## BASIC INFORMATION

### A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Project ID</th>
<th>Project Name</th>
<th>Parent Project ID (if any)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>P171225</td>
<td>West Africa Regional Energy Trade Development Policy Financing Program (P171225)</td>
<td></td>
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<tr>
<td>Region</td>
<td>AFRICA</td>
<td>Estimated Board Date: 21-Jul-2020</td>
<td>Financing Instrument Development Policy Financing</td>
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### Proposed Development Objective(s)

To increase energy security, reduce vulnerability to international oil price fluctuations and reduce the fiscal burden of the electricity sector through increased energy trade in the six participating countries.

### Financing (in US$, Millions)

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<tbody>
<tr>
<td><strong>SUMMARY</strong></td>
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<tr>
<td>Total Financing</td>
<td>300.00</td>
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| **DETAILS**       |          |
| Total World Bank Group Financing | 300.00 |
| World Bank Lending        | 300.00 |

### Decision

The review did authorize the team to appraise and negotiate.
B. Introduction and Context

1. **The proposed Development Policy Financing (DPF), is the first in a series of two programmatic single-tranche DPFs with the objective of sustainably increasing regional electricity trade in the six participating countries, with spillover effects for all member countries of the Economic Community of West African States (ECOWAS).** The DPF instrument will support the implementation of a common set of policies and reforms that the ECOWAS countries\(^1\) have determined as key for cementing the pillars of sustainable electricity trade, supported by the ECOWAS Directive C/DIR/2/12/18 on the Securitization of Cross-Border Power Trade Under the Regional Electricity Market, which was adopted in December 2018 and which became effective in January 2020. Increased trade will achieve three important objectives: (i) it increases options for supply to a given demand center – and therefore increases resilience of supply (ii) it will enable regional indigenous resources to displace fossil fuel imports and will thus reduce the vulnerability of economies to international oil and gas price fluctuations and (iii) result in cost reductions which reduces the burden of the sector on the fiscal accounts. While this program was not developed in response to the COVID-19 pandemic, maintaining secure strategic electricity supplies is fundamental at this time for healthcare, communications and education services. In addition, the program supports a set of reforms that will deliver on a more efficient regional power market that can contribute to job creation in the recovery phase of the pandemic, and it complements over US$1.8 billion of World Bank financing in regional infrastructure over more than a decade.

**Regional Context**

2. **The ECOWAS Region is a global outlier in terms of power supply, simultaneously facing poor service and high tariffs while generating large fiscal deficits.** West Africa has been experiencing the most rapid energy demand growth of the sub-Saharan regions, at a rate of 7.5 percent per annum over 2004-2017\(^2\), and this trend is projected to continue: on-grid electricity demand is expected to increase 100 percent by 2030. Off-grid developments also show significant potential\(^3\): Per capita consumption of electricity is among the lowest in the world with less than 160 kWh per capita per year (compared with 485kWh per capita in sub-Saharan Africa as a whole in 2014\(^4\)), reflecting levels of poverty; service is unreliable with outages at 80 hours per month on average, and access remains relatively low at 50 percent (and less than 30 percent in the poorest ECOWAS countries). Further to these service deficiencies, West Africa faces among the highest electricity tariffs in the world, with average retail tariffs of US$ 0.25 per kilowatt-hour, at more than twice what is considered the global benchmark. Despite their high level, tariffs fail to recover the full cost of supply, which is exceptionally high in many cases due to the preponderance of small and inefficient thermal power generators. Operating costs of thermal generation are driven by international oil prices, the cost of fuel delivery and the nature of procurement of fuel supply services.

3. **Regional power trade contributes to increase in energy security, reductions in vulnerability to oil price fluctuations and reductions in the fiscal burden of the electricity sector – and will also reduce cross-country disparities.** The region has an abundance of affordable clean energy and gas sources, in particular, hydropower in Guinea, Mali and Cote d’Ivoire, gas reserves in Nigeria, Ghana, Cote d’Ivoire and Senegal and high solar irradiation in the Sahel. These sources are ideally pooled and systematically used in combination to ensure security of supply. However, the reality is that the indigenous (to the region) resources are physically concentrated in certain countries, and without trade, certain

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\(^{1}\) ECOWAS member states include: Benin, Burkina Faso, Cabo Verde, Cote D’Ivoire, The Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo.


