (e.g., fluidized bed combustion, combined cycle gas systems and cogeneration) can be accomplished by the private sector under the right policy framework.

- (4) Public Capital Resource Allocation: Private sector power generation investments will reduce demand on national capital development budgets freeing up resources for other priorities.

- (5) Refocus Public Utility Efforts: With reduced pressure on the utilities for new generation, they will be able to focus on much needed system rehabilitation and efficiency improvements.

(6) Expanded Rural Energy Options: Private processing facilities (sugar and rice in particular) can generate surplus power using waste by-products as fuel leading to increased rural energy, expanded rural employment and reduced waste disposal problems.

(7) Tariff Reform: Private power entities selling power will stimulate rational tariffs by showing the true cost of power generation and making it clearer what tariff must be charged to customers to cover the cost of operations.

Whether or not the potential benefits of private sector investment and ownership of power generation are realized depends significantly upon the broader economic and policy context. For example, institutional arrangements and incentives must be in place to foster competitive and efficient operation and not result in merely displacement of public inefficiencies to a private monopoly. Other considerations for assessing the role and impact of private power are: the relationship of a private power project to a least cost generation investment program, the efficiency and productivity of use of the electricity produced, the value of the power to the economy (high where loadshedding persists) and the impact of private power generation investments on utility tariffs, foreign exchange, capital budgets and private capital markets.

IV. KEY ISSUES AND IMPEDIMENTS TO PRIVATE SECTOR INVOLVEMENT

Certain characteristics must be present to make a private sector power generation program effective:

- (1) The general investment climate must be relatively rational,
- (2) A clear legal and policy framework that allows private investment in power generation is essential,
- (3) A realistic energy policy and planning approach that effectively incorporates private capabilities and interests,
- (4) Institutional impediments in the government, utility and possibly in the private sector must be addressed,
- (5) The financial capacity of the country and its institutions must be able to adapt to and accommodate private sector power generation; capital markets and the availability of appropriate financial instruments will be important, and
- (6) The availability and access to fuels for power generation must be established.

Through country assessments and discussions with private companies and project developers, the following have been identified as important variables in attracting private investment into power generation:

- (1) a clear and expeditious process for proposal solicitation and review;

- (2) a power purchase agreement framework that adequately covers not only price relationships but other risk coverage responsibilities;
- (3) some assurances that uncovered debt will be given priority in the event of project failure or accident;
- (4) an acceptable mechanism for dispute resolution is in place;
- (5) financing is available for at least a portion of the project development costs.

V. STATUS OF PRIVATE POWER GENERATION IN SELECTED ANE COUNTRIES

Pakistan--A Private Power Generation Policy is established, a private power program is under development and the Government has issued Letters of Intent for over 1600 MW of private power generation. The World Bank and USAID/Pakistan have put together a program of assistance including (a) a multi-donor private energy lending facility totalling over \$500 million, and (b) technical assistance for the development of the Government's capability to plan for, solicit, evaluate, and negotiate private power projects. Successful implementation may have far reaching impact on World Bank and donor lending approaches. USAID/Pakistan approved a \$170 million Project to provide capital for the financing window and technical assistance and training.

India--The India Five Year Plan accepts private sector involvement in captive power generation. With support from the Prime Minister a high level public-private panel report developed recommendations on the role and guidelines for private sector involvement in power generation. Key issues such as the return on investment remain under discussion. Private sector interest is reflected in several major proposals put forward to the state governments in West Bengal, Gujarat, Haryana and Tamil Nadu. U.S. firms are exploring private power project opportunities; the USAID sponsored Workshops on the subject identified significant Gujarat state government interest.

Thailand--The Thai Government on February 16, 1989 reached a policy decision to allow the private sector to generate power through cogeneration and small power facilities and, most importantly, large scale coal and gas powerplants. The decision was driven by the Government's need to mobilize over \$4 billion over the next 5 years for power generation projected to grow at 12% per year. The preliminary objective is to raise about one-third, or \$1.2 billion, from the private sector.

The Philippines--President Aquino, declaring that the power sector is not "a natural monopoly" of government, signed Executive Order No. 215 on July 10, 1987 allowing private entities to set up generation plants. The National Power Corporation has developed draft guidelines, initiated negotiations with developers, and plans to issue a Request for Private Proposals.

Indonesia--Indonesia amended the Electricity Act in 1985 to allow private sector generation. Policy and implementing regulations are to be established. The government is examining key policy issues and will assess private power proposals for the development of a large gas-fired powerplant.

Morocco--Government officials have expressed interest in private sector power generation utilizing efficient industrial cogeneration.

Turkey--A law, regulations and procedures have been established to involve the private sector in power generation. Private sector response has been strong with applications for over 4000 MW of hydropower and at least 5 proposals for imported coal plants. The government is negotiating with an Australian-Japanese-U.S. consortium for a 1400 MW imported coal plant.

VI. THE RATIONALE FOR AID AND ANE BUREAU INVOLVEMENT

There are several reasons for AID and ANE Bureau leadership and involvement in promoting private involvement in the power sector:

1. AID and ANE Bureau Strategic Priorities: The Private Sector Power Generation Initiative is intertwined with the three strategic interests of AID and the ANE Bureau: policy reform leading to expanded private sector involvement in development, expanded trade and investment and capital market development.

