

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC23933

Project Name	Electricity Transmission and Reform Project (P152755)
Region	AFRICA
Country	Cameroon
Sector(s)	Transmission and Distribution of Electricity (80%), General energy sector (20%)
Theme(s)	Infrastructure services for private sector development (100%)
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	09-Jun-2016
Date PID Approved/ Disclosed	09-Jun-2016
Estimated Date of Appraisal Completion	08-Jul-2016
Estimated Date of Board Approval	18-Oct-2016
Concept Review Decision	Track I - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Cameroon is a medium sized (475,000 square km) country with a population of about 21.7 million growing at around 2.2 percent per annum, located in Central Africa. Cameroon has vast natural resources including oil and gas, minerals, agricultural land, and forests with remarkable biodiversity, suggesting great development potential. Despite Cameroon's rich resource endowment, the country's last decade has been characterized by low economic growth and little or no change in poverty or human development indicators. Since 2010, however, economic growth has increased, with GDP growth rates reaching respectively 4.2 percent in 2011, 4.6 percent in 2012 and 5.6 percent in 2013. Forecasts for 2014 are around 5.3 percent.

Cameroon is a low middle income country with high levels of poverty and weak social indicators, giving it a Human Development Index country ranking of 150. Gross Domestic Product (GDP) per capita (PPP) stood at United States Dollars (US\$) 2,330 in 2013. Economic growth has been modest

over the past decade (3.3 percent average growth per annum between 2003 and 2007), and the economy was also negatively affected by the global crisis of 2009, which led to weaker demand for Cameroon's non-oil exports. Furthermore, Cameroon's poverty levels remain stubbornly high at around 40 percent and show significant regional disparities. Some human development indicators, including life expectancy, have declined over the last ten years and infant and maternal mortality rates are 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 exploiting the country's resource potential more broadly and efficiently.

Sectoral and Institutional Context

Since 1998, the GoC has implemented a first phase of policy and structural reforms to improve efficiency and governance in the power sector. The GoC adopted an Electricity Law in 1998, and a complementary Electricity Decree in 2000. A sector regulator (ARSEL) and a rural electrification agency (AER) were established in 1999. In November 2006, the GoC created the Electricity Development Corporation (EDC) through a Presidential Decree, with the mandate to develop, own, and operate hydropower assets, including the Lom Pangar Hydro Power Project (LPHP). Finally, a Presidential Decree of December 10, 2009, established the Rural Energy Fund (REF).

The state-owned vertically integrated power utility SONEL was privatized through a twenty-year concession awarded to AES Corporation in 2001 which was granted exclusivity over transmission and distribution throughout its concession area in Cameroon and the right to own up to 1,000 MW of installed generation capacity. In June 2014, the private equity company ACTIS Capital LLP (ACTIS) took control of AES-SONEL and changed its name to ENEO CAMEROON S.A. (ENEO).

The GoC has initiated the second phase of reform of the electricity sector and is currently engaged in a number of strategic reflections. On December 14, 2011, the New Electricity Law was promulgated replacing previous laws of 1993 and 1998. Key changes under the New Electricity Law include: (i) the transfer of the transmission network management from ENEO to a State-owned entity; (ii) changes to water storage activities, including a requirement for the transfer of the water storage concession (previously agreed with the incumbent) of the Sanaga basin reservoirs from ENEO to the Electricity Development Corporation (EDC); and (iii) the introduction of new penalty charges into the concession agreement in case ENEO fails to meet agreed performance targets. One of the drivers of unbundling the transmission subsector out of the ENEO concession is to attract much needed investment from other public and private sources to rehabilitate and extend the transmission grid. Third Party Access (TPA) model has been agreed as business model for the national Transmission System Operator (NTSO)

Cameroon's installed generation capacity of about 1,200 MW is insufficient to meet growing power demand (especially during the dry season). Demand is growing rapidly, about 7.5 % on average over the last five years; with a projection of about 6.5 % on average for the next ten years. This

demand growth is mainly associated with the market entry of large industrial consumers (metallurgy and the cement plants) and new connections (over 60,000 / year).

