

# **AFRICAN DEVELOPMENT FUND**



## **UNION OF THE COMOROS**

### **ENERGY SECTOR SUPPORT PROJECT**

#### **SUPPLEMENTARY GRANT MEMORANDUM AND RECOMMENDATION**

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**RDGE DEPARTMENT**

May 2019

*Translated document*

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## Currency Equivalents

March 2019

UA1 = KMF 602.454

UA1 = EUR 1.22458

UA1 = USD 1.39798

## Fiscal Year

1 January - 31 December

## Weights and Measures

m	meter	1 m	•	kep	kilo oil equivalent	
cm	centimetre	0.01 m	•	V	volt	1 V
mm	millimetre	0.001 m	•	kV	kiloVolt	1000 V
km	kilometre	1.000 m	•	kVA	kiloVolt Amper	1000 VA
m <sup>2</sup>	Square metre	1 m <sup>2</sup>	•	W	Watt	1 W
cm <sup>2</sup>	Square centimetre	0.0001 m <sup>2</sup>	•	kW	kiloWatt	1000 watts
mm <sup>2</sup>	Square millimetre	0.01 cm <sup>2</sup>	•	MW	Mega Watt	1000 kW
km <sup>2</sup>	Square kilometre	1 000 000 m <sup>2</sup>	•	GW	GigaWatt	1000 MW
ha	hectare	10 000 m <sup>2</sup>	•	kWh	kiloWatt-hour	1000 Wh
kg	kilogramme	1000 g	•	MWh	MegaWatt-hour	1000 kWh
t	Metric ton	1 000 kg	•	GWh	GigaWatt-hour	1000MWh

## Acronyms and Abbreviations

ADF	African Development Fund
AfDB	African Development Bank
BD	Bidding Documents
BoD	Board of Directors
BPM	Bank's Standard Procurement Methods and Procedures
CEPW	Civil Engineering and Public Works
CIF	Climate Investment Fund
CPMU	Central Project Management Unit
CPS	Country Procurement System
CSI	Core Sector Indicator
CSP	Country Strategy Paper
CSS	Climate Safeguards System
DD	Detailed design
ECF	Extended Credit Facility
ENPV	Economic Net Present Value
EDA	<i>Electricité d'Anjouan</i>
ERR	Economic Rate of Return
ESIA	Environmental and Social Impact Assessment
ESMP	Environmental and Social Management Plan
EU	European Union
FRP	Full Resettlement Plan
FSF	Fragile States Facility
GHG	Greenhouse gases
IEC	Information Education Communication
IFRR	Internal Financial Rate of Return
IMF	International Monetary Fund
ISS	Integrated Safeguards System
JCAS	Joint Country Analysis and Strategy
LV	Low Voltage
MAM-WE	Comoros Water and Electricity Utility
M & E	Monitoring and Evaluation
MV	Medium Voltage
DCC	Determined Country Contribution
NGO	Non-Governmental Organisation
NPV	Net Present Value
PANA	National Adaptation Plan
PASEC	Comoros Energy Sector Support Project
PCN	Project Concept Note
PIU	Project Implementation Unit
PP	Procurement Plan
PPIP	Portfolio Performance Improvement Plan
PRSP	Poverty Reduction Strategy Paper
RSBD	Relevant Standard Bidding Documents
RAP	Resettlement Action Plans
RB	Restricted Bidding
SBD	Standard Bidding Document
SCA2D	Accelerated Growth and Sustainable Development Strategy
SEP	Stakeholder Engagement Plan
SONELEC	<i>Société Nationale d'Electricité des Comores</i>
TFPs	Technical and Financial Partners
TSF	Transition Support Facility
UA	Unit of Account

## PROJECT INFORMATION

### CLIENT INFORMATION

**DONEE :** Union of the Comoros

**EXECUTING AGENCY:** Ministry of Energy, Agriculture, Fisheries, Environment, Regional Development and Town Planning

<b>REVISED FINANCING PLAN</b>		
<b>Sources</b>	<b>Amount (UA Million)</b>	<b>Instrument</b>
<b>Initial Financing</b>		
Transition Support Facility (Pilar I)	<b>8</b>	Grant
African Development Fund (ADF-12)	<b>5.38</b>	Grant
World Bank (IDA)	<b>3.336</b>	Grant
<b>Total initial financing</b>	<b>16.716</b>	
<b>Supplementary financing</b>		
African Development Fund (ADF-14)	<b>6.96</b>	Grant
<b>Total supplementary financing</b>	<b>6.96</b>	
<b>Total revised project financing</b>	<b>23.676</b>	

### ADF Grant Financial Information

Grant currency	Unit of Account
Interest type *	NA
Base interest rate*	NA
Service charge*	NA
Front-end fee	NA
Maturity	NA
Grace period	NA

*\*if applicable*

<b>KEY FINANCIAL AND ECONOMIC RESULTS</b>		
Project with supplementary financing	FIRR: 22.8%	FNPV: USD 12.6 million
	ERR: 19,5%	ENPV: USD 7.2 million
Initial project	FIRR: 20,4%	FNPV: USD 11.6 million
	ERR: 22%	ENPV: USD 10.7 million

### Timeframe and Key Milestones

Concept Note Approval: NA

Project approval : May 2019

Effectiveness: August 2019

Last disbursement deadline: January 2022

Completion: November 2021

## **Project Summary**

### **1. *Project Overview***

1.1 In September 2013, the African Development Bank approved a grant from the African Development Fund (ADF) and another from the Transition Support Facility (TSF) for a total USD 13.38 million to restore and improve the operation of hydropower plants, thermal power plants and the distribution network, and prepare the development of renewable energy within the framework of the Comoros Energy Sector Support Project (PASEC). In 2014, the project was restructured to acquire three diesel units and supply MAM-WE with fuel for three months. Due to rapid growth in demand and service quality degradation (load shedding), SONELEC realised the need for supplementary resources to complete the planned works to ensure efficiency, while satisfying consumers. The rehabilitation of the 20 kV distribution networks was estimated at EUR 8 130 000 while the available budget was around EUR 4 900 000. Similarly, for the rehabilitation of thermal power plants, the resource requirements were estimated at EUR 8 660 000 compared to a budget allocation of approximately EUR 2 763 000. The Comoros Government then requested the Bank to provide supplementary funding for the PASEC project. The UA 6.96 million supplementary financing will mainly allow for the rehabilitation of the 20 kV distribution networks, the rehabilitation of diesel thermal power plants and the installation of hydropower generation facilities on the Domoni (Anjouan) water supply system. The total revised project amount, including the World Bank contribution, is UA 23.676 million. The project will contribute towards: (i) improving energy access through infrastructure rehabilitation for greater reliability, (ii) restoring energy production capacity through the rehabilitation of 4 diesel plants, the rehabilitation of 3 hydropower plants and the installation of hydropower generation facilities, and (iii) reducing network losses currently averaging 40% to 25%.