First, policy reform is key to an expanded private sector role in development; in recognition of this, A.I.D. has established an initiative to foster private provision of public services.

Second, significant opportunities exist for fostering use of technically advanced competitive power systems and U.S. technical expertise in policy reform, power project development and financing. Major U.S. A&E firms, equipment manufacturers, financial entities and service firms have expressed strong interest. Despite some slippage, the U.S. remains competitive internationally in the power sector. The U.S. has or is developing new technologies that are well-suited to ANE countries' power development plans. A.I.D. is on the task force looking at international potential for the U.S. \$5 billion clean coal program.

Third, private power projects will be a driving force pushing capital market reform leading to expansion and creation of new debt and equity instruments to meet the large capital needs for private power plants. U.S. capital markets have historically developed on the bedrock of long-term utility stocks and debt issues.

2. Predominant U.S. technical expertise: Virtually unique U.S. expertise has emerged in the last eight years in the development of private decentralized power systems that sell power to central utilities. A large pool of U.S. economists, engineers, lawyers, financial and utility experts can and are being utilized.

3. Improved Energy-Environmental Performance: Energy development and use frequently has significant environmental implications; the introduction of high efficiency and cleaner burning technologies can reduce the adverse environmental impact.

4. AID Coordination of USG Efforts and Multilateral Collaboration: AID/ANE's broader development and policy orientation and regional expertise dictates involvement and a lead role. The more specialized objectives and resources of other agencies (TDP, OPIC, Export-Import Bank and Department of Commerce) are valuable and need to be incorporated into a broader effort directed at AID's objectives.

VII. PRIVATE SECTOR POWER STRATEGY AND OBJECTIVES

While conditions and approaches will vary from country to country there are phases a country might go through to establish private power. In each of these phases there are tasks that A.I.D. can facilitate with technical assistance, training, and financial support. These phases are:

ASSESSMENT--Understanding and support are generated by assessment of private power issues, opportunities and impediments and workshops to disseminate the findings.

ANALYSIS--Deeper understanding and support for major policy changes are facilitated by analysis of key legal, financial, economic and related issues, workshops and study tours of U.S. and other countries' experiences.

IMPLEMENTATION--Program Implementation and Project Development are pursued interactively with primary emphasis on Program Implementation while private power project development activities help shape the detailed evolution of a private power program.

Program Implementation focuses on the establishment of a sound policy and regulatory framework, institutional development, and financial development. Technical assistance and training help establish the process and capability to plan, solicit, evaluate, negotiate and contract for the purchase of electricity from private power projects. Capital market developments are fostered to facilitate financing of private power projects.

Project Development focuses on the initiation of private power project proposals through technical assistance, feasibility cost sharing and occasionally brokering between the project sponsor and the government and utility.

Following are the components of the strategy to foster private sector investment in power generation. (Note that the strategy assumes mobilization of resources beyond AID, i.e., other USG entities and the private sector.)

1. Provide Technical Assistance for Development of Private Power

--Undertake assessments and workshops on the potential for and impediments to private sector power generation and develop action plans for implementation;

--Support policy analysis and development leading to a legal/policy framework conducive to private power investment including rational tariffs and fuel utilization policies;

--Provide assistance to develop institutional mechanisms and capability to deal with private power projects and problems including:

-planning and financial/legal issues such as least cost power system planning, methods of calculating purchase price and stand-by charges and the development of standard contracts between the utility and private power producers.

-technical implementation issues such as utility operations relating to interconnection, dispatching, metering, wheeling of power, etc.

--Provide project development cost support for feasibility studies and related costs on private power projects;

--Identify financial and capital market issues and constraints and develop more efficient and expanded markets to accommodate private sector power generation investments.

--Foster linkages between U.S. institutions involved in policy and economic analysis on independent power generation and ANE entities that perform policy and economic analytical roles (such as Thai Development Research Institute, Asian Institute of Technology, etc.).

2. Provide Training on Private Sector Power Generation

In order to expand the understanding of private sector power generation concepts and the capability to implement policies and

programs, training should be directed at (a) government officials involved in energy policy/planning, development finance, and industrial development; (b) utility personnel including executives, planners, and engineers and (c) private sector industrialists, investors, banks and capital market specialists. Options are:

--Training courses, study tours and internships with U.S. private independent power producers, utilities and regulatory entities; participation should be open to candidates financed by A.I.D., The World Bank, Asian Development Bank and private interests.

--In-country training and 1-2 day seminar/workshops on key issues.

--Development of courses and seminars at national and regional institutions (e.g., Asian Institute of Technology), and through private industrial organizations.

--Development of utility-to-utility programs between ANE utilities involved in implementation of a private power programs and U.S. utilities experienced in independent power generation.

3. Mobilize U.S. Technical and Financial Resources

--Mobilize technical experts experienced in decentralized U.S. power development and identify or develop mechanisms to make them available to developing country governments and private power developers, AID and the multilateral development banks,

--Identify (and modify or supplement as appropriate) public and private financial sources and mechanisms that can be utilized in ANE developing country private power projects,

--Identify relevant competitive U.S. power generation technologies and their market position in key Asian and Near East countries,

--Disseminate results of private power assessments and project opportunities and increase awareness of U.S. private sector equipment, finance and service industry interests on needs and opportunities in ANE countries.

