AFRICAN DEVELOPMENT BANK GROUP

UNION OF THE COMOROS

ENERGY SECTOR REFORM SUPPORT PROGRAMME

OSGE/ONEC/GECL DEPARTMENTS

October 2014

Translated document
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CURRENCY EQUIVALENTS
(August 2014)

UA 1 = KMF 563.09
UA 1 = EUR 1.14
UA 1 = USD 1.53

FISCAL YEAR
1 January to 31 December

ACRONYMS AND ABBREVIATIONS

ADF : African Development Fund
AfDB : African Development Bank
BCC : Central Bank of the Comoros
CPIA : Country Policy and Institutional Assessment
CREF : Permanent Technical Unit for Monitoring Economic and Financial Reforms
CSP : Country Strategy Paper
GoC : Government of the Comoros
GDP : Gross Domestic Product
IMF : International Monetary Fund
KMF : Comorian Franc
KW : Kilowatt
MDG : Millennium Development Goal
PARSE : Energy Sector Reform Support Programme
PARSEGF : Energy Sector Reform and Financial Governance Support Programme
PASE : Energy Sector Support Project
PEFA : Public Expenditure and Financial Accountability
PFM : Public Finance Management
PRCI : Institutional Capacity Building Project
PRGS : Poverty Reduction and Growth Strategy
SCADD : Accelerated Growth and Sustainable Development Strategy
TFP : Technical and Financial Partner
TSF : Transition Support Facility
UA : Unit of Account
UNDP : United Nations Development Programme
USD : United States Dollar
Grant Information

Client Information Sheet

Donee: Union of the Comoros
Sector: Energy
Executing Agency: Permanent Technical Unit in the Ministry of Finance charged with Monitoring Economic and Financial Reforms (CREF)
Amount: UA 4 million
Grant Conditions: A tranche of UA 2 million in 2014 and a tranche of UA 2 million in 2015

Financing Plan

<table>
<thead>
<tr>
<th>Source of Financing</th>
<th>Amount</th>
<th>Instrument</th>
</tr>
</thead>
<tbody>
<tr>
<td>TSF Pillar I</td>
<td>UA 4 million</td>
<td>Sector Budget Support (TSF Grant)</td>
</tr>
</tbody>
</table>

Information on TSF Financing

<table>
<thead>
<tr>
<th>Grant Currency</th>
<th>UA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of Interest Rate</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Base Rate</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Interest Rate Margin</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Financing Margin</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Commitment Charge</td>
<td>None</td>
</tr>
<tr>
<td>Other Charges</td>
<td>None</td>
</tr>
<tr>
<td>Tenure</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Grace Period</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>

Timeframe – Key Milestones (Expected)

<table>
<thead>
<tr>
<th>Activities</th>
<th>Dates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appraisal Mission</td>
<td>August 2014</td>
</tr>
<tr>
<td>Grant Negotiation</td>
<td>October 2014</td>
</tr>
<tr>
<td>Grant Approval</td>
<td>November 2014</td>
</tr>
<tr>
<td>Effectiveness</td>
<td>November 2014</td>
</tr>
<tr>
<td>First Disbursement</td>
<td>December 2014</td>
</tr>
<tr>
<td>Supervision Mission</td>
<td>February 2015 and August 2015</td>
</tr>
<tr>
<td>Second Disbursement</td>
<td>September 2015</td>
</tr>
<tr>
<td>Completion Report</td>
<td>December 2015</td>
</tr>
<tr>
<td>Closure</td>
<td>June 2016</td>
</tr>
</tbody>
</table>
## PROGRAMME EXECUTIVE SUMMARY

<table>
<thead>
<tr>
<th>Programme Overview</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Programme Name:</strong> Energy Sector Reform Support Programme (PARSE)</td>
<td></td>
</tr>
<tr>
<td><strong>Geographic Coverage:</strong> National Territory of the Union of the Comoros</td>
<td></td>
</tr>
<tr>
<td><strong>Implementation Period:</strong> November 2014-December 2015</td>
<td></td>
</tr>
<tr>
<td><strong>Programme Cost:</strong> UA 4 million (TSF Grant)</td>
<td></td>
</tr>
<tr>
<td><strong>Financial Instrument:</strong> Sector Budget Support</td>
<td></td>
</tr>
<tr>
<td><strong>Sector:</strong> Energy</td>
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</table>

