

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA64840

Project Name	Electricity Transmission and Reform Project (P152755)
Region	AFRICA
Country	Cameroon
Lending Instrument	Investment Project Financing
Project ID	P152755
Borrower(s)	Government Republic of Cameroon
Implementing Agency	Minister of Water and Energy (MINEE)
Environmental Category	A-Full Assessment
Date PID Prepared/Updated	02-Aug-2016
Date PID Approved/Disclosed	02-Aug-2016
Estimated Date of Appraisal Completion	02-Aug-2016
Estimated Date of Board Approval	07-Dec-2016
Appraisal Review Decision (from Decision Note)	The team is authorized to appraise after disclosure of safeguard documents.

I. Project Context

Country Context

Cameroon is a medium-sized (475,650 km²) country in Central Africa with a population of about 23.3 million in 2015, growing at around 2.5 percent per annum. Cameroon's Gross National Income (GNI) per capita stood at US\$ 1330 in 2015, making it a lower-middle income country. Cameroon has vast natural resources, including oil and gas, minerals, agricultural land, and forests with remarkable biodiversity, which provide a potential basis for development. However, economic growth averaged 3.3 percent per annum between 2003 and 2007, and the economy was negatively affected by the global financial crisis of 2009, which led to weaker demand for Cameroon's non-oil exports. More recently, GDP growth rates have increased, reaching 4.2 percent in 2011, 4.6 percent in 2012, 5.6 percent in 2013, and 5.9 percent in 2014, respectively. In 2015, despite a sharp decline in the international oil price and rising insecurity in the far north of the country, GDP growth reached 6.2 percent thanks to a rebound in oil production and continued efforts on public investment projects.

The fourth Cameroonian household survey (ECAM4) fielded in 2014 revealed that despite this growth, Cameroon is characterized by high levels of poverty and weak social indicators. Using the national poverty line, poverty declined marginally since 2001 from 40.2 percent to 39.9 percent in 2007 and 37.5 percent in 2014 and is increasingly concentrated in Cameroon's northern regions with an estimated 56 percent of the poor living in the North and Far North regions alone. The country ranked 153 out of 187 on the 2015 Human Development Index, with some human

development indicators, including life expectancy, declining over the last 10 years and infant and maternal mortality rates exceedingly high

In order to reduce poverty and foster shared prosperity, over the next years Cameroon's main challenge will be to significantly accelerate economic growth and scale up investments while implementing policies that will ensure that the benefits of growth are shared. This will require significant improvements in the investment and business climate, important investments in infrastructure, better governance, and more efficient public spending, as well as fiscal policies that specifically target the needs of the poor. Moreover, economic policies will require a more stringent focus on resolving a number of sectoral bottlenecks in the energy, agriculture, telecommunications, mining, and transport sectors to allow broader and more efficient exploitation of the country's resource potential.

Sectoral and institutional Context

In 2014, total power production reached 6,080 GWh on the grid while total installed capacity was estimated at 1,286 MW. Hydro capacity represents 59 percent of total installed electricity generation; three large hydropower sites — Song Loulou (384 MW), Edea (265 MW), and Lagdo (72 MW) together account for close to 90 percent of hydropower generation. The Kribi Gas to Power Project, with a capacity of 216 MW, was commissioned in 2013 with support from International Development Association (IDA) guarantees and International Finance Corporation (IFC) financing. The remaining 300 MW consists of heavy fuel oil (HFO) and diesel generation.

According to the most recent forecasts of Cameroon's 2013 least cost development plan for the power sector, demand for electricity (including about 1,500 GWh of self-generation) is expected to grow from 5,800 GWh to 24,400 GWh under the median growth scenario and to 33,400 GWh under the high growth scenario by 2035. In contrast, peak demand would ramp up from about 1,000 MW (including about 285 MW of self-generation) in 2013 to 3,900 MW under the median growth scenario and 5,500 MW under the high growth scenario.

In 2015, just over 3,700 localities of a total of 14,207 were connected to Energy of Cameroon's (ENEO, the utility) medium voltage (MV) network or have access to electricity produced by isolated power plants. Thus about 74 percent of the Cameroonian population has access to electricity. However, this relatively good access rate masks major differences between (i) urban and rural areas, and (ii) the southern (88 percent access rate) and northern regions (47 percent access rate) of the Cameroonian territory.

Starting with the Electricity Law in 1998, the GoC implemented a first phase of far-reaching policy and structural reforms to address a number of pressing governance issues that were stifling the urgently needed investment generation capacity and distribution. As a result, the sector regulator (ARSEL) and rural electrification agency (AER) were established and, in 2001, the state-owned, vertically-integrated power utility (SONEL) was privatized through the sale of a 56 percent equity stake and the award of a 20-year concession to AES Corporation.