4. Coordinate US Government Efforts in Asia and the Near East

--Develop (informal) coordinating committee of interested U.S. Government entities that will be problem and opportunity focused; possible functions include information exchange, working together on training, policy or private power project development efforts and

identify new USG initiatives to foster private power generation. Illustrative participants would be:

ANE Bureau office representatives such as:
-ANE/TR Energy and Natural Resources
-ANE Private Sector Development Office
-Desk and PD Officer (on country specific issues)
-ANE DP Chief Economist
A/AID Trade and Investment Promotion
S&T Bureau Office of Energy
PRE Bureau
PPC Private Sector and Energy Advisors

Outside AID

Trade and Development Program
Overseas Private Investment Corporation
Department of Commerce
Export-Import Bank

--Develop a concise private sector power development resource document that specifies the USG resources--technical, financial and informational--that can be drawn upon by interested private parties for pre-feasibility and feasibility studies, project development, financing and operation of a private power plant in a developing country.

5. Collaborate with Multilateral Financial Institutions and Donors

The World Bank has lead the development of a project to support private power generation projects in Pakistan; other divisions are examining the Bank role in light of governments' emerging interest in fostering private sector involvement in power generation.

The Asian Development Bank undertook a review of the private sector power generation issues and experiences to date to provide a basis for ADB strategy formulation.

To foster the interest and support of the multilateral banks, A.I.D. can play a key leveraging role by carrying out the strategy options discussed above and also the following:

--Maintain dialogue with key bank entities involved in energy policy, and energy sector and project loans, in order to increase relevant policy analysis and loan activity for private power development;

--provide U.S. multilateral bank representatives with pertinent data and analyses on private sector involvement in power generation, and

--co-sponsor seminars/workshops on private power issues for countries where ANE and the banks have common interests, and

--incorporate in the U.S.-Japan donor coordination dialogue the opportunities for collaboration on private power development as was done in Pakistan.

6. Facilitate U.S. Private Sector Involvement

--Utilize U.S. financial, industrial and utility expertise in ANE private sector power generation assessments;

--Provide a forum for exchange of information between U.S. government entities involved in private power issues and private parties (service, financial and equipment interests);

--Develop a reporting vehicle that provides basic information (private power generation policy environment, institutional responsibilities, private power project proposals) and periodically updates status of private sector power development in key countries (initially Pakistan, India, The Philippines, Thailand, Indonesia, Jordan, Morocco and Turkey); and

--Provide financial support for project development costs of private power projects.

AID Resource Options for Executing Private Sector Power Strategy

In order to provide assistance to the governments and private entities interested in the development of private sector power programs, there are numerous resources that could be brought to bear on the issue. Following is a brief description of some alternatives.

(1) Mission Projects--Private Sector projects that address issues related to private sector power could be utilized. Such issues include policy and regulatory reform, restructuring sector activities to increase private sector roles in previously public sector roles, development and expansion of capital markets, etc.

Energy projects that address energy policy, conservation (cogeneration), and power activities can address the policy, institutional and training issues in private sector power generation.

(2) ANE Bureau--The Regional Private Sector Development Project could be utilized for certain activities consistent with its priorities. ANE/TR/ENR PD&S have supported assessments and workshops in Pakistan, India, Thailand, Indonesia and regionally.

(3) S & T Bureau Office of Energy--ST/EY has developed a Private Energy Development Project targeted substantially on private power opportunities. This vehicle is complemented by existing projects supporting energy policy, conservation (cogeneration), biomass and renewable energy utilization (sugar cane and rice residue private power plants) and conventional energy efforts.

(4) PRE Bureau--PRE project activities, in particular the Capital Market Development Project, address many of the issues underlying expanded private sector investment in power generation including capital market development and innovative financing options.

(5) Administrator's Private Provision of Public Services Initiative--The Initiative allocates \$20 million to support innovative private sector activities in undertakings traditionally in the public sector.

VIII. POTENTIAL COUNTRY INITIATIVES UNDER STRATEGY

Following is a brief statement of what has been done, what is planned and what future options might potentially be undertaken to support private sector power generation in ANE countries.

PAKISTAN

Complete: Assessment of Private Power; TA for a model power purchase agreement; project evaluation support; development of USAID \$170 million Private Sector Power Project in collaboration with the World Bank.

Future Options: Implementation of Private Sector Power Project.

INDIA

Complete: Assessment of Non-Utility Power Generation in Maharashtra and Gujarat; Workshop on findings/recommendations; U.S. study tour on cogeneration/private power generation by senior policy, utility and private sector individuals.

Planned: Cogeneration support (part of broader conservation effort).

Future Options: Training, technical assistance and support for cogeneration/private power project demonstrations.

THAILAND

Complete: Assessment of Non-Utility Power Generation; international Workshop on Conservation and Private Power Generation; technical assistance for policy and regulatory development; study tour of U.S. independent power experience by senior policy, finance and utility officials; develop cogeneration policy/economics course at AIT (ASEAN supported).