### **2. *Needs Assessment***

2.1 While electricity supply improved in 2017, the Union of the Comoros is currently experiencing an energy deficit that inevitably leads to load shedding. Due to largely diesel-dominated generating equipment, the electricity cost is among Africa's highest (USD 0.28 /kWh). Electricity is generated principally by small-capacity (1000 to 2000 kVA) high-speed diesel units (1500 rpm). Technical losses due to antiquated energy infrastructure in disrepair and improper structuring of distribution networks, collection issues and fraud, among other factors, have contributed to SONELEC's cash crunch. The overall performance of the Comoros electricity sector has remained rather low in recent years. In 2017, it was 58% in Grande Comore and Mohéli, and 65% in Anjouan. The project will help to curb technical losses through energy infrastructure rehabilitation while the World Bank-financed "Financial/Commercial Management" component (2013-2017) has improved the collection rate from 55% to 77.4%, and reduced losses from 45% to 36.8%. The rehabilitation of diesel plants is an immediate response to the country's energy needs. The evaluation of the country's renewable energy potential will enable the Bank to gradually move towards supporting clean energy in the Comoros while ensuring an energy mix. The project is supporting renewable energy through the rehabilitation of three (3) hydropower plants and the installation of hydropower generating facilities in Domoni.

### **3. *Bank's Value-Added***

3.1 Through the Bank's intervention, the project will be implemented and its objectives achieved. The Bank is best positioned to complete the works, having contributed to the initial funding. In designing the supplementary financing, it takes into account lessons from ongoing

operations in the Comoros and those already executed in the East Africa region from the Central Project Management Unit (CPMU) capacity building in terms of: (i) recruitment of an experienced procurement specialist consultant based in Moroni, and (ii) provision of each project management unit with an environmental, health and safety officer on Anjouan and Mohéli islands, who will also handle climate change issues. The CPMU capacity building will be further provided through the recruitment of a monitoring and evaluation officer on the project's initial resources. The CPMU will receive better technical support through the recruitment of a new consulting engineer to inspect and supervise the works.

#### **4. *Knowledge Management***

4.1 To draw useful lessons from the project, a monitoring and evaluation system will be set up to document its outputs and outcomes. Therefore, lessons will be capitalised through: (i) quarterly progress reports, (ii) supervision mission reports, (iii) the consultant's monthly reports, (iv) audit reports, and (v) project completion reports. Supervision reports and completion reports will be posted on the Bank's website. The data collected through all these reports will be used subsequently to prepare and develop similar operations.



# **MANAGEMENT'S REPORT AND RECOMMENDATION TO THE BOARD OF DIRECTORS OF THE AFRICAN DEVELOPMENT BANK GROUP CONCERNING A GRANT FROM THE AFRICAN DEVELOPMENT FUND TO THE FEDERAL REPUBLIC OF THE UNION OF THE COMOROS FOR THE SUPPLEMENTARY FINANCING OF THE COMOROS ENERGY SECTOR SUPPORT PROJECT**

Management hereby submits this report and recommendations concerning a proposal for an ADF grant of UA 6.96 million to the Federal Republic of the Union of the Comoros for supplementary financing of the Comoros Energy Sector Support Project.

## **I. INTRODUCTION**

1.1 In September 2013, the African Development Bank approved a grant from the African Development Fund (ADF) and another from the Transition Support Facility (TSF) amounting to UA 13.38 million (USD 20 million) to restore and improve the operation of hydropower plants, thermal power stations and the distribution network, and prepare the development of renewable energy under the Comoros Energy Sector Support Project (PASEC). Due to the rapid growth of demand and service quality deterioration (load shedding), SONELEC has realised the need for supplementary resources to complete the planned works and ensure efficiency while satisfying consumers. The cost of rehabilitating the 20 kV distribution networks was estimated at EUR 8 130 000 compared to the available budget of approximately EUR 4 900 000. Similarly, for the rehabilitation of thermal power plants, resource requirements were estimated at EUR 8 660 000 while the budget allocated was approximately EUR 2 763 000. The Comoros Government then approached the Bank to provide supplementary financing for the PASEC project. This supplementary financing amounting to UA 6.96 million will be used principally to complete the rehabilitation of the 20 kV distribution networks, rehabilitate the thermal power plants and install hydropower generation facilities with a 300 kW capacity on the Domoni (Anjouan) water supply system.

## **II. DESCRIPTION OF THE INITIAL PROJECT**

### **2.1. Objectives**

2.1.1 The project will help to restore and improve the operation of the electricity grid, generating plants and the distribution network, and prepare the development of renewable energy.

### **2.2. Description of Components**

2.2.1 The project components and associated costs are presented in Table 2.1 as they appear in the Appraisal Report. However, in a context of energy crisis, the project was restructured on 1 July 2014 to finance the purchase of 3 generators and diesel supply for 3 months.

2.2.2 The project includes a "Financial/Commercial Management" component to enhance SONELEC's business performance and sector governance. This component is financed by the World Bank for UA 3.336 million. Thus, the total project cost stood at UA 16.716 million. Given the application of the parallel co-financing method, this memorandum will be limited solely to the Bank's financing. However, it is important to clarify that the implementation of this component (2013-2017) has improved the recovery rate from 55% to 77.4%, and reduced losses from 45% to 36.8%.