\(^{3}\) A market assessment was carried out by the ECOWAS Centre for Renewable Energy and Energy Efficiency (ECREE) in 2018. It found that 31 million households in West Africa and the Sahel could be electrified using standalone solar systems.

\(^{4}\) World Bank World Development Indicators https://databank.worldbank.org/source/world-development-indicators
countries are highly dependent on one or two resources, and those with only intermittent resources (mainly solar and wind) are reliant on inefficient oil-fired generation sources requiring import of fuel linked to international oil prices. In contrast, a fully interconnected system would increase energy security by enabling pooling of capacity and adjustments for electricity demand or supply shocks across the region. With positive efforts to advance trade, the increase in the share of power in the ECOWAS region that is traded is expected to develop from close to 8 percent of total consumption today towards 19 percent of total consumption by 2030\(^5\).

4. **Power trade contributes substantial reductions in power costs and reduces cross-country disparities.** At the microeconomic level, the associated savings for the ECOWAS region are estimated at US$ 664 million per annum\(^6\) for the period 2018-30. These gains are attributable to reduced fossil fuel purchases, lower investment needs, and less unmet demand. Indeed, the reduction in unserved demand attributable to regional power trade amounts to 1.46 terawatt-hours, corresponding to about 2 percent of power consumed in West Africa in 2018 and close to the entire annual electricity consumption of Burkina Faso. The benefits of regional power trade are found to be robust to the recent lower oil prices and reductions in demand. Simulations using the crisis-affected lower oil price projections of April 2020 and comparison with pre-COVID 19 October 2019 suggest that benefits from trade would only be 6 percent higher on average through 2030 if COVID 19 had not occurred. However, there is obviously large uncertainty as to how oil prices will develop once a global recovery gets under way.

5. **Enabling regional power trade will assist countries to meet or exceed their nationally determined contributions (NDC) commitments, by accelerating the up-take of least cost renewable generation, rationalizing the use of energy resources (avoided generation) and displacing expensive and high-emitting oil-based capacity in the regional energy mix.** The ECOWAS Infrastructure Master Plan, approved in December 2018, confirms that regional integration and power trade create the necessary conditions to unlock renewable energy. This is further supported by significant Bank analysis in this area. According to World Bank estimations, the share of installed capacity in renewable energy (including hydropower) in the region increases from 36% in 2019 to 55% in 2026, while conventional thermal generation decreases from 60% to a little over 40%.

6. **Prior to COVID-19, macroeconomic developments were broadly favorable, except in Liberia.** Real GDP growth was robust at 5-7 percent in 2019, except in Liberia where already weak growth turned negative. GDP growth was supported by strong domestic demand, particularly public and private investment. Average inflation in the three WAEMU (Western Africa Economic and Monetary Union) countries (Burkina Faso, Cote d’Ivoire, and Mali) remained well below the 3 percent convergence criterion, driven by a favorable agricultural season and lower food prices. Inflation remained high in Guinea, Liberia and Sierra Leone though in the latter on a declining trend. External current account deficits remain substantial, but have been financed without major difficulties through FDI, external concessional and, in some cases (e.g. Guinea), external non-concessional borrowing. The IMF estimates suggest that the Real Effective Exchange Rate (REER) is moderately overvalued in the WAEMU (less than 10 percent) but significantly overvalued (20-40 percent) in the other countries that pursue various degrees of managed floats. Fiscal deficits declined from 2018 to 2019, except in Liberia. The public debt burden has continued to increase in recent years although the external and overall risk of debt distress remain moderate (except Liberia and Sierra Leone having high risk of overall debt distress and the latter also high risk of external debt distress). Furthermore, debt servicing costs have been growing in all the countries.

7. **The short-term outlook for the six countries is severely affected by the COVID-19 pandemic which works**

