Dissemination Events for Country Energy Sector Vulnerability Assessments in South Asia
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by the World Bank and ESMAP

Key Messages for Pakistan and Bangladesh

- The crisis hit South Asia at a time when it had barely recovered from the after-effects of the global energy price spikes and the food crisis. Pakistan was vulnerable because a difficult political and social environment had prevented the adoption of adequate policy measures to adjust to the earlier terms of trade shock. Additionally, the reliance on external funding had been relatively large. Bangladesh, on the other hand, had mostly been insulated from the first round effects of the financial crisis owing partly to sound macroeconomic management, but also because of its limited integration with world financial markets. Going forward, Bangladesh and Pakistan face daunting financing challenges in preventing a shortfall in generation capacity.

- Bangladesh and Pakistan are increasingly relying on short term solutions such as rental power plants (RPPs) to address the power shortages in their countries. Bangladesh is at various stages of negotiation for the installation of 550 MW RPPs this year for a period of three years. Pakistan planned to install 2250 MW RPPs in 2009, although this plan was not achieved. In a permanent crisis situation as seen in Bangladesh and Pakistan, there is a policy risk that short-term and rather expensive solutions are adopted, possibly with a view to electoral considerations, at the cost of the long-term strategic approach.

- To push difficult reforms in the sector, it is important to build alliances and share information with civil society, media, opinion leaders and sector experts in the country. Alliances can help maintain the political momentum for reforms as well as help withstand pressure from vested interest that may try to derail reforms. For instance, the top leadership of Indonesia's PLN has been able to use this approach to successfully push difficult procurement reforms in the institution.

Key Messages for India

- In India, the financial crisis has not had a substantial impact on account of a number of factors: a fundamentally strong macro economy, pro-active monetary policy management, prudent foreign debt management, substantial foreign exchange reserve cover, high savings rate, and a healthy financial sector. However, India's plans to more than double its investments in infrastructure under its 11th and 12th Five Year Plans, and to draw heavily on private debt and equity capital to finance these investments at a time when the global financial markets are just beginning to come out of the Crisis, will need careful monitoring and management.
- Power sector reforms in the country have been successful in attracting substantial private investment in the country for installing over 100,000 MW of new capacity over the next several years.

- However, reforms at the utility level and particularly in the distribution sub-sector have lagged behind. The financial losses of power distribution utilities have been increasing. Power sector subsidies account for 15% of the overall fiscal deficit of the country account or 45% of the country's planned outlay on health. Aggregate Technical and Commercial (AT&C) losses have increased in 14 states in recent years even as tariff revisions have not kept pace with cost. There is urgent need to push reforms in the distribution segment of India's power sector.
- There are a number of options for improving the performance of the distribution sector, including privatization, franchising, and performance contracts. The relative success of privatization in Delhi suggests that this model could be replicated in other major urban centers.
- Unless the momentum of reforms in the distribution sub-sector can be accelerated, there is a risk that private sector interest in the sector may fade and important players may withdraw from the market. There are already some indications of this in the aftermath of the global financial crisis.
- The provisions in the Electricity Act 2003 that allow independent power producers open access to final consumers holds promise for the delivery of new power capacity being created in the country. However, there is still need to come up with mechanisms for implementing this provision of the act.