Planned: USAID and ST/EY project for private sugar mill modification to sell power to grid;
Future Options: Provide technical assistance and training for private power program development; develop utility to utility relationship; support private power policy and economic analysis at TDRI; provide private power project development cost support.

THE PHILIPPINES

Complete: Assessment of Cogeneration Potential; draft of private power legislation; Proctor and Gamble biomass cogeneration demonstration; cogeneration course at University of The Philippines; assessment of power generation from sugar mills; private power workshop.

Planned: Cogeneration Workshop.

Future Options: Technical assistance and training to NPC, MARELCO and others to develop and execute a private power program including the planning, solicitation, evaluation, negotiation and execution of power purchase contracts; provide private power project development cost support; a Multilateral Assistance Initiative (MAI) Private Power Project is proposed in the Mission Action Plan.

INDONESIA

Complete: Assessment of the potential for private sector power generation; Seminar on Private Sector Power Generation in Indonesia.

Planned: Macroeconomic Analysis of Impact of Private Sector Role in Power and Telecommunications.

Future Options: TA for policy analysis, institutional development and project appraisal.

ASEAN

Complete: Thirty day energy planning course focused on cogeneration issues; international workshop on conservation and private power.

Planned: U.S. study tour on cogeneration/private power generation by mid-senior officials responsible for private power implementation; U.S. workshops promoting cogeneration and private power opportunities in ASEAN.

Future Options: Expanded linkages between U.S. and ASEAN private sector entities to foster cogeneration and private power development; regional workshops on key issues on project financing, technical interconnection, bidding systems, etc.

BANGLADESH

Completed:

Planned:

Future Options: Assessment of Potential for Private Sector Power Generation with focus on natural gas and coal/peat resources; Policy Workshop on findings/conclusions of Assessment; train key policy and utility officials in private sector power generation; support private sector power demonstration project.

MOROCCO

Completed: Key policy officials participated in international Workshop on Conservation and Private Sector Power Generation.

Planned: Examination of cogeneration opportunities under new Energy Demand Management Project.

Future Options: Assessment of private sector involvement in power generation with focus on cogeneration; TA and training to develop policy and institutional framework, implementation and support demonstration of private cogeneration projects; potential for private power projects using gas from Algeria to Spain pipeline project.

JORDAN

Complete: Energy planning technical assistance.

Planned: Energy conservation technical assistance.

Future Options: Assessment of role of expanded private sector power generation; workshop.

TUNISIA

Complete:

Planned:

Future Options: Assessment of Potential for cogeneration/private power generation; Workshop on findings/recommendations of Assessment.

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SUBJECT: PRIVATE SECTOR POWER GENERATION INITIATIVE.

1. BACKGROUND AND SUMMARY

OVER THE PAST TWO YEARS, SEVERAL MISSIONS IN THE ANE REGION HAVE BEEN ASSISTING HOST COUNTRIES IN EXPLORING THE POTENTIAL FOR PRIVATE POWER GENERATION. INTEREST IN THIS CONCEPT IS GROWING IN THE REGION AND WITHIN THE WORLD BANK AND ASIAN DEVELOPMENT BANK. OVER THIS PERIOD, THE AGENCY AND ANE BUREAU HAVE BEEN DEVELOPING AN OVERALL APPROACH FOR EXPANDING THE ROLE OF PRIVATE INDUSTRY IN THE POWER SECTOR IN DEVELOPING COUNTRIES.

YOU HAVE RECEIVED A COPY OF THE AID REPORT TO CONGRESS ENTITLED: POWER SHORTAGES IN DEVELOPING COUNTRIES: MAGNITUDE, IMPACTS, SOLUTIONS AND THE ROLE OF THE PRIVATE SECTOR. THIS REPORT DEFINES AN IMPORTANT ROLE FOR THE PRIVATE SECTOR IN MOBILIZING THE CAPITAL, TECHNOLOGY, AND MANAGEMENT TO MEET THE GROWING POWER NEEDS OF DEVELOPING COUNTRIES. ADMINISTRATOR WOODS IN HIS APRIL 14, 1988 LETTER TO CONGRESS STATED: QUOTE AID HAS BEEN IN THE FOREFRONT OF ADAPTING THE PRIVATE POWER CONCEPT TO DEVELOPING COUNTRIES. LOOKING TO THE FUTURE,

ID ANTICIPATES PLAYING A SPECIAL ROLE, OUTLINED IN THIS REPORT, IN HELPING TO MOBILIZE AND DIRECT PRIVATE SECTOR RESOURCES IN DEVELOPING COUNTRIES UNQUOTE.

ANE PROGRAMS ARE PLAYING A MAJOR PART IN THIS AGENCY INITIATIVE. OUR EXPERIENCE TO DATE HAS SHOWN THAT RATHER SMALL INVESTMENTS BY US IN THIS AREA WILL PROVIDE SIGNIFICANT IMPACT ON KEY PRIORITY AREAS INCLUDING EXPANDED PRIVATIZATION, REAL TRADE AND INVESTMENT OPPORTUNITIES FOR THE U.S. PRIVATE SECTOR, LONGER TERM RESULTS OF AVAILABILITY AND RELIABILITY OF POWER FOR DEVELOPMENT, AND MORE RESPONSIVE AND EXPANDED FINANCIAL MARKETS. A DRAFT ANE PRIVATE POWER STRATEGY WAS SENT TO MISSIONS IN MAY, 1988 DEFINING OPTIONS TO FOSTER THIS EMERGING INITIATIVE.