In 2014, the Government approved an updated least cost Electricity Sector Development Plan covering the period 2015 ? 2035 (PDSE 2035). The least cost plan also provides the main elements for the Strengthening of the National Transmission Grid, including a short term (2015-2020) investment program estimated at about US\$600-800 million ? of which more than US\$500 million for the Southern Interconnected Grid (SIG). Given the significant and still growing investment backlog in transmission infrastructure, the swift rehabilitation and modernization 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. Furthermore, in view of the ambitious speed and size of the GoC?s hydropower development plans, the resolute acceleration of grid rehabilitation and expansion efforts is widely regarded as the critical cornerstone for further power sector expansion.

The proposed IBRD operation is part of a suite of WBG instruments supporting the energy sector, which is anchored in strong sector dialogue with the authorities. Under the ESDP, the World Bank is assisting the GoC updating the sector framework and supports rural electrification, analytical work on least cost energy sector planning, including rural electrification, and strengthening of regulatory capacity. In particular ESDP also supports the GoC on the establishment and operationalization of the Transmission System Operator (TSO).

The proposed IBRD operation is part of a suite of WBG instruments supporting the energy sector, which is anchored in strong sector dialogue with the authorities. Over the years, the WBG has built up close working relationships with sector stakeholders and is a trusted partner to policy, institutional development, and investment in the sector. The WBG has an integrated approach along the energy value chain. The proposed operation will focus mainly on transmission, and will complement the ongoing and pipeline support to hydropower and gas-based generation, distribution, and rural electrification. IDA already supports the GoC on the establishment and operationalization of the Transmission System Operator (TSO) through the ongoing ESDP.

Relationship to CAS

The proposed project supports the strategic objectives of the GoC?s Vision 2035 to achieve shared growth, reduce poverty, and create jobs through increased industrialization, improved productivity, and better governance. The GoC?s Growth and Employment Strategy Paper 2010-2019 aims to increase non-oil growth by investing in key infrastructure, improving productivity and the business climate, and strengthening human development and regional integration. Developing Cameroon?s vast hydropower resources, starting with the LPHP, as enabling infrastructure for growth and poverty reduction is a strategic pillar of Vision 2035.

The Cameroon Country Assistance Strategy (CAS) dates from February 2010 and covers the period from 2010 to 2013 (a 2012 CAS Progress Report extended the CAS period by one year. A new Country Partnership Framework is being prepared and should be presented to the Board in FY16. The preparation of the Systematic Country Diagnostic (SCD) was just completed; the Concept Note review took place on February 27, 2015.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

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

Key Results (From PCN)

- (i) Increase in transmission network's wheeling capacity (MW);
- (ii) Reduction in transmission network losses (percentage);
- (iii) Reduction in the number of power outages that are linked to malfunctions in the transmission system (System Interruption Indices) and/or improvement of transmission system stability (Voltage/Power Transfer Stability)
- (iv) Establishment of a functional National Electricity Transmission System Operator (NTSO);

III. Preliminary Description

Concept Description

The proposed project will finance priority investments to upgrade and extend the national transmission networks and strengthen the reliability of power supply in the interconnected systems. It will also support the sustainable institutional setup to manage and operate the existing and new transmission asset. Lastly, by supporting the development of a hydropower project on the Sanaga River, it will support the further development of the sector and ensure that the additional transmission capacity will in the future be utilized for cheap and clean power.

The proposed project's main components, to be discussed with the government, are the following: (1) establishment and operationalization of the national Transmission System Operator (TSO); (2) strengthening of the national transmission grid; (3) technical support for competitive bidding for a selected cost-efficient large-scale hydropower site; and (4) project management support and capacity building.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
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	

V. Financing (in USD Million)

Total Project Cost:	325.00	Total Bank Financing:	325.00
Financing Gap:	0.00		

Financing Source	Amount
Borrower	0.00
International Bank for Reconstruction and Development	325.00
Total	325.00

VI. Contact point

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