Table 2.1: Project Components

Table 2.1 Project Components (in UA million)				
No.	Components	Estimated Cost BR <sup>1</sup>	Estimated cost AF <sup>2</sup>	Component Description
A	Support to rehabilitation and technical implementation	10.047	11.910	<p>This support covers the preparation and implementation of the following activities:</p> <ul style="list-style-type: none"> <li>• Engineering studies on: (i) networks, (ii) energy management, and (iii) renewable energy</li> <li>• Rehabilitation of production and transmission infrastructure (power plants and injection /departure</li> <li>• Network rehabilitation</li> <li>• Implementation of energy management: (i) distribution of low-energy lamps, (ii) setting up of a small solar project connected to the grid.</li> </ul>
B	Institutional support	2.347	0.300	<ul style="list-style-type: none"> <li>• Provision of technical assistance for project implementation and management of the two utility companies</li> </ul>
C	Project management	0.986	1.170	<ul style="list-style-type: none"> <li>• Audit of project accounts</li> <li>• Works inspection and supervision</li> <li>• Running of the Project Implementation Unit</li> </ul>
<b>Total (UA million)</b>		<b>13.38</b>	<b>13.38</b>	

### III. FINANCING METHODS

#### 3.1. Project Cost

3.1.1 The total cost of the initial project, excluding taxes and customs duties, but including a 10% provision for physical contingencies and price escalation is estimated at UA 13.38 million. The total project cost is 40.2% financed from the resources of the Transition Support Facility (TSF), and 59.8% from the resources of the African Development Fund (ADF). The initial project costs by expenditure category and by component are shown in the Tables 3.1 and 3.3.

#### 3.2. Financing Plan

3.2.1 The project financing plan is shown in Table 3.2. The TSF grant will finance the cost of works. The ADF grant will finance: (i) services, including supervision of works and engineering studies, (ii) running of the Project Implementation Unit, (iii) part of the works, (iv) acquisition of property, and (v) other related costs.

<sup>1</sup> BR: before restructuring

<sup>2</sup> AF: after restructuring

<b>Table 3.1</b>				
<b>Estimated Cost by Component (UA million)</b>				
<b>Components</b>	<b>For. Exch.</b>	<b>Loc. Cur.</b>	<b>Total</b>	<b>% For. Exc.</b>
Support to the rehabilitation and technical implementation	<b>10.047</b>	0	<b>10.047</b>	100 %
Institutional support	<b>2.347</b>	0	<b>2.347</b>	100 %
Project management	<b>0.986</b>	0	<b>0.986</b>	100 %
<b>Total project cost</b>	<b>13.380</b>	<b>0</b>	<b>13.380</b>	<b>100%</b>

<b>Table 3.2</b>				
<b>Project Sources of Financing (UA million)</b>				
<b>Sources of Financing</b>	<b>For. Exch.</b>	<b>Local Curr.</b>	<b>Total</b>	<b>% Total</b>
TSF	8	0	<b>8</b>	59.8%
ADF	5.38	0	<b>5.38</b>	40.2%
<b>Total project cost</b>	<b>13.38</b>	<b>0</b>	<b>13.38</b>	100%

<b>Table 3.3</b>				
<b>Initial Project Cost by Expenditure Category (UA million)</b>				
<b>Sources of Financing</b>	<b>For. Exch.</b>	<b>Loc. Cur.</b>	<b>Total</b>	<b>% For. Exc.</b>
Works	3.124	0	<b>3.124</b>	100 %
Services	0.864	0	<b>0.864</b>	100 %
Goods/Equipment	9.265	0	<b>9.265</b>	100 %
Other	0.127	0	<b>0.127</b>	100 %
<b>Total project cost</b>	<b>13.38</b>	<b>0</b>	<b>13.38</b>	100%

### **3.3. Implementation Schedule, Progress Report, Performance Evaluation and Disbursement Rate**

3.3.1 Following its approval in September 2013, the project entered the execution phase with the start of rehabilitation works after the signing of the main contracts: (i) Rehabilitation of distribution networks (September 2018), (ii) Rehabilitation of hydropower plants (September 2018), and (iii) Rehabilitation of diesel thermal power plants (November 2018). Project implementation was delayed due to: (a) restructuring in 2014 for the purchase of three diesel units and the supply to MAM-WE of fuel for three months, (b) the lengthy CPMU staff recruitment process, (c) the lengthy consulting engineer recruitment process and the need for further engineering studies, (d) the slow recruitment of construction contractors, and (e) the slow start-up of rehabilitation works for hydropower plants. However, a substantial improvement in the disbursement rate is expected for 2019. It is anticipated that the PASEC disbursement rate, which stood at 30.9% on 28 February 2019, will increase to 77.5% at end-December 2019, with the effective implementation of the major project activities whose contracts were signed in 2018.

#### **IV. REASONS FOR THE PROPOSED SUPPLEMENTARY FINANCING, INCLUDING THE PROPOSED PROJECT MODIFICATIONS**

##### **4.1. *Inadequate budget allocation and installation of hydropower generating equipment***

4.1.1 The main reason for the supplementary financing requirement is the inadequacy of the budgetary allocation to cover the costs of the rehabilitation works. The rehabilitation of the 20 kV distribution networks was estimated at EUR 8 130 000 following the additional engineering studies to better define the structures, compared to the available budget of approximately EUR 4 900 000. Similarly, for the rehabilitation of thermal power plants, resource requirements were estimated at EUR 8 660 000 while the budget allocated was in the region of EUR 2 763 000. Thus, following the dialogue mission fielded from 25 to 28 September 2018, the Comoros Government requested supplementary financing from the Bank for the PASEC project. The UA 6.96 million supplementary financing will be used mainly to complete the rehabilitation of the 20 kV distribution networks, the rehabilitation of thermal power plants and the installation of hydropower generation equipment in Domoni, as well as the head office of SONELEC, the Comoros power utility.

4.1.2 Hydropower generating equipment is being installed on the Domoni water supply system in a bid to rehabilitate production resources using an innovative approach. The installation of hydropower generating equipment will support Domoni's water supply infrastructure (20,000 inhabitants), including the intake, pressure chamber and the conduit. The EUR 5.7 million water supply project is co-financed by the European Union (EUR 4.2 million) and the French Development Agency (EUR 1.5 million). Hence, the supplementary financing will contribute towards enhancing the water supply project's development objective through its energy component.