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\(^6\) Extracted from the forthcoming World Bank paper: White Paper: Towards a Regional Power Market. (preliminary results, World Bank, 2020). This uses oil price data from the World Bank Commodity Price Forecast (released on April 23, 2020) and also reflects the demand shock due to COVID-19. For comparison with pre-COVID-19 oil prices, the figure was US$ 703m per annum using data released in October 2019.
through external and domestic channels. The latest global forecasts\textsuperscript{7} predict a severe global recession in 2020 which will affect external export demand and could disrupt imports as supply channels are broken. Further, lower global commodity prices will negatively impact the terms of trade for commodity exporters such as Cote d’Ivoire, though lower oil prices will benefit oil importers such as Burkina Faso, Guinea, and Liberia. In Guinea and Liberia, for example, terms of trade will improve as lower oil prices along with higher gold prices offset lower prices for other commodities and higher food prices. Moreover, remittances are likely to take a major hit as workers abroad lose their income. This would affect most of the countries that rely heavily on these inflows such as Liberia. Domestic containment and mitigation measures will further depress economic activity. According to the latest available projections, growth is projected to decline to 1-2½ percent in these countries, but to remain negative in Liberia and also turn negative in Sierra Leone. Inflation would see an uptick in the low-inflation countries and remain high in the others. External imbalances would likely remain broadly unchanged as lower exports are offset by lower imports, though the external deficit is expected to increase significantly in Guinea. Most countries would see financing needs increase. Fiscal deficits would increase in all countries except Liberia, and in the WAEMU countries to above the 3 percent of GDP threshold. Reflecting this, the WAEMU has temporarily suspended the application of the Union’s Pact for Convergence, Stability, Growth and Solidarity among its member-countries. In parallel, public debt would increase in the short term, while stabilizing over the medium terms as fiscal policies are tightened and growth picks up again.

8. Overall, the macroeconomic framework for all six countries provides an adequate basis for the proposed operation. While the short-term outlook is clouded by the COVID-19 pandemic, with a sharp deceleration of growth and generally widening macroeconomic imbalances, renewed financing gaps in 2020 are being addressed through additional financial support from the IMF, the Bank, and other donors. As the global pandemic eases and world growth is projected to recover in 2021, the six countries should also see a rebound in growth and narrowing of macroeconomic imbalances. The medium-term outlook remains reasonably favorable, with the economic recovery driven mainly by private demand though public demand will continue to play an important role especially in countries affected by security risks. In the medium term, inflation should remain below 2 percent in the WAEMU member countries and is expected to be brought down to single digits in Liberia and Sierra Leone. Fiscal consolidation efforts are expected to be reinvigorated over the medium term, supported by revenue enhancing measures and expenditure control. While the evolution of public debt will continue to require close monitoring, especially in Liberia and Sierra Leone, debt is sustainable in all six countries. Lastly, for all the countries, the macroeconomic and fiscal framework is anchored in well-performing IMF arrangements and, for the WAEMU member countries, the monetary union and regional surveillance framework. This said, risks, especially related to a more prolonged pandemic, are high, and overvalued Real Effective Exchange Rates (REERs) especially in the non-WAEMU countries present difficult challenges for the economic policy mix.

9. The goals of the proposed regional DPF are aligned with various World Bank strategies at a global level. They are aligned with the World Bank goals of ending extreme poverty and promoting shared prosperity through providing the participating countries with affordable, reliable and sustainable electricity through regional integration and trade. This will in turn enhance the prospects for further integration of countries’ infrastructure and natural resources management, therefore resulting in a more sustainable growth. The program is aligned with the Bank’s Regional Strategy for Africa and relevant Country Partnership Frameworks.

10. The goals of the proposed regional DPF are particularly aligned with regional strategy. The Africa Regional

\textsuperscript{7} See World Bank Global Economic Prospects, June 2020.
Integration Strategy and upcoming 2020 Update renews IDA’s commitment to supporting regional integration for development on the basis that countries that struggle to trade with their neighbors could typically find it harder to integrate with global value chains. The particular emphasis in the case of infrastructure is the need to transition from regional infrastructure to regional markets. Power trade is identified as a key area for such transformation. Physical interconnection has been supported for several years, and this DPF seeks to develop the market and therefore the spillover effects. This DPF supports strategic priority 1 to generate economic dynamism along regional economic corridors and strategic priority 2 to develop functioning regional markets in identified priority sectors.

11. The Africa Regional Energy Strategy likewise identifies regional integration as a foundation for the achievement of energy objectives. In addition to the development of cross-border infrastructure for generation and transmission of larger scale and lower cost generation, the strategy emphasizes engagement on three further dimensions of regional integrations that are central to this operation: reducing off-taker risk; building trust in trade; and strengthening institutional capacity and multi-stakeholder processes.

