

## PPIAF Assistance in São Tomé and Príncipe

A renewed focus on low-income countries and fragile states has reinforced PPIAF's interest in supporting the public-private partnership agenda in countries such as São Tomé and Príncipe (São Tomé).

Since 2000 PPIAF has supported two activities in São Tomé: one in the telecommunications sector, one in the energy sector. This consisted of: i) assisting the Government of São Tomé in preparing a new strategy and a pro-competitive legal and regulatory framework for the telecommunications sector; and ii) revitalizing the energy sector through enhanced private sector participation.

### Technical Assistance for São Tomé and Príncipe's Telecommunications Sector

The activity focused on supporting the government's efforts to liberalize the market and increase private participation to foster competition, increase the range of information and communications technologies services provided, and reduce the costs of services to end-users.

In 2000 there were only three lines per 100 people and practically no mobile phone services available on the two islands. Telecommunications services in São Tomé were provided by the main operator, Companhia Santomense de Telecomunicações, a mixed company controlled by the government (51% of the shares) and by Portugal Telecommunications (49%), which had the monopoly of the sector. The main issues in the sector were a lack of diversification of services offered, and high tariffs resulting from the absence of competition. Mobile service was introduced in 2001, but only in the capital and its outskirts. Poor performance of the telecommunications sector was particularly harmful for the economy of São Tomé, given its isolated geographical location and its need to foster growth of the service sector including tourism as a way to diversify the production and export of agricultural products (e.g., cocoa). Furthermore, the legislation of the sector, inherited from the colonial past, was obsolete and did not reflect the major advances achieved by modern information and communications technologies.

PPIAF support was thus requested in 2000 by the government of São Tomé to help improve the provision of telecommunications services. The PPIAF activity supported a series of studies that included a proposal for a new telecommunications sector pro-competitive strategy and accompanying action plan, based on a market analysis of the sector; a review of the legal and regulatory framework including proposal for reforms in line with the proposed sector strategy to allow for multiple providers of telecommunications services and draft legislation; and recommendations on how to increase the shares of the private sector in the capital of the main operator.

The draft legislation clarified the responsibilities of the State and of the operator; defined a new regime of licenses, authorizations, and other permits; and proposed the creation of an independent telecommunications regulatory agency, in charge of preparing and granting licenses, supervising and regulating the markets, and advising the government. In exchange for renouncing the concession, the concessionaire would be granted licenses for the networks it operates and would be given a transition period of three years during which it would have exclusivity for international connections, and be in charge of the provision of international services and the creation of a mobile network.

Since the activity was concluded in 2003, Law 3/2004 was adopted on July 2, 2004 and defines the conditions for the establishment, management, and operation of telecommunications networks and services, and is largely based on the draft legislation prepared under the PPIAF grant. In 2005 the Parliament approved the strategy and action plan to attract private sector participation in the telecommunications market. An independent multi-sector regulatory agency, Autoridade Geral de Regulação (AGER - General Regulation Authority), was also created through Law 3/2004 and Decree 14/2005 on August 24, 2005 and began operations one year later. A primary task for the new regulator was to end the monopoly of Companhia Santomense de Telecomunicações, for which purpose it had to first convert the existing concession into fixed and mobile licenses. That process was completed in 2007. AGER is currently in charge of managing the radio spectrum, granting licenses, elaborating specific regulations, and advising the government. It also regulates the water, electricity, and postal sectors. In

December 2007, AGER approved a decree for the licensing of a second GSM operator, which should stimulate further market growth.

Despite these advances on the institutional, legal, and regulatory fronts, telecommunications in São Tomé still lag behind, and there is an urgent need to strengthen international connectivity and lower costs of telecommunications services to enhance the investment climate of São Tomé and support its economic strategy of diversifying away from agriculture toward services sectors. The expected economic boom that is likely to take place around 2012 when the newly found oil resources will start to be exploited increases the need for modern and efficient telecommunications services to accommodate potential economic growth. Given its insularity, the limited size of the national market reduces the attractiveness of the domestic market for service providers. At the same time, the absence of competitive access to capacity via submarine cables limits the opportunities for growth of the market, and increases the cost of services because of the over-dependence on costly satellites.