##### **4.2. *Project Description with the Supplementary Financing***

4.2.1 The objectives of the project as initially approved in September 2013 have not changed, neither have its components, which remain:

- (i) Support to rehabilitation and technical implementation
- (ii) Institutional support
- (iii) Project Management

4.2.2 The costs of the three components are higher (Table 4.1) following the supplementary financing. The cost of Component A is higher due to the need to complete the rehabilitation of the 20 kV distribution networks, the rehabilitation of thermal power stations, and the installation of hydropower generating equipment on the Domoni water supply system and the construction of the SONELEC head office. The cost of Component B has risen due to the need for: (i) construction works inspection and supervision services, (ii) implementation of the environmental and social management plan, and (iii) implementation of climate change adaptation measures. Lastly, the cost of Component C has increased in view of the services needed for: (a) project account audit, and (b) accounting software.

### 4.3. Revised Project Cost

4.3.1 The revised overall estimated project cost stands at UA 20.34 million net of taxes, entirely in foreign exchange. The additional cost resulting from the revised cost is UA 6.96 million, excluding taxes. The summary of revised project cost estimates by component and expenditure category is shown in Tables 4.1 and 4.2. For the supplementary financing, the provision for contingencies and the provision for price escalation were each taken at 4.74%.

*Table 4.1: Revised Project Cost by Component (UA)*

Component	Initial Cost (UA)			Revised Cost (UA)		
	FE	LC	Total	FE	LC	Total
Support to rehabilitation and technical implementation	10719000		10719000	15853817		<b>15853817</b>
Institutional support	270000		270000	1374183		<b>1374183</b>
Project management	1053000		1053000	1114000		<b>1114000</b>
Base cost	12042000		12042000	18342000		<b>18342000</b>
Provision for contingencies (5%)	669000		669000	999000		<b>999000</b>
Provision for price escalation (5%)	669000		669000	999000		<b>999000</b>
<b>Total project cost</b>	<b>13380000</b>		<b>13380000</b>	<b>20340000</b>		<b>20340000</b>

*Table 4.2: Revised Project Cost by Expenditure Category (UA)*

Expenditure Category	Initial Cost (UA)			Revised Cost (UA)		
	FE	LC	FE	LC	FE	Total
Works	9203463		9203463	12 475 148		12 475 148
Goods	309510		309510	2 172 642		2 172 642
Services (consultants and other)	1357308		1357308	2522491		2522491
Operation	256185		256185	256185		256185
Restructuring	833589		833589	833589		833589
Other	81945		81945	81945		81945
<b>Base cost</b>	<b>12042000</b>		<b>12042000</b>	18342000		<b>18342000</b>
Provision for contingencies (5%)	669000		669000	999000		999000
Provision for price escalation (5%)	669000		669000	999000		999000
<b>Total project cost</b>	<b>13380000</b>		<b>13380000</b>	20340000		<b>20340000</b>

### 4.4. Revised Financing Plan

4.4.1 Table 4.3 below gives the revised project financing plan:

*Table 4.3: Revised Financing Plan (UA)*

Component	ADF-12 Grant	TSF Grant	ADF-14 Grant	Total
<b>Support to rehabilitation and technical implementation</b>	3 910 000	8 000 000	5 672 750	17 582 750
<b>Institutional support</b>	300 000		1 219 859	1 519 859
<b>Project management</b>	1 170 000		67 391	1 237 391
<b>Total</b>	<b>5 380 000</b>	<b>8 000 000</b>	<b>6 960 000</b>	<b>20 340 000</b>

4.4.2 The additional project cost of UA 6.96 million will be fully (100%) financed from ADF resources (ADF-14 Performance-Based Allocation).

#### **4.5. Implementation Arrangements**

4.5.1 *Institutional Arrangements:* Institutional arrangements remain unchanged. However, it is worth noting that a functional separation has been made between energy and water activities. Following the MAM-WE and EDA merger, the new power utility, SONELEC, henceforth covers the three islands.

4.5.2 *Procurement Arrangements:* To a fair extent, the legal framework governing public procurement and public service delegations in the Comoros meets internationally recognised good practice. The same holds true for the institutional set-up recommended for public procurement procedure management. However, the system is yet to go fully operational, some regulatory provisions and critical functions remaining only partially applied, while others are nowhere near that. An analysis of the critical sub-indicators as defined in the MAPS revealed some weaknesses capable of having an adverse impact on the use of the Country Procurement System (CPS).

4.5.3 Pending the implementation of remedial reform actions and to mitigate potential risks arising from the said weaknesses, the Bank will, within this project framework, endeavour to secure arrangements whereby: (i) a prior agreement on the Procurement Plan (PP) is reached between the Bank and the Government, identifying the contracts to be awarded via Direct Contracting and Restricted Bidding, (ii) ex-ante audit of contracts eligible for such audit will be systematically referred to the DNCMP, (iii) the Executing Agency is adequately equipped to exercise internal control (existence of a public procurement unit), (iv) project activities include systematic periodic post-reviews (ex-post audits) of all expenditures below the DNCMP audit thresholds, and (v) procurement audits will be systematic, financed from project resources and conducted under ARMP supervision in cases of CPS use.

4.5.4 Accordingly, all procurements under this project will be conducted as per the Procurement Framework for Bank Group-Funded Operations of October 2015 as well as the provisions to be set out in the Financing Agreement. An assessment of the Comoros public procurement system (PPS) qualifies it as a moderate risk. Therefore, using the PPS will be considered for some categories of procurement provided the mitigation measures in the Borrower's Procurement Capacity Development Action Plan (PDAP, see BPAR) are taken into account. However, the Bank's methods and procedures will be used for procurements not posing a substantial risk with the use of the Comoros procurement system. Further information on the procurement arrangements is given in Annex B5 of this Project Appraisal Report.

4.5.5 The PASEC Central Project Management Unit (CPMU) will be responsible for the procurement of goods, works, consulting and other services as described in Annex B5. A review of the CPMU's resources, capabilities, expertise and experience has revealed its need for procurement capacity building. In terms of fiduciary risk mitigation measures, a seasoned procurement consultant will be recruited for the CPMU's procurement capacity enhancement.