12. The proposed project is fully aligned with dialogue held with Ministers of Energy and Finance for each of the countries. ECOWAS organized meetings with the 6 countries at Minister of Energy level (Abidjan, Feb 3, 2020) and Minister of Finance level (Bamako, Mar 3, 2020), which endorsed the objectives and reform program being developed under this DPF. Specifically, the Ministers of Finance of Cote d’Ivoire and Mali have expressed strong desire for the Bank to offer this program in the context of the need to find a solution to large payment arrears building up from Mali to Cote d’Ivoire. These meetings built on ECOWAS Minister of Energy meetings (Abidjan, Dec 3-5, 2018) that endorsed the contents of the ECOWAS Directive ('Directive on the Securitization of Cross-Border trade for importers and exporters participating in the regional electricity market') - which was subsequently approved by the ECOWAS Council of Ministers on December 14th, 2018. Several WAPP Task Force meetings were also held in 2018 and 2019 to discuss the contents of the ECOWAS Directive and the proposed support by the Bank.

13. For Cote d’Ivoire, the proposed project is aligned with the most recent Country Partnership Framework (CPF, 2016-2019) updated with the Performance and Learning Review (PLR, 2018-2021). This strategy aims at strengthening economic infrastructure to accelerate private sector-led economic growth. It would help strengthen the infrastructure and enable the crowding of private investors for development of future regional infrastructures.

14. For Burkina Faso, the proposed operation corresponds to the objectives posed by World Bank’s CPF for FY18-FY23. The operation supports the CPF’s two objectives of the focus area 1, namely (i) improving energy access, and (ii) addressing management of extractives and sustainability of natural resources. It contributes to the Government’s priorities of shifting the energy mix towards least-cost sources such as imports and solar power. The operation is also complementary with the First Phase of the Inter-Zonal Transmission Hub Project of the WAPP (North Core Regional Transmission Project), which - by facilitating trade between Niger, Nigeria, Benin and Burkina Faso - will improve access to affordable electricity imports.

15. For Mali, the proposed program is in line with the ongoing CPF for FY16-FY19. The Systematic Country Diagnostic for Mali identifies connectivity as a critical constraint to lifting most Malians out of poverty and building the foundations for economic transformation, while energy is critical to enabling transformation of the economy. In this context, the proposed operation will support the CPF’s objective of diversifying Mali’s energy mix, thus lowering the country’s dependency on imported fuel and addressing systems bottlenecks, with direct impacts on reducing Energie du Mali (EdM) subsidies, which in turn will free fiscal space for pro-poor programs.

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16. **The proposed regional DPF is well aligned with the Guinea CPF FY18–FY23** (Guinea - Country partnership framework for the period FY2018-FY23, report # 125899). It contributes specifically to the CPF objective 7 “Better access to energy and water services through improved management of utilities” and Indicator 7.1 “increased access to electricity in urban and rural areas.” The CPF confirms the role of electricity access to boost agricultural productivity and economic growth (third pillar) and to promote women’s empowerment, economic diversification, and resilience (key cross-pillar objectives). As Guinea is expected to be a net exporter of electricity, regional trade of electricity will generate foreign currency and hence directly contribute to the economic development of the country (third pillar). The electricity will also power education and health basic facilities and hence contribute to the CPF Human Development pillar (second pillar).

17. **For Liberia, the CPF is closely aligned with Liberia’s medium-term development plan—the Pro-Poor Agenda for Prosperity and Development (PAPD) 2018-2023.** Both the CPF and PAPD identify the expansion of electricity services and making them more affordable to businesses, households and public institution as a necessary intervention required to address the binding constraints to increased economic growth, human capital development and poverty reduction. By providing the necessary policy environment for Liberia to benefit from the cheaper source of electricity from neighboring countries, the proposed operation will facilitate availability of affordable and quality electricity that will contribute to economic growth and job creation. The proposed operation is directly related to pillar III of the CFP for Liberia that aims to narrow the infrastructure gap to foster more equitable nationwide development.

18. **The proposed regional DPF is aligned with the Sierra Leone CPF FY21-FY26 objective 3.1: Build resilient infrastructure (power, mobility, technology) for enhanced competitiveness under the focus Area3.: Economic Diversification and Competitiveness with Resilience.** The Security of electricity supply is expected to be improved (especially from renewable sources), and access will be expanded in selected district capitals and rural areas; reduced technical, commercial and collection losses, improved financial viability of the utility (EDSA); reduced costs of doing business (energy costs) and increased competitiveness. The Regional DPF project would enable Freetown to be better served and under-served regions of Sierra Leone (districts headquarters and rural areas) capitals to attain acceptable levels of basic services, which depend on trade of electricity through CSLG interconnection lines. The wellbeing indicators will be improved due to affordable imported electricity.