**Programme Description**

PARSE is intended to consolidate the achievements of the Energy Sector Reform and Financial Governance Support Programme (PARSEGF) completed in December 2013. More specifically, PARSE seeks to deepen and continue the process of gradually improving energy sector governance and performance initiated under PARSEGF. Furthermore, PARSE will supplement the Energy Sector Support Programme (PASE) that was launched this year. This investment project aims to increase electricity generation capacity. In the Comoros, the weaknesses of the energy sector in general, and the electricity sub-sector in particular (access rate below 50% of the population and frequent load shedding, including in Moroni, the country’s capital), are among the major obstacles to economic diversification necessary for the country to emerge over time from its fragility situation, characterized by low institutional capacity. By inducing a significant increase in production factor costs, these weaknesses impede the development of the private sector and of growth-enhancing activities (e.g. tourism and fishing) that would contribute to the structural transformation of the country’s economy. Moreover, they seriously affect the quality of social services delivered to the Comorian people in general, and to vulnerable groups in particular. These energy sector inadequacies stem mainly from the weak institutional and organisational governance (especially in the commercial area) of the two national electricity corporations (EDA and particularly MA-MWE). This governance weakness is reflected in poor business and financial performance, which: (i) renders the taking of appropriate operating and investment decisions to meet the country’s energy needs impossible; and (ii) negatively impacts public finance management (PFM), given the substantial subsidies that the State gives to the ailing power corporations. This situation reduces budget resources potentially available for financing social expenditure targeted at human capital development and that would accelerate the country’s emergence from fragility. In such a context, PARSE’s development goal is to contribute to creating conditions for inclusive economic growth conducive to the country’s gradual emergence from fragility, through improved energy sector management. The programme’s operational objectives are to improve: (i) the organisational mechanism; (ii) the control framework; and (iii) the business performance of the energy sector and, in particular, the electricity sub-sector. They are in keeping with the single pillar of CSP 2011-2015, i.e. “Energy Sector Development in Support of Economic Diversification”. However, although hinged solely on the energy sector, PARSE will also have a positive impact on PFM by contributing to reducing the heavy burden of public subsidies to the energy sector on the State’s operating budget. This will help to generate additional resources for financing social expenditure, particularly on health and education.

<table>
<thead>
<tr>
<th>Expected Programme Outcomes and Beneficiaries</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>In 2015, PARSE’s reform measures are expected to contribute to: (i) a drop in the percentage of MA-MWE’s business-related electricity losses, which should stand at 22% compared with 27% in 2013; and (ii) a drop in the ratio of public subsidies to the energy sector/State operating budget, which should stand at 6.5%, against 10% in 2013. The programme beneficiaries will be the Comorian people in general who, thanks to a more efficient electricity sub-sector, will enjoy improved living</td>
<td></td>
</tr>
</tbody>
</table>
conditions and access to better quality social services. Moreover, as part of the development of these activities, the Comorian private sector (including businesses managed by women) will also benefit from PARSE. Following improved access to electricity, production factor costs will drop, thereby contributing to enhancing the competitiveness of private businesses. Other programme beneficiaries will be the national electricity corporations (especially MA-MWE), whose governance frameworks and performance will improve, and the Comorian Government which, thanks to reduced public subsidies to electricity corporations, will have more resources to allocate to expenditures targeted at the most disadvantaged segments of the population.

| Needs Assessment and Relevance | The Bank’s assistance is justified by the need to support the priority reforms identified under the Poverty Reduction and Growth Strategy (PRGS) 2010-2014, the future Accelerated Growth and Sustainable Development Strategy (SCADD) 2015-2019 and the National Energy Strategy adopted in 2013. In addition, the combined Bank and World Bank budget support will help to increase resources available for financing social expenditure and economic infrastructure indispensable for the country’s development. |
| Bank’s Comparative Advantage and Value Added | In the Comoros, the Bank is a key player in the area of economic and financial governance reforms. Since the resumption of donor interventions in the Comoros in 2009, the Bank has completed two general budget support operations which enabled the country to undertake structural reforms indispensable for its socio-economic development. Moreover, the Bank’s major value added in PARSE is the consolidation of the achievements of PARSEG. This has helped to trigger the gradual reform of the energy sector whose weaknesses seriously impede economic diversification that the Comoros so needs to emerge over time from fragility. Furthermore, thanks to this operation, the Bank, which is also financing an investment project in the energy sector, will strengthen its leading role in the sector considered a national priority in the Comoros. |
| Institutional Development and Knowledge Building | PARSE will contribute to institutional development and knowledge building in the area of energy sector governance. The lessons to be learned from implementing the measures adopted under the programme will be used to improve the Bank’s economic and financial governance approach in fragile States characterized by weak institutional capacity. |
### RESULTS-BASED LOGICAL FRAMEWORK

**Country and Programme Name:** Union of the Comoros : Energy Sector Reform Support Programme (PARSE)

**Programme Goal:** Contribute to creating conditions for inclusive economic growth conducive to the country’s gradual emergence from its fragility situation through improved energy sector management.