4.5.6 *Environmental Arrangements:* The project is listed as Category 2 under the Integrated Safeguards System (ISS) requirements. The rehabilitation and extension works of the power production units will be executed within the enclosure of the existing facilities and plants, and will thus have minor environmental impacts that are limited in time (construction phase) and space (power plant enclosure). The impacts of the rehabilitation of the MV network as well as

those relating to the installation of hydropower generation equipment will be particularly felt in the construction phase. The project will affect no sensitive species. An Environmental and Social Management Plan (ESMP) was prepared in March 2019. The ESMP summary was published on the Bank's website on 8 March 2019 for 30 days prior to the submission of the project to the Board of Directors.

4.5.7 The project will generate multiple positive impacts for the people on the three islands as well as the power utility, notably: (i) recruitment of local labour, and (ii) support for the creation of income-generating activities. The negative environmental impacts will concern soil, water and air pollution during construction. Impacts in terms of loss of biological resources will be relatively limited as transmission lines will be routed essentially along the road right-of-way and away from protected or high-ecological-value areas. The installation of MV line posts could pose collision risks for bats and big birds. Diverters will be installed on the power lines at avian flight path crossings. Furthermore, a specialist will be recruited by the project to determine measures to be implemented to avoid any impact on bats.

4.5.8 In the construction phase, contractors will be responsible for implementing ESMP provisions to minimise such impacts. Furthermore, the project will provide each management unit with an environmental, health and safety officer on Anjouan and Mohéli islands. The budget earmarked for the implementation of enhancement, mitigation or compensation measures for tree losses as well as capacity-building measures stands at EUR 370 000 and will be included in the project budget.

4.5.9 *Climate Change and Green Growth Arrangements:* Climate change generates potential risks in the Comoros Islands, including increased cyclone events, sea level rise, advancing sea and related physical processes (e.g. abundant rainfall). The coastal fringe areas logically constitute the most illustrative zone in view of their hosting the bulk of habitats and activities while already marked by saturation. The country is climate-change vulnerable and under-equipped to respond and manage risks. The project is assigned Category 2 as per the Bank's climate protection system, with risks of: flooding for the seaside power plants to be rehabilitated (Voidjou and Marahani Anjouan); river and coastal erosion and landslides for grid sections traversing escarpments in Moroni, and for some grid lines routed along the coast (e.g. Batié - Mohéli); increased water demand for running the plants, for instance excessive water offtake from the Galani spring in Anjouan could pose water depletion and availability risks in the watershed (for the Domoni and Tratrenga hydropower stations).

4.5.10 Climate change adaptation activities were reflected in the project design (representing 0.8% of the budget), including awareness raising and capacity building for: (i) the populace, (ii) administrative institutions, (iii) *ylang ylang* distillation companies (specifically in Anjouan), and (iv) other stakeholders on the effect of deforestation on water availability; the effect of climate change, particularly in relation to the advancement of the sea and sea level rise, increased rainfall, fluvial coastal erosion, origin and effects of landslides, flood risks and management of natural disasters and reforestation actions to restore forest cover and improve water availability. Furthermore, measures will be taken to adapt the new infrastructure to climate resilience. For instance, diesel plant engines will be equipped with devices to curb nitrogen oxide (NOx) emissions. Such adaptation measures are aligned with the country's ambition to cut national greenhouse gas (GHG) emissions by 84% by 2030 as expressed in the country's nationally determined contribution (NDC) document and in the National Adaptation Programme (PANA). With regard to the energy sector, GHG reduction actions should lead to conversion to renewable energy. The project provides for the construction of a hydropower

station, thus contributing towards mitigating climate change (28.6% of the budget). It aligns with the Bank's Climate Change Action Plan 2016-2020.

4.5.11 *Financial Management Arrangements*: The financial management arrangements remain unchanged.

4.5.12. *Disbursement*: Given the expenditure categories supported by the ADF supplementary financing (works, goods and services procurement), the resources of this financing will be mobilised in accordance with the rules and procedures of the Bank's Disbursement Handbook, using the direct payment method.

4.5.13. *Audit*: An external auditor will be recruited to audit the project.

## **V. RATIONALE FOR SUPPLEMENTARY FINANCING**

5.1.1 On 24 April 2018, the Bank received a request from the Comoros Government for financial support to install hydropower generating facilities in Anjouan. The installation was envisaged as part of PASEC supplementary financing to facilitate its implementation from an operational perspective. In addition, a budget support operation of UA 5 million for the Comoros energy sector was scheduled for 2018 and could not be implemented due to the lack of a programme with the International Monetary Fund. The Comoros Government and the Bank have agreed to reallocate these resources to the supplementary financing of PASEC.

5.1.2 The project will contribute towards: (i) improved energy access through the rehabilitation of energy infrastructure that will be more reliable, (ii) energy production capacity restoration through the rehabilitation of 4 diesel power plants (Voidjou, Itsambouni, Trenani and Fomboni), rehabilitation of 3 hydropower plants (Lingoni, Marahani and Miringoni) and installation of hydropower generation equipment in Domoni, (iii) reduced power grid losses from an average from 40% to 25%, and reduced power generation cost, (iv) facilitating electricity tariff reduction, and (v) regulating the pressure in the Domoni water supply system.

### **5.2. Project Alignment**

5.2.1 The project aligns with the priorities set out in CSP 2016-2020, the New Deal on Energy for Africa, the High 5s, the Bank's second Climate Change Action Plan (2016-2020). ) as well as the "Strategy for Accelerated Growth and Sustainable Development" (SCA2D) 2018-2021 through the second component "improving the quality of life for the people and ensuring equitable access to basic social services".

5.2.2 The project's implementation may run a number of risks. The foremost among them as well as their mitigation measures have been identified in Table 5.1.



*Table 5.1: Risks and Mitigation Measures*

<b>Risk</b>	<b>Description</b>	<b>Level</b>	<b>Mitigation Measures</b>
Political	The political context marked by the amendment of the constitution, which could generate political and social tension.	M	Strengthening dialogue between political, economic actors and civil society, with the backing of the international community.
Capacity	Human resource and institutional weaknesses that could severely constrain the implementation of the Government's programme.	M	Commitment of development partners, including the Bank and UNDP, to supporting capacity development is a decisive factor in mitigating this risk.
Maintenance	Maintenance and safety risks at the plants.	M	Capacity building to be implemented by the contractors responsible for the rehabilitation of power stations.
Climatic	Country's climate vulnerability.	M	The project will use climate-resilient technologies, reforestation for improved carbon stocks and awareness raising on adaptation.