C. **Proposed Development Objective(s)**

19. **The Project Development Objective (PDO) is to increase energy security, reduce vulnerability to international oil price fluctuations and reduce the fiscal burden of the electricity sector through increased energy trade in the six participating countries.** The increase in diversity of supply to a power system will increase energy security (increase resilience to shocks). Trade will lead to increased use of indigenous endowments (mostly renewables) and thus a reduced vulnerability to international oil price fluctuations. Electricity trade is expected to enable lower cost sources of electricity to supply new power sectors, thereby bringing down costs and the overall cost reductions. These are part of a set of focused measures elaborated in national recovery plans prepared under this program and are expected to lead to significant reduction in the need to subsidize the sector – thereby freeing up budgetary funds for other productive purposes.

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Key Results

20. **The results indicators are linked to the PDO as follows.** Increase regional electricity trade is measured by Indicator #1. Increased energy security is measured by indicators #2, 3, 5, 7. Lower vulnerability to oil price fluctuations with indicator #12. Reduced fiscal burden through indicators #4, 8, 9, 10. All lead to economic growth/shared prosperity.

| Results Indicator #1: Amount of gross electricity imports to the DPF participant countries (GWh). | 1,817 (2019) | 2,800 (2022) |
| Results Indicator #2: Number of import-export contracts that incorporate the enhanced principles. | 0 (2019) | 5 (2022) |
| Results Indicator #3: Arrears from import-export contracts among the DPF participant countries. | US$92m (2019) | US$30m (2022) |
| Results Indicator #4: Average cost of supply in importing countries: Burkina Faso, Guinea, Mali, Liberia, Sierra Leone (current prices). | 18.5 USc/kWh (2019) | 16.5 USc/kWh (2022) |
| Results Indicator #5: Number of importing countries (Burkina Faso, Mali, Liberia, Sierra Leone) with a diverse supply of electricity, as measured by an HHI of supply of < 4,500, or reduction in HHI of > 1000 from 2019 to 2022. | 2 | 4 |
| Results Indicator #6: Renewable energy generation in the region (6 countries). | 6,145 GWh (2019) | 8,000 GWh (2022) |
| Results Indicator #7: Number of countries whose regulatory frameworks are harmonized with ERERA’s regional requirements. | 0 (2019) | 6 (2022) |
| Results Indicator #8: Utility cost-recovery rate, excluding operational subsidies. | 67% (2019) | 75% (2022) |
| Results Indicator #9: Bill collection rate from public institutions (including SOEs). | 77% (2019) | 90% (2022) |
| Results Indicator #10: Number of utilities that submit annual report informing on financial sustainability to ERERA for compilation and reporting. | 0 (2019) | 6 (2022) |
| Results Indicator #11: Utility level policy adopted to increase gender diversity in employment in energy sector (number of countries). | 0 (2020) | 3 (2022) |
| Results Indicator #12: Percentage of oil-fired generation in the generation mix for the six countries. | 18% (2019) | 10% (2022) |

D. Project Description

21. **For the potential of the regional power market to be fully realized, attention now needs to turn to policy that builds effective institutions and regulatory frameworks and enforces appropriate behavior.** In this context key regulatory and commercial aspects that underpin sustainable regional trading need to be further strengthened; and they can be
grouped in three pillars: 1) increase confidence in the enforcement of commercial arrangements; 2) implement least cost investment decisions that consider regional options and implement regulations that enable cross border trade; and 3) support sector recovery/development plans and transparency on financial sustainability plans of regional market participants.