### PERFORMANCE INDICATORS

<table>
<thead>
<tr>
<th>RESULTS CHAIN</th>
<th>PERFORMANCE INDICATORS</th>
<th>Outcome</th>
<th>Baseline Situation</th>
<th>Target</th>
<th>MEANS OF VERIFICATION</th>
<th>RISKS/ MITIGATION MEASURES</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMPACT</td>
<td>Inclusive economic growth conducive to the country’s gradual emergence from its fragility situation</td>
<td>GDP growth rate</td>
<td>3.5% in 2013</td>
<td>3.9% in 2016</td>
<td>Data from the Ministry of Finance, the Ministry of Energy, electricity corporations, IMF, the World Bank and AfDB</td>
<td>R1: Slackening of the reform momentum</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Percentage of the population with access to electricity; percentage of women with access to electricity</td>
<td>Less than 50% of the population had access to electricity in 2013</td>
<td>60% of the population have access to electricity in 2016, 60% of women have access to electricity in 2016</td>
<td></td>
<td>Mitigation Measures: The Government’s commitment to continue structural reforms is visible through the implementation of SCADD 2015-2019</td>
</tr>
</tbody>
</table>

### OUTCOMES

| Outcome 1: Improved energy sector management | Percentage of business-related electricity losses by MA-MWE | 27% in 2013 | 22% in 2015 | Data from the Ministry of Energy, electricity corporations, the Ministry of Finance, IMF, the World Bank and AfDB |
| | Ratio of public subsidies to energy sector/State operating budget (in %) | 10% in 2013 | 6.5% in 2015 | |

### COMPONENT - IMPROVEMENT OF ENERGY SECTOR MANAGEMENT

| Output 1: Improved sector organisation | Instrument appointing members of the oversight Inter-ministerial Committee responsible for examining the reports of the Board of Directors, MA-MWE’s auditor’s reports and the minutes of the said Committee | The Inter-ministerial Committee is not operational | Members of the Inter-ministerial Committee appointed in 2014, a meeting of the said Committee organized in 2014 and two meetings held in 2015 | Copy of the Inter-ministerial Order appointing members of the Inter-ministerial Committee; copy of the minutes of meetings of the said Committee |
| | MA-MWE’s internal organisation is inefficient, leading to technical failures and business losses | MA-MWE’s new organisation chart (including the Commercial Department) adopted in 2015 | Copy of minutes of the meeting of MA-MWE’s Board of Directors adopting a new organisation chart, copy of the new organisation chart |
| | MA-MWE’s staff redeployment plan | MA-MWE’s staff is posted in an inefficient manner | MA-MWE’s staff redeployment plan adopted in 2015 | Copy of the minutes of MA-MWE’s Board of Directors meeting adopting the Corporation’s staff redeployment plan; copy of the said plan |

### OUTPUTS

| Output 2: Improved energy sector audit | Report on the audit of MA-MWE by the Audit Bench of the Supreme Court; audit report recommendations implementation plan | No report on the audit of MA-MWE by the Audit Bench of the Supreme Court | Report on the audit of MA-MWE by the Audit Bench of the Supreme Court and the said audit report recommendations implementation plan available in 2015 | Copy of the report on the audit of MA-MWE by the Audit Bench of the Supreme Court; copy of audit report recommendations implementation plan |
| | MA-MWE certified financial statements | No MA-MWE certified financial statements | Certification of MA-MWE financial statements for the 2014 financial year (after an external accounting and financial audit conducted in 2015) | Copy of MA-MWE certified financial statements for the 2014 financial year |

| Output 3: Improved energy sector business performance | Bill strengthening fraud control in the electricity sub-sector | No fraud control law in the electricity sub-sector | Bill strengthening fraud control in the electricity sub-sector adopted by the Council of Government in 2014 and AfDB | Copy of the report of the Council of Government adopting the bill strengthening fraud control in the electricity sub-sector |