ANE COUNTRIES ARE SHOWING A SPECIAL AND GROWING INTEREST IN PRIVATE SECTOR INVESTMENT IN POWER GENERATION DUE TO (A) CAPITAL BUDGET AND FOREIGN EXCHANGE CONSTRAINTS AND/OR (B) THE INABILITY OF PARASTATAL UTILITIES TO

PROVIDE EFFICIENT AND RELIABLE ELECTRICITY SERVICE. BASED ON THE ANALYSES AND MISSION COMMENTS ON THE DRAI PRIVATE POWER STRATEGY, PRIVATE POWER IS AN EMERGING OPPORTUNITY TO MEET OUR TRADE AND INVESTMENT AND TECHNOLOGY COMMERCIALIZATION INTERESTS WITH A KEY DEVELOPMENT NEED. USAID/PAKISTAN HAS TAKEN A PIONEERII STEP WITH THE RECENT SIGNING OF THE PRIVATE SECTOR POI PROJECT, WHICH IS PART OF A MULTI-DONOR EFFORT TO ASS THE GDP IN ESTABLISHING AN INSTITUTIONAL FRAMEWORK AND MANAGEMENT CAPACITY FOR PRIVATE POWER AND A PRIVATE ENERGY FUND THAT THAT WOULD PROVIDE OECT FINANCING FOR BUILD, OWN AND OPERATE PRIVATE POWER PROJECTS.

AS DESCRIBED IN THE REPORT TO CONGRESS, PRIVATE POWER ACTIVITIES COMPLEMENT EFFORTS TO PROMOTE TARIFF REFORM AND IMPROVE THE EFFICIENCY OF ENERGY GENERATION, DELIVERY AND END-USE. THE WORLD BANK AND ASIAN DEVELOPMENT BANK ARE BEGINNING TO SEE PRIVATE POWER A PART OF ENERGY AND INDUSTRIAL SECTOR REVITALIZATION PROGRAMS AND OPPORTUNITIES FOR FINANCIAL MARKET REFORM OPPORTUNITIES EXIST FOR COLLABORATIVE EFFORTS, AS EXEMPLIFIED IN PAKISTAN.

AID CAN ASSIST PRIVATE POWER INITIATIVES THROUGH POLI ANALYSIS, TECHNICAL ASSISTANCE AND TRAINING FOR HOST COUNTRY ENTITIES AS WELL AS SUPPORT TO US PRIVATE INDUSTRY PROJECT DEVELOPMENT. THE UNITED STATES HAS THE PREDOMINANT WORLDWIDE

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EXPERIENCE IN PRIVATE POWER SYSTEMS SELLING TO A MAJO UTILITY GRID AND IN GOVERNMENT REGULATORY SYSTEMS FOR MANAGING ELECTRIC POWER SYSTEMS WITH MULTIPLE, INDEPENDENTLY-OWNED PLANTS. RELEVANT CENTRALLY-FUNDED TECHNICAL, ECONOMIC, FINANCIAL, AND LEGAL EXPERTISE C BE TAPPED THROUGH THE ANE REGIONAL PRIVATE ENTERPRISE DEVELOPMENT PROJECT, THE PRE FINANCIAL SECTOR DEVELOPMENT PROJECT, THE NEW STEY PRIVATE ENERGY DEVELOPMENT PROJECT AND OTHER SOURCES.

BECAUSE OF THE POTENTIAL THE PRIVATE POWER INITIATIVE OFFERS, THE ANE BUREAU WANTS TO FACILITATE MISSIONS' ACCESS TO RESOURCES TO ALLOW THEM TO INITIATE AND CONTINUE EFFORTS TO ASSIST ANE COUNTRIES TO ASSESS THE POTENTIAL FOR PRIVATE POWER, TO PUT IN PLACE A POLICY AND INSTITUTIONAL FRAMEWORK CONDUCTIVE TO PRIVATE INVESTMENT AND TECHNOLOGY TRANSFER AND SUPPORT PRIVATE POWER PROJECT PROPOSAL DEVELOPMENT. TO ACCOMPLISH THIS THE ANE BUREAU WILL BE SUPPORTIVE OF MISSION PROPOSALS, CONSISTENT WITH MISSION OBJECTIVES, THAT FOSTER MOST COUNTRIES' POLICY DEVELOPMENT AND IMPLEMENTATION AND PRIVATE POWER PROJECT DEVELOPMENT EFFORTS. THE NEWLY CREATED PRIVATE SECTOR OFFICE (ANE/PSO) AND ANE/TR/ENR WILL COORDINATE ACTIVITIES AND ASSIST MISSIONS IN SECURING AID/W RESOURCES AND ASSISTANCE FOR THIS INITIATIVE. REQUESTS FOR ASSISTANCE FROM THE BUREAU PROJECT SHOULD BE DIRECTED TO ANE/PSO WITH AN INFO TO ANE/TR/ENR.