22. Under pillar 1, participating countries are required to strengthen the commercial basis for electricity trade, namely the competent authority in each Recipient is required to approve the applicable legal instrument requiring use of the principles inspired by the ERERA models of contract template/framework for all future sale and purchase of cross-border electricity (prior action 1). Prior action 2 seeks to rapidly increase confidence of counterparts in trade by ensuring appropriate mechanisms are in place for payment for electricity and payment of penalties for non-delivery. Prior action 3 requires each country to publish a least cost development plan that integrates the most cost-effective combination of national and regional alternatives. In the case that the plan is not completed, they are required to adopt legal instruments requiring the government to publish an economic justification for the project. To facilitate regional energy trade and payments, prior action 4 requires that the competent authority of each Recipient approves the applicable legal instrument requiring the use of regional regulations laid down by ERERA covering the interconnected power systems of the WAPP with respect to: (i) the use of the West African Power Pool (WAPP) Operational Manual; and (ii) tariff methodology for regional transmission. The third pillar addresses the most fundamental constraint to regional power trade, which is the lack of creditworthiness of the national power utilities entering into trading arrangements. It also addresses the need for coordination and information sharing when it comes to understanding the trajectory of demand and supply of potential counterparts to trade. In this context, prior action 5 requires the following: (a) the competent authority of the Recipient has approved a sector recovery or development plan that addresses, as appropriate for the country, costs, revenues, subsidy needs for the sector and policy reform targeting gender gaps in employment; and (b) agreed to report to ERERA on a periodic basis information regarding updates to the sector recovery or development plan, especially in relation to sector fundamentals and the finances, including when appropriate, change to the energy mix, tariff adjustment and subsidy transfers.

23. Indicative triggers are intended to consolidate and deepen reforms achieved through the proposed operation. Indicative trigger #1 includes a prepayment mechanism or a mechanism that offers risk mitigation for standby letters of credit. This is designed to ensure payment either through prepayment or through backstop resources in case of payment default by power importers or failure by power exporters to pay the prescribed financial compensation for a supply default. Indicative trigger #2 requires utilities in each country to have reported monthly to [ICC or ERERA] for at least 6 months regarding status of electricity supplied and payments rendered under bilateral contracts, to promote transparency and accountability of power trade. Indicative trigger #3 is intended to avoid the further accumulation of arrears from cross-border trade, which is a critical reform going forward. Indicative trigger #4 is designed to ensure that new sources of energy supply, whether regional or domestic, are competitively procured to minimize costs, and to allow for third party access to the regional grid to foster competition. To foster regional market access by IPPs, indicative trigger #5 requires that each country adopts legislations to allow third-party access to regional transmission system for regional transactions effective at national level and to allow IPPs to sell electricity to utilities or third parties in WAPP member countries. Indicative triggers #s 6 and 7 are expected to ensure that sector recovery measures are sustained over time – in particular – through payment of public sector bills, mechanism for ensuring appropriate transitional subsidy and publication of pertinent information, for instance, in relation to debts/cross-debts in the sector.

24. The Bank has a long record of working with development partners in the region on co-financing of physical transmission interconnection projects in the Africa region. The Bank is party to a number of initiatives where this program has been discussed. For instance, the Sahel Alliance (which includes the Agence Française de Développement, the German Federal Ministry for Economic Cooperation and Development, the European Union, the African Development Bank, the
United Nations Development Programme, Italian Development Cooperation, the Spanish Agency for International Development Cooperation, the UK Department for International Development, the Luxembourg Ministry of Foreign and European Affairs and the European Investment Bank. The Bank specifically met with the Agence Française de Développement in Paris. It has also discussed the program with the International Monetary Fund. Within the region, the ECOWAS has organized meetings with Ministers of Energy and Ministers of Finance to discuss the program and solicit feedback (Abidjan, February 2-3, 2020 and Bamako March 2-3, 2020). The Bank also held several meetings with a task force representing all WAPP member during 2019 and held market soundings with commercial banks to better understand the commercial risks of lending related to cross-border trade (in Abidjan, February, 25-26, 2020 in Abidjan) with representatives of SIB, SCB, Ecobank, BICICI, SGBCI and Banque Atlantique. Going forward, the Bank will continue to take part in regional meetings, organized by ECOWAS and other key stakeholders.

E. Implementation

Institutional and Implementation Arrangements

25. The Ministries of Finance are responsible for overall coordination of supervision and monitoring of the reform program among all participating ministries and agencies, as it applies to each country. During preparation, focal points were appointed for the ministries of finance and energy for each country. They will work together in each country to furnish relevant information and documentation on implementation and monitoring of their respective programs to the ministries of finance, which oversee progress towards achieving program objectives.

26. Program outcomes will be monitored through results indicators as detailed in the Policy and Results Matrix of the Program Document. Some of these results indicators are based on routinely published information and for those that are not, the concerned ministries or agencies will be responsible for collecting the data, tracking the relevant indicators and providing these to the respective Ministries of Finance in each country in a timely manner. Ministries of Finance will be responsible for submitting such information at a frequency and in a format satisfactory to the World Bank. The World Bank will provide implementation support (with existing Investment Project Financing engagements), including technical assistance in needed reform areas as described above, to ensure timely implementation and adequate data collection and monitoring of indicators and outcomes of the program. DPF countries will coordinate to ensure the reform remains on track, and to develop the measures relating to the second DPF in the series.

