I. Project Context

Country Context

Comoros is one of the smallest countries in Africa. It has an estimated population of 760,000, is spread among three islands and is extremely poor. Gross Domestic Product (GDP) per capita is estimated at US$785 and, based on 2004 estimates, about 45 percent of the population lived below the poverty line, an incidence that has probably increased since then. Poverty incidence varies considerably across regions. The primary sectors of the economy are agriculture (mainly subsistence agriculture, a few cash crops, and fisheries) and retail services, representing about one-half and one-fifth of the country's GDP, respectively. The third largest sector is government services, representing about 10 percent of GDP. With longstanding outmigration, the country benefits from large and growing remittances (close to 20 percent of GDP) from the Comorian diaspora that are mainly based in France.

Comoros has yet to emerge from a protracted fragility trap. The country’s history presents the main characteristics of a low-growth fragility trap. In the three decades since independence, it has experienced several coups, demands for more autonomy from the constituent islands (of Grande Comore, Anjouan and Moheli) and frequent changes in governments. Regular changes in the management of parastatals and weak institutional capacity combined with the political instability
have taken a severe toll on the government’s ability to deliver high quality basic services.

While in the past, political instability has plagued the country, 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 constitutional revision, paving the way towards gradual political normalization. The 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. 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 three years, the observed relative political stability could set a basis for a new focus on the continuous reform program in the Comoros.

However, the challenges ahead are enormous. Economic growth is edging up, albeit at still much too low a level for an impact on poverty reduction. Economic growth in 2012 came out at 2.5 percent, from 2.2 percent the previous year, driven by a favorable performance of the agricultural sector, robust remittances and associated housing construction, and a modest recovery in foreign direct investment. While positive aggregate growth is a welcome break from the past, it is still too low: with population growth estimated at 2.4 percent a year, much faster economic growth, sustained over a long period, will be needed to affect poverty. In such a situation, efforts are needed to gradually restore confidence in the government’s ability to manage the complex political and economic transition from fragility to resilience.

The government is making headway in addressing structural problems that have long constrained growth. Beyond decades of political and macro-policy instability, a range of untreated structural ailments has affected the scope for rapid growth, ranging from a difficult business environment of red tape to deficient infrastructure. In the case of the energy sector, the government is developing a power sector reform program focused on improving the power company's management and operational performance, amongst others.

**Sectoral and institutional Context**

In terms of energy use, it is estimated that biomass (wood and charcoal) currently makes up 70% of energy use in Comoros. The remainder comes almost entirely from imported oil products of which 21% is used directly and 8% is used to generate electricity. 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 poor situation of the country with regard to electricity supply, especially in the Island of Grande Comore.

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 ~50% 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.
Electricity service provision is divided between two state owned enterprises, MA-MWE (Gestion de l’Eau et de l’Electricité aux Comores) – which provides electricity supply services to both the islands of Grande Comore and Moheli – and Electricité d’Anjouan (EDA) – which serves the island of Anjouan. MA-MWE 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, transmission and distribution in their respective service areas. There are no electric interconnections between the islands.

Electricity generation in Grande Comore is made up of diesel fuel generators, with an installed capacity of 18 MW (plus 9 MW of Chinese-donated generators that have yet to be made operational) with peak demand around 11 MW (and unconstrained peak demand estimated around 17 MW). This implies that installed generation capacity is adequate. However, the condition of the generation equipment is very poor requiring significant maintenance and/or rehabilitation efforts. Available generation is significantly less than peak demand. EDA in comparison is smaller (generation capacity of 6 MW). Available generation and peak demand are fairly closely matched.

MA-MWE’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. MA-MWE’s billing rate is 55% and it then collects only 58% of the amount billed. Such statistics are strong evidence for significant under performance of the sector including day-to-day management by MA-MWE. EDA performs significantly better on these measures, with billing rates at 60% and collection rates above 90%. The company was not able to rely on Government of Comoros (GoC) support when Anjouan was de facto governed independently. This might explain why EDA has maintained payment discipline more effectively than MA-MWE and still offers more reliable electricity supply.

The two Comorian power utilities (MA-MWE and EDA) are in a structural situation of ongoing 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 taxes on fuel. Overall, the energy sector represents a high burden on public finances. MA-MWE’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. However, 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). A significant increase is expected by the end of 2012, since the GoC had to recapitalize SCH in order to secure fuel imports.

An energy sector diagnostic prepared in 2011-12 with World Bank support is acting as a major driver for prioritization of activities. It 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 MA-MWE which led to financial distress (billing, collection, financial management, etc), resulting in a 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 MA-MWE’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.
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 funds for developing alternative lower cost renewable energy based production capacities.

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 identified priority areas are:

- A comprehensive reform of corporate governance and commercial and technical management of MA-MWE to ensure sustainability of operations and reduced budgetary burden combined with rehabilitation of the existing facilities (generation, transmission and distribution systems) to improve reliability of supply;
- 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;
- Institutional sector reform including governance of sector enterprises, and energy pricing; and
- Improvement and extension of the petroleum storage capacities to improve safety and security of supply.

The four priority areas laid out in the energy sector policy note by the Government (as described above) represent a convincing and comprehensive strategy. The Comorian authorities have recognized that the acute power supply situation is due to a number of linked factors: poor billing and collection practices, difficulties with the purchase of fuel and inability to carry out periodic and appropriate maintenance on generators. These factors are all linked to MA-MWE’s operational and technical performance. Without addressing these factors, sustained sector recovery would be impossible. The four priority areas are interdependent and would need to be supported simultaneously, in order to expect a sustained recovery of the sector. Donors and the authorities have agreed on a holistic approach combining support to improve the operational performance of the utilities with support for physical investments.

**II. Proposed Development Objectives**

The Project Development Objective is to contribute to the improvement in the electricity sector’s commercial and financial performance.

**III. Project Description**

**Component Name**

Component 1: Assistance to the Electricity State-owned Enterprises’ Commercial and Financial Performance Recovery.

**Comments (optional)**

This component will include two related sub-components: 1.a: Commercial and Financial Technical Assistance and 1.b: Commercial and Financial Performance Enhancement.

**Component Name**

Component 2: Electricity Sector Governance.

**Comments (optional)**

This component will finance technical assistance, capacity building activities and studies related to key aspects of sector governance.
Component Name
Component 3: Project Management.

Comments (optional)
This component would support the overall coordination, management and monitoring functions of the Project carried out by a Project Implementation Unit (PIU). It will also support certain project pre-

IV. Financing (in USD Million)

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V. Implementation

VI. Safeguard Policies (including public consultation)

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Comments (optional)

VII. Contact point

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