

PROJECT INFORMATION DOCUMENT (PID)
ADDITIONAL FINANCING

Report No.: PIDA8113

Project Name	CG-Add. Fin. Water, Electricity & Urban Dev. SIL (P147456)
Parent Project Name	Rep. of Congo - Water, Electricity & Urban Development SIL (LEN) (P106975)
Region	AFRICA
Country	Congo, Republic of
Sector(s)	Sub-national government administration (50%), Transmission and Distribution of Electricity (25%), Water supply (20%), Public administration- Water, sanitation and flood protection (5%)
Theme(s)	City-wide Infrastructure and Service Delivery (35%), Other urban development (25%), Water resource management (25%), Urban services and housing for the poor (10%), Municipal governance and institution building (5%)
Lending Instrument	Investment Project Financing
Project ID	P147456
Parent Project ID	P106975
Borrower(s)	Republic of Congo
Implementing Agency	PEEDU PCU
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	09-Jul-2014
Date PID Approved/Disclosed	17-Jul-2014
Estimated Date of Appraisal Completion	30-Jun-2014
Estimated Date of Board Approval	16-Sep-2014
Decision	

I. Project Context

Country Context

1. In the early 2000's, the Republic of Congo (RoC) began a process of reconstruction and stabilization of institutions and public administration, thus marking the end of the series of civil conflicts of the 1990's. The country successfully held presidential, senatorial and legislative elections between 2002 and 2012. Although the political environment remains fragile, substantial progress in rebuilding and consolidating peace has been made. Prospects for full restoration of peace offer RoC a unique opportunity to focus its full attention on strengthening its still fledgling institutions, and stimulating a robust economic growth in order to combat poverty and inequality. From 2010 to 2013, Congo's average annual growth rate has been 4.8 percent, which is lower than the 7-to-8 percent target by the National Development Plan (NDP) over the period 2012-2025 to

achieve the country's ambition. In addition, in the past three years, the average annual growth rate of real GDP per capita was only 2.2 percent, while the targeted rate lies between 4.5 and 6.5 percent. The main challenge for Congo is how to use its oil resources effectively to develop the non-oil sector which is better equipped to turn GDP growth into an inclusive growth and a shared prosperity. Indeed, according to the 2011 household survey, the poverty rate has dropped only by 4 percentage points to 46.5 percent in 2011 from 50.5 percent in 2005.

Sectoral and institutional Context

2. RoC continues to face limited access to modern energy services with only 38 percent of the population having access to electricity. The energy mix is highly dependent on gas and hydro generation. The country's electricity sector faces five main challenges: (i) reforming the energy sector, the power utility in particular (see next paragraph); (ii) providing security of supply in the face of frequent interruptions and poor service quality; (iii) expanding generation capacity to meet a rapidly increasing demand and securing sufficient supply of low cost electricity to increase access; (iv) improving the efficiency and equity in energy services provision by reforming tariff and rationalizing subsidy policies in a context of high operation costs, and improved demand-side management.

3. The financial condition of the Société Nationale d'Electricité (SNE) is fragile. The financial problems stem from below-cost tariffs that do not reflect the increasing operation costs due to recent investments in generation, low collection rate and high losses leading to a significant additional cost burden. Transit capacity is weak, transmission network conditions are poor and power supply is frequently disrupted. Inadequate and uncoordinated investments in network infrastructure and preventive maintenance have led to deterioration in electricity distribution infrastructure. This in turn has resulted in poor quality of electricity supply and operational inefficiencies. Losses in the distribution network are above 50 percent while total commercial losses are close to 70 percent. To address some of these key issues, the Government's sector reform strategy aims at: (i) increasing generation capacity to foster economic development; (ii) restoring the financial viability of the power companies; (iii) improving the operational performance of the SNE; and (iv) scaling up access to electricity to reduce the urban-peri-urban imbalances.

4. SNE is reported to have a capital of \$US 100 million and a turnover of approximately \$US 80 million in 2013; the company is not efficient: up to 35% of turnover is spent on staff costs against ratios of 486 kwh sold per agent, and 71 customers per agent, which is far below the standards of moderately performing companies in the sub-region. SNE's financial survival is essentially guaranteed by various subsidies from the Government. This artificial back-up from the government is having negative consequences on the smooth-running of the electricity sector. The financial statements from recent years have not been certified and therefore do not constitute reliable data source to assess the financial health of the company. Nonetheless, results from the sector diagnosis carried out during the parent project allow for the following observations (i) SNE's equity is negative due to accumulation of losses over several years; the utility has avoided bankruptcy only because of the Government support, (ii) the evolution of the debt ratio shows the total dependence of SNE towards the State, and its inability to mobilize its own resources to live up to its financial commitments.

