



<b>1. Project Data :</b>		<b>Date Posted :</b> 06/29/2000	
<b>PROJ ID:</b> P004197 <b>OEDID:</b> C2425		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name :</b> Provincial Grid Integration	<b>Project Costs (US\$M)</b>	49.29	47.52
<b>Country:</b> Laos	<b>Loan/Credit (US\$M)</b>	36.0	36.0
<b>Sector, Major Sect .:</b> Distribution & Transmission, Electric Power & Other Energy	<b>Cofinancing (US\$M)</b>	2.20	1.95
<b>L/C Number:</b> C2425			
	<b>Board Approval (FY)</b>		93
<b>Partners involved :</b> EGAT (Thailand)	<b>Closing Date</b>	06/30/1998	06/30/1999
<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
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**2. Project Objectives and Components**

**a. Objectives**

The project objectives were to extend electricity supply to more consumers in the Southern and Central Regions of Laos, enhance the quality of supply for existing customers in those provinces, develop additional power export prospects for Laos, improve Electricité du Laos's (EdL's) system efficiency, and continue EdL's institutional development.

**b. Components**

The objectives were to be achieved by a provincial electrification component (construction of 115 kV, 22 kV lines, extension of 22 kV networks in six provinces, and 22kV overhead river-crossing interconnection lines with the Thailand grid), a system efficiency program (reduction of energy system losses, improvement of electricity billing and collection, and reduction of arrears from Government agencies), an institutional development component (goods, services and technical assistance to upgrade the skills of EdL's staff and its training facilities), and a future project development component including a feasibility study for expanding the capacity of the Nam Ngum hydroelectric plant. Additionally, the Credit Agreement included financial covenants aimed at ensuring long term financial viability of EdL : EdL to generate cash no lower than 20 percent of its capital expenditures and increase tariffs to maintain a debt service coverage ratio of 1.1, and the GOL to carry out an action plan to decrease EdL receivables from Government agencies.

**c. Comments on Project Cost, Financing and Dates**

The actual cost of the project (US\$43.23 million, excluding interest during construction ) was 4.1 percent lower than the appraisal estimate (US\$ 45.09 million) as a result of low prices of equipment and installation services obtained by EdL through competitive bidding, a situation that could be attributed to procurement made during a highly competitive period of the industry. The foreign cost was financed by the IDA credit (US\$34.87 million) and EGAT (US\$1.95 million). The local cost was financed by EdL (US\$10.70 million). The IDA credit was amended twice to reformulate part of the technical assistance component (addition of technical assistance for the Nam Theum II hydroelectric plant), reallocate funds for the procurement of additional electric distribution equipment, and extend credit closing date by one year to June 1999. This allowed disbursement of funds from the IDA credit needed for completion of the electricity supply in the provinces of Khammouane and Campasak, and the consultant services for the Nam Theum II project. The undisbursed amount of SDR 0.79 million was canceled from the IDA credit.

**3. Achievement of Relevant Objectives :**

The objective of extending electricity supply to more customers in the Southern and Central Region of Lao was substantially achieved by connecting to electricity service 33,478 households in 439 newly electrified villages, which exceeds significantly the 14,138 households and 285 villages estimated at appraisal. Enhanced quality of supply for all customers in that region was achieved by increasing electric system reliability through new 22 kV overhead river-crossing lines interconnecting the EdL distribution network with the Thailand grid. The system efficiency program was partially achieved by reducing energy losses in the Vientiane area only, from 24 percent in 1995 to 19 percent in 1999. The cutting of electric service to private customers in arrears has kept the collection of billing at a good 95 percent level. On the other hand, the Performance Contract signed in 1998 between EdL and the Ministry of

Finances has failed to eliminate receivables from Government agencies, which currently amount to US\$ 31 million. The objective of continuing EdL's institutional development was achieved to a great extent regarding the increase in EdL's staff skills and training capabilities, the creation of cost and profit centers in EdL's operations, and the improvement in EdL's financial management, budgeting and accounting systems. But a plan to reorganize EdL was not implemented. Further, unstable macroeconomic conditions (rampant inflation and deep currency devaluation) caused a significant deterioration of EdL's financial position which a financial recovery program has not been able to improve.

**4. Significant Outcomes /Impacts :**

The achievement of the physical objective of providing with electricity service a large segment of Lao's population has led to an improvement in their quality of life and children education, entertainment facilities, and income by using of electricity in productive activities. In sum, the project has made an important contribution to poverty reduction in Laos.

**5. Significant Shortcomings (including non-compliance with safeguard policies) :**

The project failed to improve the finances of EdL. Self financing targets were not met (in FY98 EdL reported about US\$1.0 million in losses), because tariffs were not increased nor Government agencies' arrears to EdL were decreased. In fact, the future success of EdL's financial recovery plan depends mainly on appropriate and timely increase of tariffs to cost recovering levels in constant terms, to keep pace with the inflation that augments EdL's local costs, and the currency devaluation that dwarfs EdL's ability to service its foreign debt.

<b>6. Ratings :</b>	<b>ICR</b>	<b>OED Review</b>	<b>Reason for Disagreement /Comments</b>
<b>Outcome :</b>	Satisfactory	Satisfactory	Significant physical achievements, contribution to poverty reduction, and good economic return of project components (21 to 46 percent) support this rating.
<b>Institutional Dev .:</b>	Substantial	Substantial	Satisfactory restructuring of EdL's operations and improvements in staff skills and training capabilities support this rating.
<b>Sustainability :</b>	Uncertain	Uncertain	Project sustainability depends on a future satisfactory implementation of EdL's financial recovery plan, inter alia, by setting and maintaining cost recovery tariffs in constant terms.
<b>Bank Performance :</b>	Satisfactory	Satisfactory	IDA performance was satisfactory through project appraisal and highly satisfactory during its supervision.
<b>Borrower Perf .:</b>	Satisfactory	Satisfactory	The continued financial difficulties of EdL, and at times weak support by the Government, are more than offset by EdL's highly satisfactory performance in completing the physical components of the project and improving its technical operations and financial management.
<b>Quality of ICR :</b>		Satisfactory	

**7. Lessons of Broad Applicability :**

The ICR offer an important lesson: when more than one agency is executing a project, it is advisable to enter into individual project agreements between each executing agency and IDA in order to improve efficiency in the management and accounting of loans funds, and increase accountability of the executing agencies.

**8. Audit Recommended?**  Yes  No

**9. Comments on Quality of ICR :**

The ICR is of satisfactory quality.