In the decade following its privatization, SONEL gradually evolved from a loss-making government utility to an income-generating enterprise while mobilizing significant investments in new generation capacity and connections. By 2011, private sector financing had boosted Cameroon's power capacity by 30 percent, the number of connections had expanded by 75 percent,

and the electrification rate had increased from less than 15 percent to nearly 50 percent.

While the privatization unleashed significant new investment during the first decade of the concession period, from 2011 on both sector investment and performance started stalling. Most importantly, a continued lack of investment led to the sector's transmission backbone becoming a critical bottleneck to the further expansion of power generation capacity, in particular with regard to the development of remote hydropower sites on the Sanaga River. After a prolonged period of dwindling returns and sector performance, AES Corporation finally sold its equity stake in AES-SONEL to the private equity company ACTIS Capital LLP (ACTIS). For the remaining period of the concession (2014-2021), ACTIS committed to comply with all previous obligations by AES-SONEL (renamed to ENEO CAMEROON S.A.) within its concession, including the accelerated ramp-up of hydroelectric power and a number of critical rehabilitation and renovation works.

To reinvigorate investment and sector performance, and to foster new investments into the transmission system, the Government of Cameroon (GoC) initiated a second phase of reforms including the 2011 "New Electricity Law". Key changes under the legislation included: (i) the transfer of the transmission network management from ENEO to a state-owned entity; (ii) changes to water storage activities, including the transfer of the water storage concession of the Sanaga basin reservoirs to the Electricity Development Corporation (EDC); and (iii) the introduction of new penalty charges in the event that ENEO fails to meet agreed performance targets.

The key rationale for unbundling the transmission subsector from ENEO's concession mandate was to rapidly attract much needed investment from other public and private sources to rehabilitate and extend the transmission grid. ENEO would then be able to focus on raising the financing for the distribution network expansion and rehabilitation of generation assets conceded by GoC. Within this context, the GoC selected the Third Party Access (TPA) model as the new modus operandi for the National Transmission System Operator (NTSO).

To secure the implementation and dependable oversight of grid operations and works, the GoC created the National Electricity Transport Company (SONATREL) in October 2015 as the public administrator and operator of Cameroon's transmission network. SONATREL has been set up as a state-owned enterprise (SOE) with the GoC as the sole shareholder. SONATREL's mandate includes the development, operation, maintenance, and expansion of the national transmission grid, including its interconnection with neighboring countries. Moreover, SONATREL is responsible for seeking, securing, and managing the necessary financing of all related investments.

Given the significant and growing investment backlog in transmission infrastructure, the swift rehabilitation and expansion of Cameroon's transmission backbone is a critical precondition to avoiding the continued deterioration of the quality of power supply with ever more pervasive system-wide blackouts and corresponding losses of industrial productivity and economic welfare. Today, the accelerated implementation of grid rehabilitation and expansion works is widely considered as the cornerstone for the power sector's two key challenges: (i) the functioning of the new sector architecture; and (ii) the timely implementation of the GoC's ambitious power generation development plans.

II. Proposed Development Objectives

The project development objective is to improve the capacity, efficiency and stability of Cameroon's national electricity transmission network.

III. Project Description

Component Name

Establishment and operationalization of SONATREL

Comments (optional)

Component Name

Strengthening of the national transmission grid

Comments (optional)

Component Name

Project management support and capacity building.

Comments (optional)

IV. Financing (in USD Million)

Total Project Cost:	375.00	Total Bank Financing:	325.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
Borrower			50.00
International Bank for Reconstruction and Development			325.00
Total			375.00

V. Implementation

The newly created Transmission System Operator - SONATREL will be the sole implementing agency of the project through a small Project Implementation Unit (PIU). The project will be managed under the supervision of SONATREL's General Manager with the Project Coordinator being responsible for the day-to-day management of project activities. Given that SONATREL is a newly created entity, a PIU will be created, headed by a Project Coordinator. The PIU will benefit from the existing fiduciary experts within MINEE for the implementation of the ESDP and will be supplemented by a small number of specialists either financed by the project or SONATREL.

Given the importance of an efficient and centralized control to ensure proper coordination and to avoid major delays, the project will also finance an Assistant Program Manager (APM) (international firm) to assist SONATREL in the implementation of the electricity transmission investment program.

To facilitate operationalization of SONATREL, a Reform Implementation Task Force will be established with the specific mandate of implementing this reform. It will be composed of representatives of the two already recruited consortium, ENEO, and SONATREL. A number of working groups in all key areas, such as technical, accounting, social and human resources, financial, cost and tariff, fiscal and legal, will be created and will report directly to the Task Force. The Task Force itself will report to the already created Steering Committee chaired by MINEE.

VI. Safeguard Policies (including public consultation)

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

Comments (optional)**VII. Contact point****World Bank**

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