**Mitigation Measures:** Support from regional and international organisations for strengthening national cohesion and improving governance will contribute to maintaining relative political stability.
<table>
<thead>
<tr>
<th><strong>Activities</strong></th>
<th><strong>Draft 2015 State budget comprising special and sufficient provision for the payment of routine electricity bills of the State and its agencies</strong></th>
<th><strong>Failure by the State to pay its electricity bills</strong></th>
<th><strong>Draft 2015 State budget comprising a special and sufficient provision for the payment of the electricity bills of the State adopted by the Government Council (adopted in 2014)</strong></th>
<th><strong>Copy of the draft 2015 State budget comprising a special and sufficient provision for the payment of electricity bills adopted by the Government Council</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Resources</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>TSF : UA 4 million</strong></td>
</tr>
<tr>
<td></td>
<td>-Signature of grant agreement  -Opening of the special account at the Central Bank of the Comoros (BCC)  -Reform implementation  -Quarterly implementation reports  -Supervision reports  -Completion report</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
I. THE PROPOSAL

1.1. This proposal submitted for Board approval concerns a UA 4 million grant from Transition Support Facility (TSF) Pillar I resources to the Union of the Comoros to finance the Energy Sector Reform Support Programme (PARSE). The Comoros is among those States considered to be in a situation of fragility and fulfils the TSF\(^1\) Pillar I eligibility requirements. The proposed programme is a sector budget support that will be implemented in 2014 and 2015. PARSE’s appraisal is in response to a request from the Government of the Union of the Comoros dated 15 January 2014. This operation seeks to deepen the energy sector management improvement outcomes achieved under the Energy Sector Reform and Financial Governance Support Programme (PARSEGF) completed in 2013\(^2\). Within a fragility context marked by weak institutional capacity, PARSEGF helped to initiate the gradual reform of the energy sector and, especially, the electricity sub-sector. In addition, PARSE will supplement the Energy Sector Support Project (PASE) launched this year\(^3\). This investment project seeks to increase electricity generation capacity by financing notably the rehabilitation of many power generation units. In the Comoros, the weaknesses of the energy sector in general, and the electricity sub-sector in particular (access rate below 50% of the population and frequent load shedding, including in Moroni, the country’s capital), are among the major obstacles to economic diversification necessary for the country to emerge over time from its fragility situation. By inducing a significant increase in production factor costs, these weaknesses impede the development of the private sector and of growth-enhancing activities (e.g. tourism and fishing) that would contribute to the structural transformation of the country’s economy. Moreover, they seriously affect the quality of social services delivered to the Comorian people in general, and to vulnerable groups in particular. These energy sector inadequacies stem mainly from the weak institutional and organisational governance (especially in the commercial area) of the two national electricity corporations (EDA and particularly MA-MWE). This governance weakness is reflected in poor business and financial performance, which: (i) renders the taking of appropriate operating and investment decisions to meet the country’s energy needs impossible; and (ii) negatively impacts public finance management (PFM), given the substantial subsidies that the State gives to the ailing power corporations. This situation reduces budget resources potentially available for financing social expenditure targeted at human capital development and that would accelerate the country’s emergence from fragility.

1.2. PARSE takes into account the development priorities of the Union of the Comoros. This operation is in line with the following national strategy papers: (i) the Poverty Reduction and Growth Strategy (PRGS) 2010-2014; (ii) the Accelerated Growth and Sustainable Development Strategy (SCADD) 2015-2019; (iii) the National Energy Strategy adopted in 2013; and (iv) the Country Strategy Paper (CSP) 2011-2015, whose single pillar focuses on “Energy Sector Development in Support of Economic Diversification”.

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\(^1\) Ref: ADF/BD/IF/2014/42 and cf. Technical Annex 1.
\(^2\) PARSEGF was financed with a UA 2 million grant.
\(^3\) PARSE is financed with two grants totalling UA 13.38 million.

1.4. The programme’s development goal is to contribute to creating conditions for inclusive economic growth conducive to the country’s gradual emergence from fragility, through improved energy sector management. Its specific objectives are to improve: (i) the organisational mechanism; (ii) the control framework; and (iii) the business performance of the energy sector and, in particular, the electricity sub-sector which is undermined by large-scale fraudulent practices. In 2015, PARSE’s reform measures are expected to contribute to: (i) a drop in the percentage of MA-MWE’s business-related electricity losses that should stand at 22% compared with 27% in 2013; and (ii) a drop in the ratio of public subsidies to the energy sector/State operating budget, which should stand at 6.5%, against 10% in 2013.