### **5.3. Alignment with the Supplementary Financing Policy**

5.3.1 This supplementary financing is consistent with the "Bank Group Policy and Procedures for Supplementary Financing" of 1 January 1998 (Annex III).

## **VI. ECONOMIC AND FINANCIAL ANALYSIS**

### **6.1. Key Economic and Financial Performance Indicators**

6.1.1 The key economic and financial performance indicators are summarised in Table 6.1 below.

Baseline scenario with supplementary financing	FIRR: 22.8%	FNPV: USD 12.6 million
	ERR: 19.5%	ENPV: USD 7.2 million
Baseline scenario before supplementary financing (2013)	FIRR: 20.4%	FNPV: USD 11.6 million
	ERR: 22%	ENPV: USD 10.7 million

### **6.2. Financial and Economic Performance**

6.2.1 The results of the analysis of the supplementary financing for the project show that the project remains financially viable. The financial internal real rate of return (FIRR) is estimated at 22.8%. The financial net present value (FNPV), at the weighted average cost of capital (real discount rate of 10%), is USD 12.6 million. The results of the economic analysis show that the project will generate a real economic rate of return (ERR) of 19.5% and a discounted net present value (NPV), discounted at the real opportunity cost of capital of 12% of USD 7.2 million. Although the supplementary loan has a marginal negative impact on economic viability, the project remains economically viable.

### **6.3. Financial Viability of the Utility Company**

6.3.1 The project is expected to improve the financial viability of SONELEC, whose operating cost was higher than the end-user rate. The main expected benefit of the project is to reduce operating costs to a reasonable level (USD 0.25/kWh in 2022) by raising the power

plant's output and reducing losses. Accordingly, a tariff level revision is recommended in 2022 to around USD 0.25/kWh for improved economic competitiveness.

## **VII. LEGAL INSTRUMENTS AND POWERS**

### **7.1 *Legal Instrument***

7.1.1 The project will be financed by a grant from the African Development Fund (ADF).

### **7.2 *Conditions Associated with Bank Intervention***

#### **7.2.1 Conditions precedent to effectiveness of the Protocol of Agreement**

Effectiveness of the ADF grant agreement shall be subject to signature of the relevant Grant Protocol of Agreement by the parties concerned;

#### **7.2.2 Conditions precedent to first disbursement of the ADF grant resources**

The first disbursement of the grant resources shall be subject to effectiveness of the ADF grant agreement.

### **7.3. *Commitments***

- i) Execute the project in accordance with the ESMP, the Bank's Safeguards Policies and the applicable country legislation in a manner satisfactory to the Bank, in form and substance;
- ii) Prepare and submit half-yearly reports to the Bank on the implementation of the ESMP, including identified gaps and corrective actions taken in this regard.
- iii) Refrain from any action that would impede or constrain the implementation of the ESMP, including any amendment, suspension, waiver and/or cancellation of any ESMP provision, in whole or in part, without the Bank's prior written consent.

### **7.4. *Compliance with Bank Policies***

7.4.1 This project complies with all applicable Bank policies.

## **VIII. RECOMMENDATION**

8.1 Management recommends that the Board of Directors approve the proposal to award an ADF grant of UA 6.96 million to the Federal Republic of the Union of Comoros for the supplementary financing of the Comoros Energy Sector Support Project, under the conditions set forth in this report.

## Annex I: Revised Logical Framework

Country and Project Name: Union of the Comoros - ENERGY SECTOR SUPPORT PROJECT						
Project Objective: To restore and improve the operation of the electricity network, from production to distribution and to prepare for the development of renewable energy.						
Results Chain		PERFORMANCE INDICATORS			Means of Verification	RISKS/MITIGATION MEASURE
		Indicators (including CSIs)	Baseline Situation (2012)	Target		
IMPACT	Improved economic competitiveness Improved electricity access	Electricity tariff National electricity access rate  USD 0.25/kWh 83% in 2022 on the three islands	USD 0.30/ kWh  60% in Grande Comores, 50% in Anjouan, 10% in Mohéli	USD 0.25 /kWh  83% 2022 on the three islands	- Post-evaluation reports	<ul style="list-style-type: none"> <li>Political risk mitigated by increased dialogue between political and economic actors and civil society, with international community backing.</li> <li>Risk related to weak human resource and institutional capacity. This risk is mitigated by the commitment of development partners, including the Bank and UNDP, to support capacity development.</li> <li>Risk regarding maintenance and safety within the power stations, mitigated by capacity building to be implemented by the contractors in charge of rehabilitating the power stations.</li> </ul>
	Additional installed power generation capacity and reduced losses	<ul style="list-style-type: none"> <li>Additional energy production installed capacity</li> <li>Rate of technical and commercial losses</li> </ul>	<ul style="list-style-type: none"> <li>Additional energy production installed capacity</li> <li>Network loss: MA-MWE: 45% and EDA: 35%</li> </ul>	<ul style="list-style-type: none"> <li>Additional power generation installed capacity: 4800 kW in 2015</li> <li>Network loss at national level: 25% in 2022</li> </ul>		
OUTPUTS	Power generation and distribution functions restored	<ul style="list-style-type: none"> <li>Number of thermal power plants rehabilitated</li> <li>Number of hydropower plants rehabilitated / built</li> <li>New generating sets acquired</li> <li>Length of rehabilitated MV line</li> </ul>	<ul style="list-style-type: none"> <li>Number of thermal power plants rehabilitated</li> <li>Number of hydropower plants rehabilitated / built</li> <li>New generating sets acquired</li> <li>Length of rehabilitated MV line</li> </ul>	<ul style="list-style-type: none"> <li>Number of thermal power plants rehabilitated: 4 in 2022</li> <li>Number of hydropower plants rehabilitated / built: 4 in 2022</li> <li>New generating sets acquired: 3</li> <li>Length of rehabilitated MV line: 135 km</li> </ul>	<ul style="list-style-type: none"> <li>-Files/annual reports of power utilities</li> <li>- AfDB supervision mission reports</li> <li>- Project completion report</li> </ul>	
	Increased fuel storage capacity of power plants	<ul style="list-style-type: none"> <li>Additional fuel storage capacity</li> </ul>	<ul style="list-style-type: none"> <li>Reserve quantity: 4 days in Grande Comores and Anjouan and 2 days in Mohéli</li> </ul>	Fuel reserve: 30 days reserve on the 3 islands as from 2022		
	Development of renewable energy and reduced greenhouse gas emissions	<ul style="list-style-type: none"> <li>Number of feasibility studies / technical design financed</li> </ul>	<ul style="list-style-type: none"> <li>Lack of feasibility studies</li> </ul>	<ul style="list-style-type: none"> <li>Identification of potential sites and launch of feasibility studies from 2019</li> </ul>		
	Notion of energy control developed	<ul style="list-style-type: none"> <li>Additional installed solar power</li> </ul>	<ul style="list-style-type: none"> <li>Additional installed solar power:</li> </ul>	<ul style="list-style-type: none"> <li>Additional installed solar power: 50 kW</li> </ul>	<ul style="list-style-type: none"> <li>Post-evaluation reports</li> </ul>	

