

## PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC666

<b>Project Name</b>	KM-Energy Sect. Recovery Project (FY14) (P131659)
<b>Region</b>	AFRICA
<b>Country</b>	Comoros
<b>Sector(s)</b>	General energy sector (100%)
<b>Theme(s)</b>	State-owned enterprise restructuring and privatization (35%), Infrastructure services for private sector development (65%)
<b>Lending Instrument</b>	Specific Investment Loan
<b>Project ID</b>	P131659
<b>Borrower(s)</b>	Government of the Union of Comoros
<b>Implementing Agency</b>	Vice-presidency in charge of Energy / CREF
<b>Environmental Category</b>	C-Not Required
<b>Date PID Prepared/ Updated</b>	11-Apr-2013
<b>Date PID Approved/ Disclosed</b>	11-Apr-2013
<b>Estimated Date of Appraisal Completion</b>	11-Jun-2013
<b>Estimated Date of Board Approval</b>	26-Sep-2013
<b>Concept Review Decision</b>	

### I. Introduction and Context

#### Country Context

1. Comoros faces numerous challenges including political instability, a long-term negative growth trajectory in income per capita, limited institutional capacity, and poor governance. In the three decades since independence, it has experienced several coups, demands for more autonomy from the constituent islands (of Grande Comore, Anjouan and Mohéli), with a separatist movement in Anjouan, and frequent changes in governments. Political instability has contributed to a long-term declining trend in real income per capita and taken a severe toll on the government's ability to deliver quality basic services, fueling grievance and instability.

2. Tensions have eased somewhat in recent years. After more than a decade of elevated tensions, a negotiated resolution between the separatist island of Anjouan and the Union in 2008 was followed in May 2009 by the popular approval of a revised constitution, paving the way towards gradual political normalization. Presidential elections in late 2010 were considered broadly

fair and transparent, and, after a five-month transition, the new president took office in May 2011. Dr. Ikililou Dhoinine is the new president of the Union, taking power in May 2011. The Cabinet which took office in mid-2011 has rekindled reforms and demonstrated a willingness to accelerate the transformation of the country. With no new major elections expected for the next four years, the observed political stability could set a basis for a new focus on the continuous reform program in the Comoros.

3. However, the challenges ahead are enormous. Comoros remains a fragile and poor country. The current population of the Union is estimated at 798,000 persons and the nominal GDP per capita at US\$ 902. Weaknesses in public financial management together with difficult inter-islands relations in the distribution of resources present a continuous challenge to economic development. In spite of recent progress, Comoros continues to face a series of internal and external stresses that limit the prospects for rapid improvement in living conditions. In such a situation, efforts are needed to gradually restore confidence in the government ability to manage the complex political and economic transition from fragility to resilience.

### **Sectoral and Institutional Context**

4. It is estimated that biomass (wood and charcoal) currently represents 70% of energy use in Comoros. The remainder comes almost entirely from imported oil products, including 8% used for power generation. As a small archipelago country, Comoros faces inherent difficulties in fuel transport and lacks economies of scale for power generation. However, this structural issue cannot fully explain the abysmal situation of the country with regard to electricity supply, especially in the Island of Grande Comore.

5. Though the rate of urbanization in Comoros remains low (30%), the population density in the country is relatively high and does not constitute an insurmountable obstacle to electrification. Access to the electricity grid in Comoros is currently above 50% (~60% in Grande Comore, ~20% in Moheli and ~60% in Anjouan) with around 60,000 households connected. This is in line with the rest of the sub-Saharan Africa. However, electricity supply is only available sporadically in most of Grande Comore. Users located in the country capital (Moroni) and its immediate surroundings get unreliable electricity supply for most of the day. In the rest of the Island, electricity is supplied for only a few hours a week, if at all. This situation constitutes a severe constraint on socio-economic progress and poverty eradication.

6. Electricity service provision is divided between two state owned enterprises, MAMWE (Gestion de l'Eau et de l'Electricité aux Comores) – which provides electricity supply services to both the islands of Ngazidja (also called 'Grande Comore') and Moheli – and Electricité d'Anjouan (EDA) – which services the island of Anjouan. MAMWE was founded in 2003, emerging out of a failed privatization effort with the French company Vivendi. The two companies are vertically integrated, with a responsibility for generation and distribution in their respective service areas. There are no electric interconnections between the islands.

