

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: SAEN

TA No. and Name TA 3343-BAN: Corporatization of the Ashuganj Power Station			Amount Approved: \$1,000,000	
			Revised Amount: \$1,000,000	
Executing Agencies	Source of Funding:		TA Amount Undisbursed	TA Amount Utilized
1. Ministry of Power, Energy and Mineral Resources 2. Bangladesh Power Development Board	Japan Special Fund		\$178,825.39	\$821,174.61
Date			Completion Date	
Approval	Signing	Fielding of Consultants	Original	Actual
17 December 1999	31 August 2000	7 April 2001	31 March 2001	1 February 2005
			Closing Date	
			Original	Actual
			31 March 2001	30 June 2005
Description				
<p>The power sector in Bangladesh faced numerous problems characterized by lack of supply capacity, frequent power cuts, unacceptable quality of supply, and poor financial and operational performance of the sector entities. To address these issues, the Government of Bangladesh (the Government) adopted in 1994 a policy paper titled the Power Sector Reforms in Bangladesh (PSRB), which was formulated in consultation with the major development partners in the power sector. One of the goals of PSRB was to corporatize generation assets in the power sector and eliminate monopolies and foster competition, and thereby achieve improved operational performance of the sector entities.</p> <p>Ashuganj Power Station (APS) is a major power station in Bangladesh owned and operated by the Bangladesh Power Development Board (BPDB) with an installed capacity of 728 mega-watts (MW) based on natural gas fuel, comprising two steam turbine units of 64 MW each, three steam turbine units of 150 MW each, and one combined cycle unit of 150MW. Due to funding constraints and lack of modern management practices, the operating capacity of the power station had dropped over the years. In an effort to improve financial self-sufficiency and reliability, the Government decided to establish a new corporation – the Ashuganj Power Station Company, Limited (APSC¹) to take over ownership and operation of APS. At the request of the Government, ADB approved the above advisory TA in December 1999 to conduct studies and facilitate the corporatization of APS.</p>				
Objectives and Scope				
<p>The main objectives of the TA were to assist the Government and BPDB to (i) corporatize APS; (ii) introduce modern management information systems (MIS) in APSC; and (iii) integrate APSC into the power network as an independent power producer.</p> <p>The TA was divided into two phases. Phase I was to develop the overall approach to the corporatization of APS, and the legal and accounting formalities required for the transfer of assets of APS from BPDB to APSC. Phase II was to study, recommend and help implement MIS for APSC.</p>				
Evaluation of Inputs				
<p>An international consulting firm was engaged to carry out the TA and the contract was signed on 31 August 2000. The consultants were mobilized on 7 April 2001 and the first tripartite meeting to review the draft Phase I report was held in Dhaka on 5 September 2002. The final tripartite meeting was held on 20 January 2004 to discuss the draft Phase II report. A workshop to disseminate the findings and recommendations of the TA to various stakeholders was conducted in Dhaka on 1 February 2005. The consulting firm provided a total of 23 person-months of international and 28.5 person-months of domestic consulting services. The TA completion suffered a delay of 46 months from the originally envisioned completion date due mainly to a delay in signing of the TA letter, difficulties in fielding of the consultants because of strong resistance by some APS employees against corporatization, and inordinate slow progress in implementing the recommendation of Phase I report by BPDB. This was further aggravated by the travel restriction imposed after the 11 September 2001 incidents in the United States of America, and the national election in Bangladesh requiring a break in the services of the consultants. The Government and BPDB provided necessary documents and information, and counterpart staff and necessary logistics support to undertake the TA. The consulting team had the appropriate technical skills to carry out the assignment. ADB provided close supervision through regular review missions and correspondence.</p>				

¹ The Ashuganj Power Station Company Limited was incorporated on 28 June 2000, followed by constitution of Board and appointment of management on 28 December 2001 and 24 December 2002, respectively.

Evaluation of Outputs

The consultants made detailed recommendations in the final report on the corporatization plan of APS, covering organizational structure, assets revaluation and ownership, staffing, commercial operation and long-term plans, etc. The consultant evaluated the existing MIS system of APSCCL and has recommended off-the-shelf system for the financial and accounting package to support central business applications of APSCCL. The consultants concluded that to ensure a successful corporatization process and efficient operations and financial standing of the company, key issues involving employee transfer, asset valuation, tariffs and legal arrangements and management information system should be properly addressed and agreed upon between BPDB and APSCCL at an early stage. The consultants prepared a detailed plan for implementing the corporatization process and specific steps were articulated for the transitional period, which was well received by the stakeholders. The Government and BPDB accepted the TA's findings and major recommendations, and are in the process of implementing them.

Overall Assessment and Rating

Despite the significant delay, the scope, cost estimates and financing plan, implementation arrangements, and terms of reference of the TA are considered relevant and appropriate for achieving the TA objectives. Although it delayed implementation progress, ADB's decision not to field the Phase II consultants until significant implementation was made by BPDB on the recommendations of Phase I report is deemed appropriate, as it helped in materializing the difficult task of corporatization process by creating pressure on BPDB and enabled completion of the TA without cost overrun. During the implementation of the TA, Kreditanstalt für Wiederaufbau (KfW) of Germany offered to consider financing the rehabilitation and modernization of two steam turbine units of 150MW of APS provided that management autonomy and commercialization were achieved through corporatization of APS. Considering the corporatization process of APS to be successful, a loan agreement was signed between the Government and KfW in May 2005 in the amount of Euro 32.301 million for the rehabilitation and modernization of APS. Overall, the TA is rated to be successful as the objectives of the TA have been fully met.

Major Lessons Learned

ADB's engagement in the power sector with a long term reform program contributed to successful TA implementation. However, delegation of adequate powers to APSCCL management after corporatization was significantly delayed due to reluctance of BPDB. The corporatization process could have been done much more expeditiously if the Government and BPDB were fully aware of the rationale of the corporatization process from an early stage. Implementation of the TA in two stages is considered appropriate as it enabled completion of the TA without cost overrun and somewhat contributed to the corporatization process. Therefore, it would be useful if future TAs involving complicated and sensitive sector reforms would follow similar implementation arrangements.

Recommendations and Follow-Up Actions

In accordance with the TA recommendations, the Government and BPDB need to continuously improve financial and operational viability of APSCCL. It is recommended that ADB conduct a comprehensive review of the financial and operational performance of APSCCL about three years after the TA completion.

The Gas Purchase Agreement between APSCCL and Titas Gas Transmission and Distribution Company is yet to be signed, although the agreement has already been finalized. APSCCL would also need to obtain a license under its own name, or a waiver from requiring a license, since it is no longer a part of BPDB. This process has been hampered partly due to the delay in operation of the Bangladesh Energy Regulatory Commission. ADB needs to follow up on these actions.

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Designation

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