REQUESTS FOR ASSISTANCE COULD BE FOR ASSESSMENTS AND WORKSHOPS FOCUSED ON PRIVATE POWER POTENTIAL, IMPEDIMENTS, ISSUES AND OPTIONS, TECHNICAL ASSISTANCE FOR POLICY FORMULATION, MACRO-ECONOMIC ANALYSES OF PRIVATE POWER PROGRAMS, ASSESSMENTS OF CAPITAL MARKET CAPACITY TO ABSORB SIGNIFICANT EQUITY AND LONG-TERM DEBT, DESIGN OF INVESTMENT AND SECURITY FRAMEWORK, MODEL POWER PURCHASE AGREEMENTS, PRIVATE POWER PROJECT PRE-FEASIBILITY WORK AND TRAINING FOR PERSONNEL PUTTING IN PLACE PRIVATE POWER PROGRAMS OR PROJECT

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2. DEVELOPMENTAL BENEFITS

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THE PRIVATE POWER INITIATIVE FOCUSES MAINLY ON FACILITATING THE BUILDING, OWNING AND OPERATION OF LARGE-SCALE POWERPLANTS THAT SELL POWER TO THE UTILITY FOR TRANSMISSION, DISTRIBUTION AND SALE BECAUSE THIS THE PRIMARY APPROACH TO PRIVATIZATION COUNTRIES ARE EXPLORING. PRIVATE POWER CAN ALSO TAKE THE FORM OF

INDUSTRIAL COGENERATION, AGRICULTURAL WASTE-BASED GENERATION (E.G., BAGASSE), PRIVATE POWER PLANT SALES DIRECTLY TO INDUSTRIAL ESTATES, PRIVATE OWNERSHIP AND/OR OPERATION OF SEGMENTS OF THE DISTRIBUTION SYSTEM OR OTHER ARRANGEMENTS.

THE POTENTIAL DEVELOPMENTAL BENEFITS OF EXPANDED PRIVATE SECTOR INVOLVEMENT IN THE POWER SECTOR INCLUDE:

- (A) FINANCIAL MARKET EXPANSION AND INCREASED MOBILIZATION AND EFFICIENT ALLOCATION OF PRIVATE CAPITAL.
- (B) INCREASED APPLICATION OF PRIVATE SECTOR SKILLS, MANAGEMENT EXPERIENCE AND FINANCIAL EXPERTISE.
- (C) MORE RAPID TRANSFER OF ADVANCED, EFFICIENT AND ENVIRONMENTALLY ATTRACTIVE POWER GENERATION TECHNOLOGIES.
- (D) REALLOCATION OF SCARCE PUBLIC CAPITAL RESOURCES TO OTHER PRIORITIES.
- (E) EXPANDED RURAL DEVELOPMENT EMPLOYMENT AND INCOME THROUGH USE OF AGRICULTURAL WASTES FOR POWER GENERATION.
- (F) REFOCUS OF PUBLIC UTILITY EFFORTS FROM GENERATION EXPANSION TO SYSTEM REHABILITATION AND DEMAND MANAGEMENT.

3. RATIONALE FOR STRATEGY AND AID INVOLVEMENT

PRIVATE SECTOR PARTICIPATION IN POWER GENERATION OFFERS ONE OF THE MOST SIGNIFICANT OPPORTUNITIES FOR FUNDAMENTAL POLICY AND STRUCTURAL REFORM IN DEVELOPING COUNTRIES TODAY. A PRIVATE SECTOR POWER INITIATIVE CUTS ACROSS KEY THEMES: TRADE AND INVESTMENT, SCIENCE AND TECHNOLOGY AND PRIVATE SECTOR DEVELOPMENT.

(A) PRIVATE POWER GENERATION IS A MESHING OF TRADE AND INVESTMENT INTERESTS WITH A CRITICAL AID DEVELOPMENT PROBLEM--THE PROVISION OF ADEQUATE AND RELIABLE POWER FOR DEVELOPMENT. U.S. EQUIPMENT MANUFACTURERS AND FINANCIAL, MANAGEMENT AND UNIQUE TECHNICAL EXPERTISE DEVELOPED IN THE LAST DECADE CAN BE DRAWN UPON TO FOSTER THE POLICY AND INSTITUTIONAL CHANGES AND ALSO FINANCE, DEVELOP, OWN AND OPERATE PRIVATE POWER PLANTS.

(B) DEVELOPMENT IN THE REGION IS ENHANCED BY SUCCESSFUL LINKAGE TO U.S. TECHNOLOGY. THE U.S. HAS HISTORICALLY

BEEN AT THE FOREFRONT OF POWER SECTOR TECHNOLOGY DEVELOPMENT AND, DESPITE GROWING COMPETITION, HAS THE CAPACITY FOR SIGNIFICANT ADVANCED TECHNOLOGY TRANSFER.

(C) THE ABILITY EXISTS TO EXPAND OUR PRIVATE SECTOR PROGRAM IMPACT BY UTILIZING THE U.S. COMPARATIVE ADVANTAGE IN PRIVATE POWER TO DO POLICY ANALYSIS, TECHNICAL ASSISTANCE, TRAINING AND FINANCIAL MARKET DEVELOPMENT TO FOSTER THE COUNTRIES' PRIVATE POWER POLICIES AND PROGRAMS.