27. "Grievance Redress. Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB’s Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB’s independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank’s corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org."

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects
Poverty and Social Impacts

28. **The DPF program supports Governments in increasing regional electricity trade.** For each of the countries included under this program, a large share of the population lives in extreme poverty,\(^{10}\) and increased regional electricity trade is expected to accelerate poverty reduction. Reforms under this DPF are likely to impact household welfare through multiple channels: (i) higher supply, with an increasing share from renewables,\(^{11}\) and reliability of electricity supports better health and education outcomes, and potentially has a positive impact on gender equality;\(^{12}\) (ii) better access to reliable electricity enables private sector growth and job creation through an improved business environment;\(^{13}\) (iii) lower costs of electricity services potentially enhance affordability, especially among poor households; (iv) improved financial viability allows for investments into expansion of access to electricity services in remote regions and among poor households; and (v) better service provision strengthens the social contract between Governments and its citizens, especially in fragile country context. In the short term, some of these positive impacts are restricted to households connected to electricity grids, but, in the medium to long term, with increased access, the benefits will have wider coverage. Furthermore, the reduction in subsidies gives Governments the fiscal space to invest in other sectors with more welfare enhancing effects.

29. **Policy reforms under this DPF operation are also expected to support longer term reforms which would allow Governments to reorient their subsidies for generation, transmission and distribution to regions and households which currently experience limited access to electricity grids.** As of today, access to electricity especially in remote regions remains low because expanding electricity services is financially unfeasible for electric utilities. High fixed costs for infrastructure in combination with limited ability to pay among consumers, require the Government to provide subsidies to expand access in under-serviced regions. Under these circumstances, additional fiscal space arising from lower transfer to more financially sustainable utilities could be used for programs which enhance access to electricity in regions and among households currently not having access to electricity. This DPF supports policy reforms by creating fiscal space which could in the future be used to support grid and off-grid solutions for better access to electricity, and affordability among households.

Environmental, Forests, and Other Natural Resource Aspects

30. **Based on modeling work, the operation is expected to lead to displacement of heavy fuel oil and diesel generation with lower carbon solutions – especially solar photovoltaics and hydropower.** The operation is therefore expected to have positive environmental impacts in the medium to long term. In the short-term, the program is assessed to have no negative environmental impacts, as reforms relate to improving conditions for electricity trade.

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\(^{10}\) Poverty rates are based on the most recent national household survey and measured using the international poverty line (2011 PPP US$ 1.9 a day) in percent of the population: Burkina Faso 43.7% (2014); Cote d’Ivoire, 28.2% (2015); Guinea, 35.3% (2012); Liberia, 40.9% (2016); Mali, 49.7% (2009); Sierra Leone, 40.1% (2018). Table 1 (Key statistics on poverty) provides further information on the international poverty line in LCU, and now-casted poverty rates for the year 2019.


G. Risks and Mitigation

31. Overall risk is high because several factors could jeopardize the expected outcomes and benefits - including high fiscal vulnerability. The primary risk is that countries with existing significant annual financial deficits in their power sectors do not provide sufficient budgetary funds to the sector until such time that the reforms result in lowering or eliminating subsidies - thereby creating or increasing the cash crisis in the sector to a level where benefits due to the program are unable to materialize. Further risk factors include resistance to reform by entrenched interests; pressure to water down reforms or take politically-motivated decisions on domestic power generation through negotiated deals; and weak government implementation capacity. In addition, growing fiscal vulnerabilities - that also explain the macroeconomic risk - are generating pressure on Governments' ability to pay its bills. All these risks are uncertain in the context of COVID-19. The design of this operation - including the specific measures to solve issues with payments, and soundness of the ECOWAS Directive approved by the ECOWAS Council of Ministers - are important mitigating factors, as is the WAEMU region's stability and determination to restore medium term fiscal stability and the recent drop in oil prices affecting fuel importing countries. Several existing IPFs and national DPFs, and technical assistance support to regional institutions, will advance implementation capacity and reinforce the reforms under this program.

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Borrower/Client/Recipient
Governments of Cote d'Ivoire, Guinea, Mali, Burkina Faso, Sierra Leone, Liberia

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