7. MAMWE's revenues surpassed 5 billion FC in 2011, or approximately US\$ 13.3 million, while GDP of Comoros in 2010 was US\$ 541.1 million. MAMWE is also a large employer, with nearly 700 employees, compared to approximately 13,500 in the government as a whole, and just over 3,000 in the Union government specifically. Electricity generation in Grande Comore is made up of diesel fuel generators, with an installed capacity of 17 MW (plus 9 MW for Chinese-donated generators that have yet to be installed) with an un-constrained peak demand estimated around 11

MW. This implies that generation capacity is adequate. However, the condition of the generation equipment is relatively poor requiring extraordinary maintenance and/or rehabilitation. Still, the main constraining factor to normal service provision is the high cost of the imported petroleum products used for thermal power generators. The financial situation of MAMWE makes it unable to purchase fuel in sufficient quantities to meet demand. EDA is a much smaller utility (generation capacity of 5 MW). The company was not able to rely on GoC support when Anjouan was de facto governed independently. This might explain why EDA has maintained payment discipline more effectively than MAMWE and still offers more reliable electricity supply.

8. The two power Comorian utilities (MAMWE and EDA) are in a structural situation of negative cash-flow from current operations, due to their poor performance in terms of billing and collection. As a result, the two utilities are only able to pay for a portion of their fuel consumption for generation. The corresponding collection losses are borne by Société Comorienne des Hydrocarbures (SCH) which in turn finds itself unable to fully pay the State for the taxes collected on fuel. Overall, the energy sector represents a high burden on public finances: in 2011, the sector benefited from direct subsidies of 360 million Comorian Francs (CF) (US\$797,000), and indirect subsidies in the form of non-payment of petroleum product taxes of 2.7 billion CF 2011 (US\$7.2 million). It is estimated that total de facto subsidies to the energy sector reached approximately 10% of the operating budget of the State in 2011. A significant increase is expected by the end of 2012, since the GoC had to recapitalize SCH in order to secure fuel imports.

9. MAMWE's operational performance compares negatively with its sister company, EDA, in terms of bill collection and distribution losses. MAMWE's total distribution losses are around 45%. Conservatively, 27% of these losses are estimated to be commercial, and the balance of 18% is technical losses. MAMWE then collects only 58% of the amount billed, of which zero collection from the public sector, as the government pays for about 60% of fuel purchases and offsets their power consumption against fuel bills. Such statistics suggest poor sector governance by the Government and poor management practices by MAMWE.

10. The average electricity tariff (around 33 UScents/kWh) is high compared to most Sub-Saharan country, but reflects the economics of a small system with generation based almost exclusively on expensive diesel oil. By comparison, the current average electricity tariff for Cape Verde, which is considered as broadly cost-reflective, is very similar (26 euro cents per kWh equivalent to 33 UScents). However, Cape Verde system is significantly larger in terms of generation capacity (about 4 times as much) allowing for economies of scale and use of less expensive HFO. Even though electricity tariffs are in line with those in other islands in similar resource imports conditions, their high level underscores the need to reduce the cost of supply by improving MAMWE's performance (reducing distribution losses, enforcing bill collections, reducing fuel purchases costs, improving the efficiency of generation). In the medium term, for the sector to become self-sustaining financially, adequate pricing mechanisms transferring fuel cost variations to consumers will need to be designed and implemented.

11. An energy sector diagnostic prepared in 2011-12 with World Bank support has concluded that the energy sector issues in Comoros stem from a combination of short and long term issues, namely:

a. In the short run, (i) management performance issues in MAMWE which led to financial distress, resulting in turn in lack of maintenance of installations and inability to purchase the fuel necessary for the reliable supply of electricity; (ii) financial difficulties in SCH resulting from

MAMWE's inability to pay for its fuel off-take and from inadequate petroleum price setting mechanisms; and (iii) insufficient and unsafe storage of petroleum products, requiring deliveries in small quantities at an additional cost, and occasional fuel shortages.

b. In the long term, inability to reduce the share of thermal power in the energy mix, with adverse consequences on cost of production, due to weak sector planning and lack of fund for developing alternative low cost renewable energy based production capacities.