II. COUNTRY AND PROGRAMME CONTEXT

2.1. Recent Political, Economic and Social Developments, Constraints, Challenges and Prospects

Political Context

2.1.1. After going through several decades of political instability that weakened its institutions and national cohesion, the Union of the Comoros has experienced relative political stability\(^4\) since 2010. Following the resolution of the last separatist crisis caused by Anjouan Island in 2008, a new constitution strengthening the powers of the three islands and instituting a rotating presidency was adopted in 2009. Presidential elections deemed fair and transparent were subsequently organised in 2010 with the support of the African Union. The elections brought a new President to power and ushered in relative political stability conducive to: (i) the consolidation of national cohesion, which had been undermined by several separatist crises; and (ii) the implementation of structural reforms required for a gradual and sustainable emergence from the fragility situation in which the country has been for many decades now\(^5\). Fragility is characterized by weak institutions and the inability of the State to meet the basic needs of the population or provide it with quality social services. It is against this backdrop that legislative and council elections as well as the election of the Councillors of the islands are scheduled for December 2014. These elections will contribute to strengthening national cohesion.

Economic Context

2.1.2. Economically, the Union of the Comoros recorded a 3.5% real gross domestic product (GDP) growth rate in 2013, driven by the agricultural and building sectors. In a sluggish international economic context and despite low economic diversification, the country, whose revenue traditionally comes from agriculture, fisheries and trade, recorded a GDP growth rate of 3.5% in 2013, against 3% in 2013\(^6\). This slight improvement was mainly due to: (i) the good performance of the agricultural sector, thanks to abundant rainfall;\(^7\) and (ii) the buoyancy of

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\(^4\) The Union of the Comoros, comprising the islands of Anjouan, Grande Comore and Mohéli, has experienced several separatist crises since its independence in 1975.


\(^6\) Traditionally, agriculture and fisheries account for about 50% of GDP, while trade contributes 20% of GDP.

\(^7\) The country’s major agricultural products are vanilla, ylang-ylang and clove.
building construction activities largely sustained by infrastructure works financed with external resources and migrant remittances. In 2013, inflation (in annual average) was estimated at 2.3%, against 6.3% in 2012. This positive trend resulted from a drop in foodstuff prices and a cautious monetary policy implemented by the Central Bank of the Comoros (BCC) under the franc zone, of which the Union of the Comoros is a member.

2.1.3. **Overall, public finance management (PFM) has improved in recent years. However, reform implementation in this area should be stepped up.** Thanks to reforms undertaken since 2009 with the support of the major donors (including the Bank), the overall performance of the Comorian PFM system has improved slightly, notably with respect to transparency and dissemination of information. However, as shown by the 2013\(^8\) PEFA assessment, the outcomes obtained are inadequate to satisfactorily meet the needs of the population. This situation applies particularly to the efficiency of revenue and public expenditure control services that suffer weak human and financial capacity. As a result, the pace of PFM reforms must be accelerated.

2.1.4. **Regarding the budget**, the primary budget balance stood at -1.4% of GDP in 2013. As expected, it was in decline compared to 2012 when it represented 3% of GDP owing to the very huge and exceptional revenues generated by the Economic Citizenship Programme\(^9\). However, this expected worsening of the primary budget balance was mitigated thanks to recurrent expenditure control (notably the wage bill)\(^10\) and a moderate rise in tax revenue resulting from tax collection efforts. For instance, the tax revenue/GDP ratio was estimated at 12.1% in 2013, against 11.8% in 2012. However, this ratio is quite low compared to the rest of the continent\(^11\) and reflects the weak capacity of tax administration. Consequently, the tax reform embarked upon in 2009 should be continued to enable the State to have budgetary resources to adequately finance its operating expenditure. Moreover, the overall budget balance, excluding grants, which showed a structural deficit\(^12\), worsened in 2013 (-10.5% compared to -6.7% in 2012). This trend is mainly attributable to the substantial increase in public investments resulting from infrastructure financing.

2.1.5. **Concerning public debt**, the reaching of the HIPCI completion point and the debt relief obtained under the Multilateral Debt Relief Initiative at end-2012 helped to reduce external debt servicing by USD 176 million (i.e. by 59%). Thanks to this substantial external debt relief, social spending increased. Thus, between 2012 and 2013, public spending on education and health rose by 9%. Nevertheless, according to the 2014 International Monetary Fund (IMF) debt sustainability analysis, the country remains exposed to a high debt overhang risk given its vulnerability to external shocks (fuel and petroleum product price hike) and its narrow export base. In 2013, the net present value ratio of external debt/exports was estimated at 119.5%.