(D) ENVIRONMENTAL CONCERNS ARE EMERGING WORLDWIDE ABOUT

THE GREENHOUSE EFFECT AND THE ROLE OF FOSSIL FUELS. RAPID INTRODUCTION OF HIGH EFFICIENCY, CLEANER BURNING TECHNOLOGIES (E.G., FLUIDIZED BED COMBUSTION AND COMBINED CYCLE GAS SYSTEMS) CAN BE ACCOMPLISHED BY THE PRIVATE SECTOR UNDER THE RIGHT POLICY FRAMEWORK.

(E) FINALLY, AID'S BROADER DEVELOPMENT AND POLICY ORIENTATION AND REGIONAL EXPERTISE POINTS TO A LEADERSHIP ROLE AMONG U.S. AGENCIES (WHICH HAVE VALUABLE BUT MORE SPECIALIZED ROLES, I.E., TDP, OPIC, EXPORT-IMPORT BANK AND DEPARTMENT OF COMMERCE) DONORS AND MULTILATERAL BANKS. OF PARTICULAR IMPORTANCE IS OUR COORDINATION WITH THE GROWING JAPANESE DEVELOPMENT RESOURCES.

4. STATUS OF PRIVATE POWER

THE RECENT ASEAN COGENERATION AND PRIVATE POWER EXECUTIVE SEMINAR HELD IN THAILAND CLARIFIED THE STRONG INTEREST AND LEVEL OF DISCUSSION UNDERWAY IN THE ASEAN REGION. A STATUS SUMMARY OF SELECTED COUNTRIES FOLLOWS:

PAKISTAN--A PRIVATE POWER GENERATION POLICY IS IN PLACE AND THE NEW FIVE YEAR PLAN INCLUDES 2300 MW OF PRIVATE POWER-- THE WORLD BANK AND USAID HAVE COOPERATIVELY DEVELOPED PROJECTS TO PROVIDE TECHNICAL ASSISTANCE AND TRAINING TO ESTABLISH THE POLICY ENVIRONMENT AND INSTITUTIONAL CAPABILITY FOR A PRIVATE SECTOR POWER PROGRAM AND TO ESTABLISH A DOLS 575 MILLION MULTI-DONOR LONG-TERM LENDING FACILITY FOR PRIVATE POWER PLANTS (INCLUDING DOLS 150 MILLION OF UNTIED JAPANESE FUNDS). OVER 1700 MW OF PRIVATE PROPOSALS HAVE BEEN RECEIVED (INCLUDING 3 U.S. PROJECTS).

INDIA--POLICY DEBATE IS UNDERWAY AT THE NATIONAL AND STATE LEVEL. USAID/INDIA HAS SUPPORTED AN ASSESSMENT OF

PRIVATE POWER ISSUES, A FOLLOW-UP WORKSHOP AND A U.S. COGENERATION TOUR FOR INDIAN OFFICIALS AND INDUSTRIALISTS.

THAILAND--THE FIVE YEAR PLAN CALLS FOR EXPANDED PRIVATE SECTOR INVOLVEMENT IN ENERGY; IMPLEMENTING GUIDELINE FOR PURCHASE OF POWER FROM COGENERATION SYSTEMS ARE UNDER PREPARATION; EXPANDED PRIVATE SECTOR INVOLVEMENT IN POWER HAS BEEN PUBLISHED AS ONE OF THE FOUR PRIORITIES OF THE NEW MINISTER OF SCIENCE, TECHNOLOGY AND ENERGY. THE MISSION AND ST/RY ARE SUPPORTING A CANE ENERGY PROJECT DESIGNED TO SELL SURPLUS ELECTRICITY TO THE GRID.

THE PHILIPPINES--PRESIDENT AQUINO'S JULY, 1987 EXECUTIVE ORDER NO. 215 DECLARED THE POWER SECTOR IS NOT "A NATURAL MONOPOLY" AND ALLOWS PRIVATE POWER GENERATION; DRAFT GUIDELINES ARE PREPARED AND AN AID SUPPORTED WORKSHOP HAS TAKEN PLACE.

INDONESIA--THE ELECTRICITY ACT OF 1985 ALLOWS PRIVATE POWER GENERATION; POLICY DEBATE IS UNDERWAY; THE GOVERNMENT IS SEEKING PRIVATE POWER PROPOSALS; AN AID ASSESSMENT HAS BEEN COMPLETED AND A WORKSHOP IS PLANNED.

MOROCCO--SENIOR ENERGY OFFICIALS ARE INTERESTED IN PRIVATE SECTOR POWER GENERATION UTILIZING EFFICIENT INDUSTRIAL COGENERATION.

4. OPTIONS FOR ASSISTANCE

SUPPORT FOR AID COUNTRIES' PRIVATE POWER POLICIES AND PROGRAMS IS CONSISTENT WITH EXISTING PRIORITIES AND CAN

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BE UNDERTAKEN WITH A RATHER SMALL COMMITMENT OF RESOURCES.