	Capabilities strengthened	<ul style="list-style-type: none"> <li>Number of trainings offered</li> <li>Number of women undergoing training</li> <li>Technical assistance expected</li> </ul>	<ul style="list-style-type: none"> <li>Number of trainings offered:</li> <li>Number of women undergoing training</li> <li>Technical assistance expected</li> </ul>	<ul style="list-style-type: none"> <li>6 trainings expected under the project for a total of 69 employees trained</li> <li>18 women(26.1%) undergoing training (in the two companies)</li> <li>Provision of technical assistance</li> </ul>	<ul style="list-style-type: none"> <li>CPMU quarterly reports</li> <li>AfDB supervision mission reports</li> </ul>	
KEY ACTIVITIES	<b>COMPONENTS</b>		<b>RESOURCES</b>			
	(A) Support to rehabilitation and technical implementation (B) Institutional support (C) Project management		<u><b>Resources : UA 20 340 000</b></u> ADF-12 Grant: UA 5 380 000 ADF-14 Grant: UA 6 960 000 TSF Grant : UA 8 000 000		<u><b>Application: UA 20 340 000</b></u> Component A : UA 17 582 750 Component B : UA 1 519 859 Component C : UA 1 237 391	

## Annex II: Revised Implementation Schedule

PROJECT IMPLEMENTATION SCHEDULE		2019												2020												2021												2022												2023																							
DESCRIPTION		1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10														
<b>Board Approval of the Project</b>						◆																																																																			
Signature of grant agreement						◆																																																																			
Entry into force of the grant agreement						◆																																																																			
Satisfaction of first disbursement conditions						◆																																																																			
First disbursement																																																																									
<b>A_Support for rehabilitation and technical implementation</b>																																																																									
Rehabilitation of distribution networks																																																																									
Rehabilitation of diesel thermal plants																																																																									
Construction of Domoni hydropower plant																																																																									
Construction of SONELEC building																																																																									
Supply of prepayment meters																																																																									
Conduct of engineering studies																																																																									
Rehabilitation of _ABC distribution networks																																																																									
Rehabilitation of _ABC diesel power plants																																																																									
Rehabilitation of _IMM/HPP hydropower plants																																																																									
Installation of solar kits																																																																									
<b>B_Institutional support</b>																																																																									
Supervision of construction works																																																																									
Implementation of ESMP																																																																									
Implementation of climate change adaptation actions																																																																									

**Annex III: Compliance of Supplementary Financing with the "Bank Group Policy and Procedures for Supplementary Financing" of 1 January 1998**

Specific Conditions	Compliance (Yes/No)	Rationale
1. The project's overall supervision rating should be "satisfactory" or higher.	Yes	The overall project performance was rated satisfactory at the last supervision in February 2019.
2. The provision of supplementary financing from the Bank's ADB or ADF resources would depend on the eligibility status of the RMC concerned in accordance with the arrangements for lending from the African Development Fund prevailing at the time of processing of such loan.	Yes	The proposed financing is in line with the planned allocations to the Comoros under ADF 14.
3. The recipient country is making a determined effort towards national development in general, and internal and external resources mobilisation in particular.	Yes	The Comoros Government is putting much effort into mobilising technical and financial partners for national development. The World Bank is currently preparing a project for electrical energy storage by battery (10 MW). The construction of an 18 MW heavy fuel station is underway. Furthermore, the country is mobilising resources for a geothermal exploration project.
4. The country's implementation environment is favourable.	Yes	The country enjoys peace and stability, conducive to project implementation.
5. The cost overrun is due to circumstances beyond the Borrower's control.	Yes	The project cost overrun is due to the inadequate budgetary allocation for the execution of the rehabilitation works.
6. The cost overrun cannot be met by the Borrower. Moreover, the Borrower has not been able to find financiers. The Borrower provides justifications for the request for additional Bank Group financing.	Yes	The Government submitted a request for financing to the Bank with supporting documentation. Other development partners such as the European Union, the World Bank and AFD are currently engaged in various development operations in the Comoros.
7. It has not been possible to reduce the total cost of the project through changes of specifications or scope of works or services without significantly affecting project objectives and viability.	Yes	Changes to the specifications do not cover the cost of the financing gap. Additional funding is needed.
8. The project is technically, economically and financially viable even with the cost overruns.	Yes	The project remains technically, financially and economically viable with a financial rate of return of 24.1%.
9. The project cannot be downsized without damaging its ability to achieve objectives or its sustainability.	Yes	The project's objectives can be achieved only through its full implementation. The project cannot be downsized.
10. There are no other exogenous constraints - financial, managerial or technical - that would hinder project completion.	Yes	The financial and technical aspects are favourable for the completion of the project once funding is available. Project management is provided by the already existing Central Project Management Unit.

## **Annex IV: Request for financing from the Government of the Comoros**

UNION OF THE COMOROS  
Solidarity-Unity -Development  
MINISTRY OF FINANCE AND BUDGET  
THE MINISTER  
# 18. / MFB / CAB

Moroni, 20 October 2008

To:  
Deputy Director General

Regional Development and Service Delivery Office for East Africa (RDGE)

African Development Bank

**Subject:** PASEC Supplementary Financing

Madam Deputy Director General,

Further to the dialogue mission fielded from 25 to 28 September 2018 to Moroni, as well as your letter of 9 October 2018 AFDR/RDGE4/TR/2018/100027 concerning the supplementary financing of the Comoros Energy Sector Support Project (PASEC), I hereby wish to thank you for your great concern about the development of the Union of the Comoros.