2.1.6. **Externally**, driven by an increase in exports resulting from the implementation of the Public Investment Programme, the current account deficit widened in 2013 despite a rise in the volume and price of vanilla and ylang-ylang exports, standing at 5.7% of GDP, against 3.8% of GDP in 2012. This deficit was partly financed by the country’s foreign exchange reserves, which consequently fell in 2013 and represented 5.9 months of imports, compared to 7.1 months in 2012.

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\(^8\) CF. Technical Annex 2.
\(^9\) The Economic Citizenship Programme seeks to issue Comorian passports to foreign investors in return for payment.
\(^10\) In 2013, the State’s recurrent expenditure represented 14.8% of GDP, against 18.4% in 2012.
\(^11\) The average tax revenue/GDP ratio is about 19% in sub-Saharan Africa.
\(^12\) The low diversification of the Comorian economy and its narrow tax base account for this situation.
Governance

2.1.7. **Financial governance:** significant efforts should be made in the area of financial governance. Although the country is progressing steadily in Transparency International rankings (143rd in 2011, 133rd in 2012 and 127th in 2013), it only occupied the 32nd position out of 52 countries on the Mo Ibrahim Index ranking, with a score of 47.8 in 2013 (a 0.5 progress compared to 2012). Furthermore, its governance score at the end of the Bank’s 2013 Country Policy and Institutional Assessment (CPIA) was only 2.08, similar to the 2012 score. Therefore, significant effort must be deployed to build the capacity of control entities, among others, in order to substantially improve financial governance in the Comoros. However, with the recent establishment of the Audit Bench of the Supreme Court and the Public Procurement Regulatory Authority, the Comorian Government (GoC) has demonstrated its determination to align with international financial governance best practices.

2.1.8. **Sector governance:** the country’s major sector governance priority is the energy sector, particularly the electricity sub-sector, whose weaknesses are among the obstacles to the socio-economic development of the Comoros (cf. also Technical Annex 4). The two public corporations of the electricity sub-sector, EDA and especially MA-MWE, have for years been facing serious governance problems (internal organisation which encourages the dilution of responsibility, weak control mechanisms, poor human resource management, widespread fraudulent business activities by subscribers and electricity corporation employees, and political interference in day-to-day management). These problems have very negative impacts on the business and financial performance of both corporations, and prevent them from maintaining and developing the network. As such, less than 50% of the population of the Comoros has access to electricity, and power cuts are very regular. This situation seriously affects the country’s production and marketing units as they do not have access to the energy required to develop their activities. Therefore, the electricity sub-sector’s inefficiency is one of the major obstacles to the diversification and structural transformation of the Comorian economy. Further, this situation affects not only the quality of social services delivered to the population, but also the efficiency of the PFM system. The State is compelled by the difficulties of the electricity sub-sector to give it financial assistance through substantial public subsidies that could have been allocated to social sectors. In 2013, public subsidies to the energy sector, more than 96% of which were allocated to MA-MWE, represented about 10% of the State’s operating budget. To address this problem which is a national priority, GoC, with the support of donors, particularly the Bank, embarked on a far-reaching and gradual reform of the electricity sub-sector that must be continued. The reform is based on the National Energy Strategy adopted in 2013 for a 20-year period. The strategy aims at contributing to the country’s sustainable development through the supply of energy services that are accessible to the greatest number of people at affordable cost, and that foster the promotion of socio-economic activities. It is hinged on the following thrusts: (i) control of the energy dependence level; (ii) development of access to energy; (iii) adoption of a credible and sustainable economic approach; and (iv) adoption of a sustainable development approach. The Bank actively contributes to the implementation of this strategy thanks to the previous reform programme (PARSEGF) and to PASE (the investment project whose objective is to increase electricity generation capacity).

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14 MA-MWE, which is by far the bigger of the two corporations, is facing many more difficulties than EDA. MA-MWE supplies Grande Comore and Mohéli, while EDA supplies Anjouan.
15 In 2013, MA-MWE’s billing rate was estimated at 55% and its financial deficit at KMF 4 billion.
16 The rate of access to electricity is 60% in Grande Comore, 50% in Anjouan and 20% in Mohéli.
17 This amounts to more than KMF 3.3 billion.
Private Sector and Business Climate

2.1.9. The Comorian private sector is not quite developed and faces many obstacles, including energy infrastructure gap. It comprises about 49,000 enterprises, of which more than 93% micro-enterprises mostly operating informally in the areas of trade and subsistence agriculture. The development and structuring of the Comorian private sector are hampered by many obstacles such as: (i) shortage of skilled labour force; (ii) burdensome regulatory and administrative arrangements; and, above all, (iii) infrastructure gap, especially in the area of energy, which reduces its competitiveness by substantially increasing production factor costs. In 2013, private investment accounted for only 10.5% of GDP. In addition, the country has virtually not progressed in the “Doing Business” ranking. In 2013, it ranked 158th out of 189 countries; in 2012 it occupied the same position out of 185 countries. However, following the operationalization of the one-stop shop for business creation in 2013, GoC took an important measure aimed at improving the business climate in the coming years.

