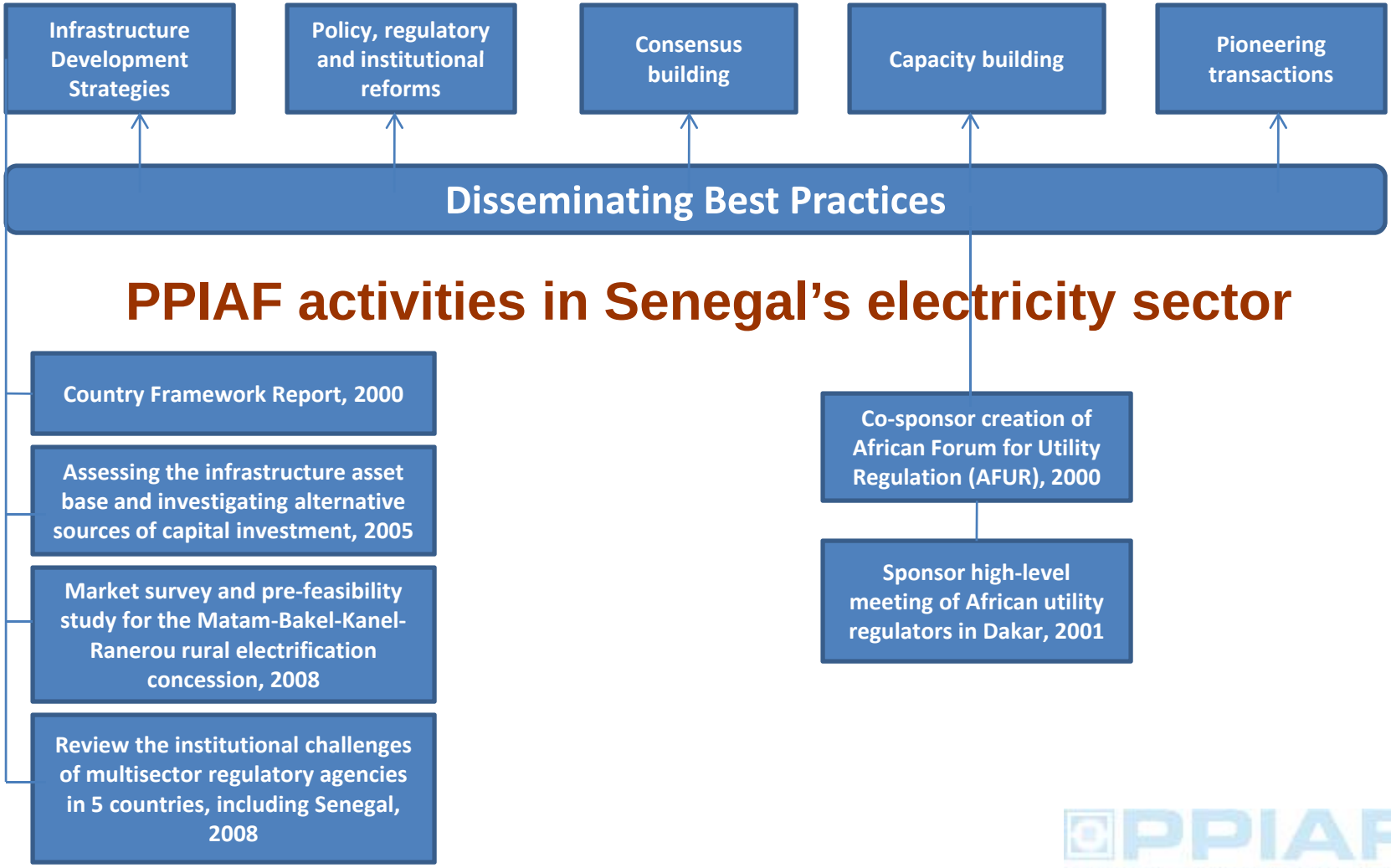
CASE STUDY: Reforming Senegal's PPP Enabling Environment

PPIAF's support to Senegal's policy enabling environment

→ necessary to structure private rural electrification concessions

PPIAF's activities



PPIAF activities in Senegal

INFRASTRUCTURE DEVELOPMENT STRATEGIES

I. Country Framework Report 2002, Recommendations

1. Improve the legal framework, its transparency and anticipated evolution
2. Concessional financing should be reserved for components for the alleviation of poverty (universal service, rural areas)
3. Introduce more competition in the various infrastructure sectors
4. Define pricing systems for cost recovery that reconcile the best economic and social objectives
5. Spread the universal service for electricity throughout the country
6. Enable CRSE, Senegal's electricity regulatory commission, to become fully operational

GOS follow-up on recommendations to develop rural electrification concessions

1. Failed attempt to privatize Senelec → new power sector reform aimed at unbundling Senelec
2. Rural Electrification Program structured as a PPP (2003) to attract private investors → subsidies to reduce upfront costs
3. 11 rural electrification concessions to be awarded through competitive bidding
4. Tariffs consistent with the socioeconomic conditions of the target customers, their consumption patterns and capacity to pay
5. Rural electrification program → increase electrification rate of rural areas
6. CRSE is fully operational and has good track record

PPIAF activities in Senegal (cont)

INFRASTRUCTURE DEVELOPMENT STRATEGIES

II. **Assessing the size of Senegal's infrastructure asset base** (2005) to estimate the shortfall between infrastructure needs (demand) and the existing asset base, and quantify the gap [US$2-4 billion required for the electricity sector for 2010-2015].