5. The Government has made significant investments in the power sector since 2003, namely with the construction of the 120 MW Imboulou hydropower plant located 260 km away from

Brazzaville, and a 30 MW thermal power plant to further secure the supply in electricity in Brazzaville. Additionally, the Government, in partnership with ENI, an Italian energy company, has implemented two 300 MW turbines gas power plant (CEC) commissioned respectively in 2010 and in 2011. Furthermore, efforts have been made to extend the transmission network to the northern part of the country to Owando and Boundji, therefore doubling its length. The installed generation capacity is now close to 600 MW: 209 MW hydro, 350 MW thermal gas and 41 MW diesel power.

6. The parent project, the PEEDU, mainly concentrated in the cities of Brazzaville and Pointe Noire, aimed to assist the Government to strengthen its efforts in implementing its agenda of urban poverty reduction through (i) the construction or rehabilitation of basic infrastructure (drainage, roads, rehabilitation/construction of community facilities, treatment of erosions), institutional strengthening, targeted municipal support programs to strengthen municipal management and fiscal performance at the local level in Brazzaville and Pointe-Noire; (ii) the implementation of measures to increase sustainable access to safe drinking water including the water sector reform, investment and institutional support, (iii) technical assistance to develop a comprehensive strategy for the electricity sector reform, and support to the Government to effectively implement the reform.

7. The studies in the electricity sector financed under the first phase of the project reveal the need to reform the power sector, the utility in particular, and the urgency to proceed with some investments in order to restore the system's reliability and viability along with the entire sector credibility vis-à-vis the economic agents. Building on those studies, the Government has already initiated some changes towards achieving the recommendations set forth by those studies and recently also contracted Electricité de France (EDF) to help define a strategy to improve the SNE's commercial performances.

8. Through investments targeted to improve the efficiency of electricity supply, the AF would help improve the financial viability of the sector, which in turn will reduce the power sector's fiscal burden on the economy and create space for social investments. The proposed AF would (a) provide financing for network reinforcement and rehabilitation; and (b) provide knowledge and experience for improved distribution system management, particularly with respect to commercial performance.

II. Proposed Development Objectives

A. Current Project Development Objectives – Parent

To increase sustainable access to basic infrastructure and safe drinking water for the inhabitants of Brazzaville and Pointe Noire.

B. Proposed Project Development Objectives – Additional Financing (AF)

To increase access to basic infrastructure services, safe drinking water and electricity to the inhabitants of targeted areas in the cities of Brazzaville and Pointe Noire.

III. Project Description

Component Name

SNE Electricity Distribution & Transmission System Upgrade

Comments (optional)

Component Name

Improvement of operation performance of SNE in key business areas, with specific emphasis on sustainable loss reduction

Comments (optional)

Component Name

Institutional Strengthening and Capacity Building

Comments (optional)

IV. Financing (in USD Million)

Total Project Cost:	150.00	Total Bank Financing:	60.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
BORROWER/RECIPIENT			90.00
International Bank for Reconstruction and Development			45.00
International Development Association (IDA)			15.00
Total			150.00

V. Implementation

9. Given the need for rapid results on the ground and the satisfactory results of the arrangements which are already in place for the Parent Project, the AF will be implemented through the same mechanism. The current Project Coordination Unit will ensure effective coordination and implementation of project activities. Overall guidance for project coordination and operations will be provided by a steering committee chaired by a representative of the Ministry of Planning. Details on the operating procedures are spelled out in the Project Implementation Manual (PIM). With respect to the electricity sector under the AF, SNE contract an implementation agreement with the Government with similar terms to the one between SNDE (the Water utility) and the Government - under the Water Supply Component of the original project. The agreement will specify that investments under the new activities which fall under the responsibility of the Government (as owner of the network) will be implemented by the PCU and SNE will participate in the procurement process and implementation of the works, by providing the PCU with its technical views on the works. SNE will benefit from this participation by gaining a better understanding of the investments. In this regard, a special unit has been set up within SNE including staff dedicated to the implementation of the additional financing activities.

- The PCU will remain the Bank’s main counterpart and focal point for Project implementation. It will be responsible for: (i) overall implementation; (ii) coordination with technical ministries and other relevant entities for the successful implementation of all components; (iii) management of contracts awarded under the project; (iv) financial management; (v) reporting to the Bank; and (vi) management of a proactive communication campaign. The PCU has satisfactorily handled similar responsibilities under the initial Project.

- The Steering committee (SC): (i) oversees the PCU activities, with a focus on effectiveness and transparency; (ii) provides overall guidance as may be needed; and (iii) facilitates the

coordination of the various public institutions involved in the Project. The SC will continue playing this role for the AF.

- Selected technical entities will be involved in the implementation of the Project. The Ministry of Energy and Hydraulic will remain involved for the Additional financing for electricity investments through DGE (Direction Générale de l'Electricité).

Closing date

10. The activities financed under the AF are expected to be fully implemented by the end of December 2019. However, the original project closing date will be extended to enable completion of the ongoing project activities under the Water Component.

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

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