Social Context

2.1.10. Overall, social indicators remain weak in spite of some progress. Despite Government efforts to implement the PRGS 2010-2014, most of the Millennium Development Goals (MDGs) will not be achieved by 201518 owing to inadequate budgetary resources. However, there is no denying the progress made in health and gender promotion19. For instance, the infant mortality rate dropped from 53 per 1,000 in 2007 to 35.33 per 1,000 in 2012. The girls-to-boys ratio in higher education rose from 0.68 in 2007 to 0.84 in 2012, thanks to implementation of the National Gender Equity and Equality Policy adopted in 2007. Moreover, the ranking of the Union of the Comoros at the 169th position out of 186 countries on the 2013 UNDP Human Development Index also testifies to the precarious living conditions of the majority of the Comorian population (including women) who do not have access to quality basic services. This situation partly stems from the country’s basic economic infrastructure gap.

Medium-term Macro-economic Prospects

2.1.11. The medium-term macro-economic outlook is positive, albeit moderately so. Driven by planned investments in the tourism and fisheries sectors, GDP growth could reach 3.9% over the period 2014-2016, according to the IMF. Thanks to import price stabilisation, inflation is expected to remain close to 3% over the same period. Moreover, the overall budget deficit, excluding grants, is expected to average 13.6% of GDP over that period as a result of continued substantial public investments in infrastructure. However, it will be contained thanks to improved tax revenue collection resulting from the modernisation of the tax administration.

<table>
<thead>
<tr>
<th>Table 1: Macro-economic Indicators</th>
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<tbody>
<tr>
<td>2013</td>
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<tr>
<td>GDP Growth (%)</td>
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<tr>
<td>Inflation (%)</td>
</tr>
<tr>
<td>Overall Budget Balance, Excluding Grants (% of GDP)</td>
</tr>
</tbody>
</table>

Source: Comorian Authorities and IMF (July 2014)

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18 Cf. Technical Annex 5.
2.1.12. **The need to sustainably improve electricity sub-sector governance and performance over time is among the constraints and challenges that the Union of the Comoros must overcome to ensure its economic development and a gradual emergence from fragility.** To ensure progressive emergence from the current fragility, GoC must take measures to gradually and sustainably improve electricity sub-sector governance and performance, in addition to: (i) stepping up the national cohesion consolidation process through closer collaboration between the Central Government and the autonomous islands; and (ii) deepening PFM reforms in order to increase resources available for financing the country’s development plan. The country’s low access rate to electricity and regular power cuts are among the major obstacles to the economic diversification required for the country’s development and structural transformation. These weaknesses result in a significant increase in production factor costs and have a negative impact on the competitiveness of the Comorian private sector. In addition, they prevent the Comorian population from benefiting from quality health and educational services. This situation stems mainly from the weak institutional and organisational governance (especially in the area of business) which characterizes the electricity sub-sector\(^{20}\). It seriously affects the electricity sub-sector’s performance and deprives the country of the energy it needs to accelerate economic development that would foster its gradual exit from fragility. Moreover, the difficulties that the electricity sub-sector faces have a negative impact on PFM and reduce budgetary allocations to social sectors because of the substantial public subsidies received by the electricity corporations, especially MA-MWE.

### 2.2. Overall Development Strategy and Medium-Term Reform Priorities

The development plan of the Union of the Comoros is defined in the PRGS 2010-2014 and the future SCADD 2015-2019. The country’s current development strategy is the PRGS 2010-2014. This strategy is the outcome of a long consultation process between the Government, civil society, the private sector and donors. Its two major objectives are: (i) strong economic growth; and (ii) sustainable reduction of poverty and inequalities. The achievement of these objectives is hinged on six strategic thrusts, namely: (i) stabilize the economy and lay the foundations for equity-based strong growth; (ii) strengthen growth sectors by focusing on institution building and increased participation of private economic operators; (iii) strengthen governance and social cohesion; (iv) improve the population’s health status; (v) develop education and vocational training to improve human capital; and (vi) promote environmental sustainability and civil security. Moreover, the country’s authorities are currently finalizing a new development strategy (SCADD 2015-2019, which seeks to ensure inclusive, accelerated and diversified growth) that should consolidate efforts made under the PRGS 2010-2014. This strategy will be based on four thrusts, namely: (i) growth acceleration, diversification and sustainability; (ii) growth support infrastructure development; (iii) improvement of access to basic social services and household resilience; and (iv) strengthening of governance and institutional/human resilience capacity building. Similar to the approach adopted for the PRGS 2010-2014, SCADD 2015-2019 is being prepared through inclusive consultation involving GoC, civil society players, private sector enterprises and TFPs.