The World Bank is presently supporting the efforts of the São Tomé government to improve communication capacity, increase its ability to access information, and make international communications affordable, all of which will be fundamental progress for São Tomé's development and reduction of its insularity. This involves the granting of a second mobile license to foster competition and connecting to the global network through the submarine cable that links different countries in central Africa. The International Development Association (IDA) will finance the participation of São Tomé in the second Africa Backbone Project (CAB2) that aims to increase geographic reach and usage of regional broadband services and reduce prices. International Finance Corporation (IFC) and IDA collaboration in the CAB2 includes assistance to catalyze private sector investment and provide broadband connectivity in Central Africa to all capital cities and main secondary cities. This includes \$14.9 million and additional funds for advisory services. The World Bank is also providing technical assistance for structuring a public-private partnership and financing for São Tomé's contribution to participate in the Africa Coast to Europe (ACE) submarine cable and associated investments.

#### **Results of PPIAF's Activities in São Tomé and Príncipe's Telecommunications Sector**

<b>Category</b>	<b>Outputs</b>
<b>Enabling environment reform</b>	
<i>Plans/strategies prepared</i>	<ul style="list-style-type: none"> <li>Studies including a proposal for a new telecommunications sector pro-competitive strategy and accompanying action plan, as well as recommendations on how to increase the shares of the private sector in the capital of the main operator—<i>Assistance pour la préparation d'une stratégie du secteur des telecommunications et la mise en place du cadre juridique et réglementaire</i>, November 2002</li> </ul>
<i>Policies prepared or legal or regulatory changes recommended</i>	<ul style="list-style-type: none"> <li>Review of the legal and regulatory framework for the telecommunications sector including draft legislation, November 2002</li> </ul>

<b>Category</b>	<b>Outcomes</b>
<b>Enabling environment reform</b>	
<i>Plans/strategies adopted or implemented</i>	<ul style="list-style-type: none"> <li>Parliament approved the strategy and action plan to attract more private sector participation in the telecommunications market, 2005</li> </ul>

<i>Institutions created or strengthened</i>	<ul style="list-style-type: none"> <li>• Autoridade Geral de Regulação (AGER - General Regulation Authority) was created through Law 3/2004 and Decree 14/2005 on August 24, 2005, and is responsible for the regulation of the telecommunications, postal, water, and electricity sectors</li> </ul>
<i>Policies adopted, legislation passed/amended, or regulations issued/revised</i>	<ul style="list-style-type: none"> <li>• Telecommunications Law 3/2004 passed on July 2, 2004 to liberalize the telecommunications market</li> <li>• In December 2007, AGER approved a decree for the licensing of a second GSM operator, which should stimulate further market growth</li> </ul>

### Technical Assistance for São Tomé and Príncipe's Energy Sector

The performance of and access to the electricity and water systems have lagged, and were identified by the Government of São Tomé and the donor community as a key constraint to the country's development.

São Tomé's energy sector faces significant challenges. Firstly, a shortfall in capacity and insufficient resources to pay for fuel translate into frequent blackouts, which disrupt the economy. Secondly, as is the case in many other island economies, energy production is very costly. Thirdly, technical and commercial inefficiencies exacerbate financial losses. Finally, the tariff structure is not cost reflective. Besides, approximately just over half the population of São Tomé has access to electricity, which means that many households are without electricity and have to rely on candlelight and kerosene lighting, as well as on biomass (firewood and charcoal) for cooking purposes.

To improve the power sector, São Tomé's government has taken important steps to create an environment conducive to private sector participation. The multi-sector regulatory agency (AGER), established to develop capabilities in the power business, prepared a Bill of Law that defines the rights and obligations of concessionaires and licensees in power generation, transmission, distribution, as well as the marketing of energy. It also enables the wheeling of energy at regulated wire tariffs to encourage the emergence of the private sector, including the emergence of independent power producers (IPPs) and self-generators.

Despite these positive steps, more actions are needed to encourage private sector participation in the energy sector. In this challenging context, the Government of São Tomé requested PPIAF technical assistance in 2009 to carry out an options study to improve private sector participation in the country's energy sector. The \$330,000 PPIAF grant helped provide the analytical and practical framework for reforming the sector, and for proposing options to involve the private sector in the electricity and water utility (Empresa de Agua e Electricidade) to improve its performance.