12. Based on the sector diagnosis, the Government has adopted in August 2012 a sector policy note for the energy sector ("document de politique de l'énergie électrique et des produits pétroliers de l' Union des Comores"). The document lays out a comprehensive approach for sector reform and recovery which addresses long term as well as short term issues. The four major identified priority areas are:

- i. Rehabilitation of the existing facilities (generation, transmission and distribution systems) to improve reliability of supply, accompanied by a comprehensive reform of corporate governance and management of MAMWE to ensure sustainability of rehabilitations and reduce budgetary burden;
- ii. Preparation of future investments in renewable generation (micro-hydro), possibly wind power, and geothermal so as to reduce the reliance on imported oil products for power generation;
- iii. Institutional sector reform including governance of sector enterprises and energy pricing; and
- iv. Improvement and extension of the petroleum storage capacities to improve safety and security of supply.

13. The Comorian authorities have recognized that the acute power shortage is due to the inability of MAMWE to purchase fuel and carry out periodic maintenance on generators. In particular, there is recognition that without improvement in billing and collection, MAMWE's operational and technical performance, and sector governance, sustained sector recovery would be impossible. The Vice President in charge of Energy has endorsed in September 2012 a commercial performance action plan for MAMWE. This has been followed by implementation by MAMWE of actions to improve revenue collection (including joint campaign with the "Gendarmerie" to disconnect illegal users). Also, the Government has realized that, in order to improve MAMWE's performance, external support and technical expertise would be needed. At the end of September, the government published a call for expression of interest (CFEOI) to select a private partner to manage MAMWE under a management contract arrangement (over a four year period). Subsequently, the Government requested Bank support to the energy sector, and in particular for the management contract.

14. It is against this background that the proposed project seeks to address the issues of poor governance and weak utility management in parallel with support to physical investments.

### **Relationship to CAS**

15. The Bank ISN No. 52522-KM of April 2010 prioritizes two objectives: Objective 1: Reduce Social Vulnerability and Objective 2: Strengthen State Capacity and Accountability. The proposed project will support the priority 1 and 2 under the first objective by improving access to electricity services by the poor through restoration of power supply, increase reliability and power shortages reduction. It will also support the priority 1 and 2 under the second objective by reducing subsidies through improving the efficiency of the utilities and increasing public sector governance and accountability of the utilities.

## II. Proposed Development Objective(s)

### Proposed Development Objective(s) (From PCN)

The Project seeks to contribute to sustainable improvement in the electricity sector's commercial and financial performance.

### Key Results (From PCN)

18. Progress toward achieving the project outcomes will be measured by the following indicators:
- Improvement in MAMWE's aggregate revenue collection performance (combination of billing ratio and collection rate).
  - At project completion, reduction of direct and indirect budgetary support to MAMWE,
  - Direct Project beneficiaries (of which female).

## III. Preliminary Description

### Concept Description

The proposed project will finance the following components:

- Assistance to MAMWE's management and commercial performance recovery. This component will support a management contract for MAMWE, which will cover the cost of international resident experts combined with short term support by other experts for narrower and well specified needs.
- Commercial performance enhancement. This component will provide the required resources for the implementation of the MAMWE's commercial recovery.
- Electricity Sector Governance and MAMWE technical assistance contract design. This component will finance studies during project preparation and implementation, related to key aspects of sector governance.
- Support to the Project Implementation Unit. This component will finance the operation of a Project Implementation Unit during project implementation. It would support two professional staff, including one for financial management, and one for procurement, as well as administrative support and administrative costs.

## IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		×	
Natural Habitats OP/BP 4.04		×	
Forests OP/BP 4.36		×	
Pest Management OP 4.09		×	
Physical Cultural Resources OP/BP 4.11		×	
Indigenous Peoples OP/BP 4.10		×	
Involuntary Resettlement OP/BP 4.12		×	
Safety of Dams OP/BP 4.37		×	
Projects on International Waterways OP/BP 7.50		×	
Projects in Disputed Areas OP/BP 7.60		×	

## V. Financing (in USD Million)

Total Project Cost:	5.00	Total Bank Financing:	5.00
Total Cofinancing:		Financing Gap:	0.00
<b>Financing Source</b>			<b>Amount</b>
BORROWER/RECIPIENT			0.00
International Development Association (IDA)			5.00
Total			5.00

## VI. Contact point

### World Bank

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### Borrower/Client/Recipient

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