Activity designed to help provide the intellectual foundation for future PPP projects in Senegal.

III. **Market survey and pre-feasibility study** of the Matam-Bakel-Kanel-Ranérou rural electrification concession (2008). Necessary to quantify the market potential for a RE concession, under structuring.

IV. **Institutional challenges of multisector regulatory agencies** (Cape Verde, Gambia, Niger) **and of sector specific agencies** (Guinea Bissau, Senegal) (2008). The report identified several weaknesses of CRSE.

CAPACITY BUILDING

V. **Co-sponsor the creation of the African Forum for Utility Regulation (AFUR)** (2000). AFUR allows networking, promotes information sharing and regulatory cooperation among African utility regulators.

VI. **Sponsor a high-level meeting of AFUR** in Dakar (November 27-29, 2001). Meeting hosted by the CRSE.

Regulators discussed the challenges and trends in utility regulation in Africa and identified opportunities for expanding cooperation.

Mechanism for rural electrification concessions

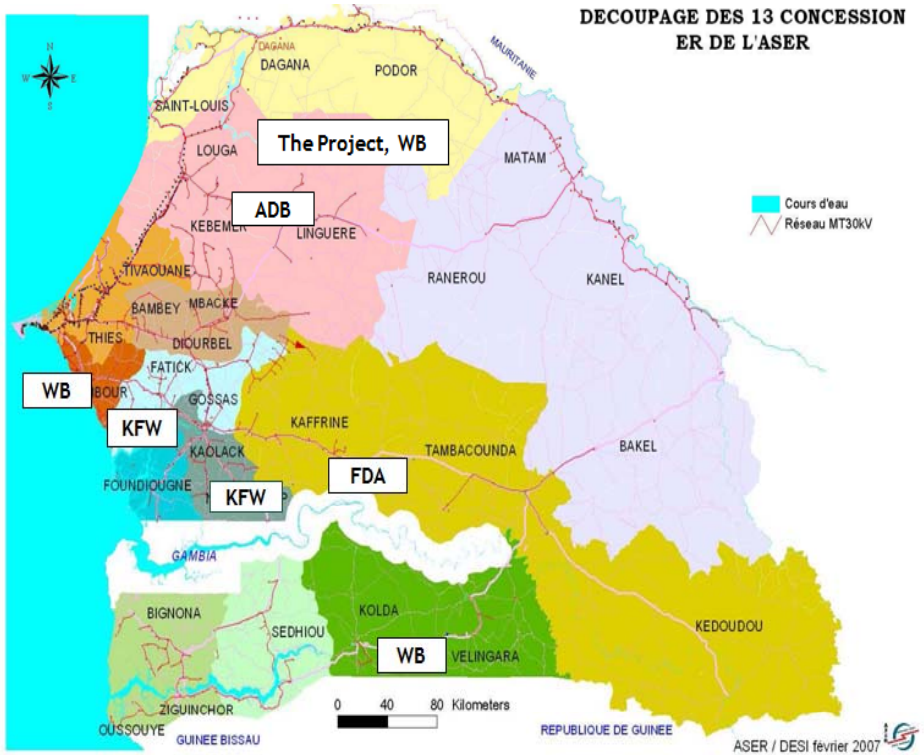
- **<u>Innovative approach to rural electrification in Senegal:</u>**
  - The GOS, with the assistance of the WB, structured a Priority Program for Rural Electrification, structured as a PPP, and approved subsidies in 2004.
  - Aim for efficient scaling up of Rural Electrification.
  - Objective: to increase rural electrification from 14% in 2005 to 50% by 2012 (around 100,000 new connections in 5 concessions).

- Country divided into 11 rural electrification concessions with private sector participation.
- Concessions awarded pursuant to international bidding.
- Technology neutral with fixed, predetermined OBA subsidy (payment in accordance to milestones).
- Concession awarded to bidder proposing the highest number of connections given subsidy.

Comasel project

- First concession to build and operate a distribution network in rural areas (St Louis-Dagana-Podor).
- Sponsor: ONE, Morocco's electricity utility
- Total OBA Subsidies: US$7 Million
  - Base subsidy: US$5.5 million to reduce costs of building the distribution network and installation costs.
  - PREMS subsidy: US$355,000 (productive uses such as SMEs and health centers).
  - GEF subsidy: US$1.1 million for use of renewable energy.
- Connection target of **19,574** households spread over 298 villages in first 3 years of concession (95% households, balance: schools, health centers).
- Local Electrification Plan: market potential 41,000 households
- Technology: 71% grid-connected and 29% solar PV
- IFC equity investment: up to 19.9% of total capital (US$750,000)

Opportunities for replicability



- **Within Senegal:**
  - 11 concessions in total: 5 of them to be funded by WB, AfDB, KfW (to be awarded by Q2 2010).
  - Other DFIs such as IsDB interested in funding other concessions.
  - Second concession of Louga awarded to ONE.
  - Expected: over 60,000 new connections

→ Need first concessions to prove a success

- **Outside Senegal:**
  - Successful experience in Senegal could be replicated in many parts of Africa and in other countries
- **In other sectors / utility services:**
  - Water, rural telecommunications