FUTURE INVOLVEMENT AND SUPPORT

(A) POLICY ANALYSIS AND DIALOGUE: POLICY ANALYSIS INCLUDING OVERALL ASSESSMENTS OF PRIVATE POWER OPPORTUNITIES AND IMPEDIMENTS, ANALYSIS OF THE MACROECONOMIC IMPACT OF PRIVATE VS. PUBLIC POWER (BALANCE OF PAYMENTS, CAPITAL DEVELOPMENT BUDGETS, UTILITY REVENUES), ANALYSIS OF CAPITAL MARKETS EXPANSION AND PRIVATE SECTOR PARTICIPATION, AND AGRICULTURAL POLICIES INHIBITING EFFICIENT BIOGASS RESOURCE UTILIZATION FOR POWER GENERATION.

IN ORDER TO FACILITATE MISSIONS' SUPPORT FOR THIS IMPORTANT POLICY AND DEVELOPMENT ISSUE, THE ANE PRIVATE SECTOR DEVELOPMENT OFFICE (ANE/PSD) AND ANE/TR/ENR WILL COORDINATE ACTIVITIES AND ASSIST MISSIONS IN SECURING AID/V RESOURCES AND ASSISTANCE FOR THIS INITIATIVE. REQUESTS FOR ASSISTANCE FROM THE BUREAU PROJECT SHOULD BE DIRECTED TO ANE/PSD WITH AN INFO TO ANE/TR/ENR. SHULTZ

(B) TECHNICAL ASSISTANCE: TECHNICAL ASSISTANCE FOR FINANCIAL MARKET DEVELOPMENT AND EXPANSION, PREPARATION

OF FINANCIAL SECURITY PACKAGES AND POWER PURCHASE AGREEMENTS, DEVELOPMENT OF PURCHASE PRICE METHODOLOGII INSTITUTIONAL ANALYSIS, POWER SECTOR PLANNING, ETC.

(C) TRAINING: ENHANCED CAPABILITY TO (I) DEVELOP PRIVATE SECTOR POWER POLICIES AND PROGRAMS (II) DEVELOP PRIVATE FINANCIAL MARKET INSTRUMENTS (III) PERFORM ENGINEERING AND FINANCIAL ASSESSMENTS OF PRIVATE POWER PROPOSALS, (IV) DEVELOP APPROPRIATE POWER PURCHASE PRICES AND AGREEMENTS, (V) MONITOR PROJECT DEVELOPMENT, (VI) OPERATE PRIVATE POWERPLANTS AND (VII) INTERCONNECT WITH NATIONAL ELECTRICITY GRIDS.

(D) DEVELOPMENT COST SUPPORT: COST SHARE WITH PRIVATE PROJECT DEVELOPERS PREFEASIBILITY AND FEASIBILITY STUDIES TO HELP DEFRAY HIGH RISK UP-FRONT DEVELOPMENT COSTS THAT IMPEDE DEVELOPMENT OF BANKABLE PROPOSALS.

6. AID RESOURCES FOR ADDRESSING ISSUE

A SIGNIFICANT IMPACT IS POSSIBLE UTILIZING AID CAPABILITIES IN POLICY ANALYSIS, TECHNICAL ASSISTANCE AND TRAINING; MAJOR CAPITAL FINANCING COMMITMENTS, SUCH AS IN PAKISTAN, CAN BE STIMULATED BUT NEED NOT NECESSARILY BE FUNDED BY AID.

RESOURCES THAT CAN POTENTIALLY BE CALLED UPON TO SUPPORT MOST COUNTRY PRIVATE POWER INITIATIVES IN ADDITION TO EXISTING MISSION ENERGY PROJECTS ARE:

- MISSION PRIVATE SECTOR PROJECTS THAT ADDRESS PRIVATIZATION ISSUES, CAPITAL MARKET DEVELOPMENT, EXPANSION OF PRIVATE SECTOR TRADE AND INVESTMENT,
- ANE BUREAU REGIONAL PRIVATE ENTERPRISE DEVELOPMENT PROJECT WHICH ADDRESSES TRADE AND INVESTMENT, PRIVATIZATION AND OTHER ACTIVITIES INCLUDING PRIVATE POWER,
- S&T BUREAU OFFICE OF ENERGY PROJECTS INCLUDING THE PRIVATE SECTOR ENERGY DEVELOPMENT PROJECT WHICH WILL PROVIDE FUNDING FOR POLICY ANALYSIS AND DIALOGUE, TECHNICAL ASSISTANCE, TRAINING, AND FEASIBILITY STUDIES, AND
- PRE BUREAU FINANCIAL SECTOR DEVELOPMENT PROJECT.

7. INITIATING AND EXPANDING PRIVATE POWER ASSISTANCE

THE COMPATIBILITY WITH BUREAU AND MISSION OBJECTIVES, GROWING HOST COUNTRY INTEREST, U.S. COMPARATIVE

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ADVANTAGE AND POTENTIAL POLICY IMPACT JUSTIFY INITIAL SUPPORT FOR THESE ACTIVITIES WHICH WILL PROVIDE MISSION AND THE MULTILATERAL BANKS A BASIS FOR DETERMINING

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