The objective of this study was to: i) assess the needs of the energy sector in São Tomé and develop a least-cost investment program to meet these needs; ii) develop an action plan on how the state-owned electricity and water company Empresa de Agua e Electricidade can improve its financial and commercial situation; and iii) identify government priorities (regulatory, commercial) to make the private sector a contributor to the technical and financial sustainability of the energy sector in São Tomé.

The study was expected to inform the debate on the contractual arrangements that are needed to encourage private sector participation in the electricity sector in São Tomé, while taking into account current constraints of the country. In this regard, the PPIAF study evaluated the feasibility and defined the characteristics of a successful management contract for the utility company, proposed technical and commercial performance improvements, and provided a critical assessment of the regulatory framework.

The study recommended to implement a public-private partnership scheme for the operation of the water and electricity utility (Empresa de Agua e Electricidade). The long-term form of the public-private

partnership scheme could be an enhanced-affermage or an investor-owned utility. However, the public-private partnership should have two phases: the first, a management contract, but with a built-in transition path to the second phase in which a private operator takes operational risk. The reason it should transition is that a management contract is not a good long-term scheme since it does not align the interests of the private operator with that of the Government, and it leaves the government with excessive risk and financial obligation. The financial model for Empresa de Agua e Electricidade was also developed to conduct simulations of the company's projected operating and financial results for the period 2010–2020. The model includes a demand forecast, and incorporates the Least Cost Investment Plan.

The initial impact of this study assignment was a better understanding of the policy conditions to be undertaken to promote private sector participation in São Tomé's energy sector. To disseminate the conclusions and recommendations of the PPIAF-funded study, as well as to help understand the role of private sector participation in the power sector, a dissemination workshop was organized for all stakeholders in January 2011. The study's recommendations contributed to the main energy policy dialogue between the authorities and National Assembly, and the energy policy is still under discussion. In addition, the energy chapter of the World Bank's São Tomé Country Economic Memorandum is partially based on the PPIAF-funded study. The World Bank Country Economic Memorandums provide a comprehensive analysis of a country's economic developments, prospects, and policy agenda, and identifies policy reforms for key economic sectors. The Country Economic Memorandum also i) serves as a basis for dialogue with government on critical policy issues; and ii) provides background information and analysis to members of aid groups and other donors.

The Government has implemented some of the recommendations of the PPIAF-funded study, but needs significant financial support to finish implementing all of them. Most of the current private sector investment focus in the country is on the generation side, and only a little is on the distribution side. The donor community is interested in supporting the country's energy sector through a new strategy for electricity companies, and will meet in December 2012 to discuss it. In addition, the Government is also in discussions with the World Bank and IFC to figure out how to proceed.

### **Results of PPIAF's Activities in São Tomé and Príncipe's Energy Sector**

Category	Outputs
<b>Enabling environment reform</b>	
<i>Plans/strategies prepared</i>	<ul style="list-style-type: none"> <li>• Study on the Revitalization of the Power Sector and Private Sector Participation in São Tomé and Príncipe, March 2011</li> </ul>
<i>Policies prepared or legal or regulatory changes recommended</i>	<ul style="list-style-type: none"> <li>• The PPIAF-funded study made recommendations for legal and regulatory reform in the country to attract private sector participation in the energy sector, March 2011</li> </ul>
<b>Capacity and awareness building</b>	
<i>Workshops/seminars</i>	<ul style="list-style-type: none"> <li>• Workshop on private sector participation in São Tomé's power sector, January 17, 2011</li> </ul>

Category	Outcomes
<b>Enabling environment reform</b>	
<i>Plans/strategies adopted or implemented</i>	<ul style="list-style-type: none"> <li>• Study on the Revitalization of the Power Sector and Private Sector Participation in São Tomé and Príncipe adopted and currently being implemented, 2011</li> </ul>
<i>Institutions created or strengthened</i>	<ul style="list-style-type: none"> <li>• The Government has a better understanding of the policy conditions needed to promote private sector participation in the country's energy sector; an energy policy is currently under discussion between the authorities and the National Assembly</li> </ul>