

**Third Party Evaluator's Opinion on
POWER SECTOR EMERGENCY IMPROVEMENT PROJECT / ELECTRIC
POWER SECTOR PROJECT**

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Criteria-1 Relevance

The project, as planned, was consistent with the Government of El Salvador post war National Reconstruction Plan of which sought to increase power sector efficiency, reduce losses and irregularities in service provision, including securing reserve power supply. It has remained highly relevant even at the present as it conforms to the current national development plan (2004-2009), which envisages increasing power generation capacity and improving electricity system efficiency.

Criteria-2 Efficiency

Both projects were executed mostly as planned, however time delays . more than three years for each project-caused mainly by external factors, affected to some extent the efficiency of the projects. The delays were partially explained by difficulties in negotiating for right of way to lay out power lines and interruption of part of the construction work due to a major earthquake in 2001.

A lesson learned from El Salvador's experience is that to avoid delays in the execution of the project, the process and negotiations of the right of way should be initiated with anticipation to the initiation of the construction of transmission and distribution lines and facilities.

While the projects were being executed, *pari passu* the "optimal "structure of the power sector was been defined, during this period, there were divergent views in El Salvador regarding the extent of privatization and reform to be carried out. Thus the delays in project implementation were also associated to the electricity sector reform process.

Criteria-3 Sustainability

Overall, the project appears viable and relevant for meeting beneficiaries' needs for increased power supply with better quality and the government of El Salvador's goal of decreasing state subsidies.

There is no sufficient information for calculating the internal rate of return (IRR), nevertheless given the involvement of the private sector in the electric sector through the purchase of the businesses of the Acajutla thermal generation facility and transmission and distribution lines and facilities, it could be concluded that the operation of the electricity market is profitable, assuring therefore the profitability of the projects financed with this operation.

In recent years operating profit and net profit for Duke Energy Co., ETESAL Co., CAESS, and DELSUR have been in the black, and strong financial conditions have continued. However, transmission fees are fixed by a regulation committee (SIGET), and additional power transmission fees needed for funds for facilities investment are also fixed. Thus, measures are being taken to avoid financial problems. From the above, it can be seen that there are no major problems relating to the financial sustainability of the projects. Financial situation is expected to improve further due to companies efforts on cost-cutting, enhanced sales collection and increase in sales due to reduction in transmission loss.

The good results obtained with the projects will be able to be maintained in as long as the political will exist to maintain market determined rates and SIGET guarantees all end user that the rates will reflect the actual costs of the service.