The Government of the Comoros wishes to reiterate its heartfelt gratitude to the African Development Bank for all the efforts made to monitor this project, but also for the success to which the Government is committed, not only to combat poverty among the populace, but also to attain its objectives of becoming an emerging country by 2030.

Accordingly, we are requesting **the reallocation of the ADF-14 country allocation to the Union of the Comoros for supplementary financing** of the Comoros Energy Sector Support Project (PASEC).

As you have noted, the reallocation of this ADF-14 country allocation will enable the country to overcome the multiple challenges hindering the development of the energy sector. In particular, this will lead to optimised service quality, effective safeguarding of the thermal power plants, less constraining and more viable electricity networks, reduced losses and an extension of the life of investments.

We count on your support, Madam Deputy Director, for the economic and social development of our country.

Yours respectfully,

SAID ALI SAID CHAYHANE

# AFRICAN DEVELOPMENT BANK GROUP



**DEPUTY DIRECTOR GENERAL  
EAST AFRICA REGIONAL DEVELOPMENT AND BUSINESS  
DELIVERY OFFICE (RDGE)**

**Ref: AfDB/RDGE/LTR/2018/10/027**

**Date: 9 October 2018**

**H.E. Said AM Said CHAYHANE**

Minister of Finance and Budget

Union of the Comoros

P.O. Box 324 Moroni

Tel. (269) 764 41 01

Fax: (269)773 41 40

Email: sdchaihane@yahoo.fr

Naifata@gmail.com; Naifata@yahoo.fr

**SUBJECT: ENERGY SECTOR SUPPORT PROJECT (PASEC) –**

## **SUPPLEMENTARY FINANCING**

Mr. Minister,

I hereby wish to extend my gratitude to the Government of the Union of the Comoros for all the arrangements it made to ensure the smooth conduct of the dialogue mission that I led to Moroni from 25 to 28 September 2018.

The subject of this letter is the supplementary financing we plan to provide to the ongoing PASEC project, in the framework of the reallocation of the ADF-14 country allocation to the Union of the Comoros.

The dialogue mission did afford us the opportunity to discuss, among other things, the sector budget support envisaged for the energy sector. As we noted, this budget support is essentially conditional upon a country programme with the International Monetary Fund (IMF), and such a programme is yet to be concluded.

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Website:



## **AFRICAN DEVELOPMENT BANK**

### **EAST AFRICA REGIONAL DEVELOPMENT AND BUSINESS**

#### **DELIVERY OFFICE (RDGE)**

In light of the consultations we had on the issue with all the national authorities met during the dialogue mission, and in view of the undertaking to fully consume in 2019 the ADF-14 country allocation granted to the Union of the Comoros to avoid losing it as per ADF regulations, we held further consultations internally within our institution. Following that exercise, our proposal is to reallocate the ADF-14 resources originally earmarked for the sector budget support that was intended for the energy sector as supplementary financing for the ongoing Energy Sector Support Project (PASEC).

The said supplementary financing to PASEC has a dual advantage. Firstly, its review for approval by the Board of Directors of the African Development Bank (AfDB) will be fast-tracked as it concerns an existing project, and this will enable definite fulfilment of the commitment to fully consume the ADF-14 country allocation to the Union of the Comoros in 2019. Secondly, the supplementary financing will merge into a single operation two projects initially envisaged, namely (i) sector budget support envisaged for the energy sector for EUR 6 million, and (ii) the envisaged project to build the Domoni hydropower plant for EUR 2.4 million. In this regard, the total amount of ADF-14 resources allocated to the new operation envisaged, i.e. the supplementary financing to PASEC, is EUR 8.4 million, that is to say EUR 6 million plus EUR 2.4 million.

Accept, Mr. Minister, the assurances of my highest consideration.

Nnenna NWABUFO

**Cc:**

**H.E. MOUSTADROINE ABDOU**

Minister of Energy, Agriculture, Fisheries and Environment

**H.E. IDAROUSSI HAMADA**

Secretary General of the Government

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### Annex V: Situation of Bank Group's Active Portfolio in the Comoros at 19 March 2019 (in UA Thousand)

No.	Project	Instrument	Approval Date	Sign. Deadline (months)	Disb. Deadline (months)	Closing Date	Age (year)	Net Amount (UA 000)	Disbursement Rate*	PAR.
<b>Transport</b>							2,0	<b>15.165</b>	<b>30%</b>	
1	ROAD NETWORK REHABILITATION PROJECT	ADF (loan)	17-Apr-17	1.4	7.6	31-Dec-19	1.9	2.700	25.37%	NPPP
		ADF (grant)	23-Jan-17	4.2	4.4	31-Dec-19	2.1	12.465	31.02%	
<b>Multisector</b>							2,3	<b>7.100</b>	<b>49.38%</b>	
2	INSTITUTIONAL CAPACITY BUILDING PROJECT (PRCI – II)	TSF (Pillar I)	19-Nov-15	0.3	1.1	31-Jul-19	3.3	6.000	58.15%	NPPP
3	INVESTMENT PROMOTION AGENCY SUPPORT PROJECT (PAAPI)	TSF (Pillar III)	23-Nov-17	3.3	3.3	31-Mar-21	1.3	1.100	1.55%	NPPP
<b>Energy Sector</b>							4,7	<b>15.86</b>	<b>27.05%</b>	
4	ENERGY SECTOR SUPPORT PROJECT (PASEC)	TSF (Pillar I)	11-Sep-13	2.5	9.4	31-Jan-20	5.5	8.000	18.77%	PPP
		ADF (grant)		2.5	9.4			5.380	49.04%	
5	RENEWABLE ENERGY SUPPORT PROJECT	SEFA	30-Oct-14			31-Dec-18	4.43	0.480	33.70	PPP
6	ENERGY PRODUCTION, TRANSMISSION & DISTRIBUTION MASTER PLAN	TSF(Pillar III)	30-Sep-15	1.9	1.9	30-Dec-18	3.4	2.000	20.61%	PP
<b>Total</b>							<b>3,34</b>	<b>38.13</b>	<b>33.49%</b>	