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\(^{20}\) Cf. § 2.1.8.
2.3. Status of Bank Group Portfolio in the Comoros

The Bank Group’s active portfolio in the Comoros comprises five (5) public sector operations for a net total commitment of UA 29.422 million\(^{23}\). The energy sector leads with UA 13.380 million (45% of total commitments), followed by the water and sanitation sector with UA 9.946 million (34% of total commitments) and multi-sector (governance and PFM) with UA 6.06 million (21% of total commitments). Portfolio performance is deemed satisfactory with an overall score of 2.37 (on a scale of 0 to 3), recording a marked improvement compared to 2011 when it was 2.09. The average disbursement rate is 22.8%. Furthermore, the portfolio is relatively young (average age of 2.5 years) and does not comprise projects-at-risk\(^{24}\). Nevertheless, the implementation of all Bank operations in the Comoros, including PASE, is hindered by the country’s weak institutional capacity\(^{23}\). Hence, the key lesson from implementing Bank operations in the Comoros is the need to reflect the country’s weak institutional capacity and fragility situation in the design and execution of Bank-funded projects and programmes.

III. RATIONALE, KEY PROGRAMME DESIGN ELEMENTS AND SUSTAINABILITY

3.1. Linkage with the CSP, Country Readiness Assessment and Underlying Analytical Elements

3.1.1. Linkage with the CSP: PARSE is in keeping with the CSP 2011-2015 single pillar entitled “Energy Sector Development in Support of Economic Diversification”\(^{24}\). It will support and continue reforms to improve energy sector governance and performance, especially those in the electricity sub-sector initiated under PARSEGF, which was completed in 2013. This UA 4 million operation was included in the CSP 2011-2015 following the mid-term review that confirmed its single pillar\(^{25}\). Moreover, the proposed programme is in line with the Bank Group’s Ten-Year Strategy 2013-2022 that places governance and accountability among the five basic operational priorities that will help to improve growth in Africa and ensure transition towards green growth. In addition, PARSE aligns with the second priority thrust of the Bank Group’s 2014-2019 Strategy (“promote resilient societies through inclusive and equitable access to employment, basic services and benefits from natural resources”), which seeks to address fragility and reinforce resilience in Africa. Furthermore, this programme will contribute to achieving the objectives of the second pillar (“Sector Governance”) of the Governance Strategic Framework and Action Plan (GAP II) 2014-2018. The programme will also participate in implementing the Bank Group’s Energy Sector Policy adopted in 2012\(^{26}\) which, among other things, seeks to strengthen energy sector governance. Lastly, PARSE aligns with the Bank Group’s Gender Strategy 2014-2018 whose purpose is to increase women’s access to economic infrastructure.

3.1.2. Country Readiness Assessment and Compliance with the Bank’s Safeguard Policy: as shown in Table 2 below, the Comoros fulfils all the five eligibility criteria for sector budget support as set out in the Bank Group Policy on Programme-Based Operations adopted in 2012\(^{27}\).

\(^{23}\) As of 15 May 2014.
\(^{24}\) Cf. Technical Annex 7.
\(^{25}\) This includes delays in procurement dossier processing, among others.
\(^{26}\) This operation was included in the CSP following its mid-term review. The review mission, which confirmed the single pillar of the CSP was conducted in October 2013.
\(^{26}\) The CSP mid-term review mission was conducted in October 2013.
\(^{26}\) Ref: ADF/BD/WP/2011/45/Rev.5.
\(^{27}\) Ref: ADF/BD/WP/2011/38/Rev.3/Approval.
3.1.3. **Underlying analytical work:** Several analytical studies financed by the Bank and other TFPs have been reflected in PARSE design. These include: (i) the 2013 National Energy Strategy; (ii) the 2013 organisational and strategic audit report of MA-MWE and its action plan; (iii) the 2012 commercial recovery plan of MA-MWE; (iv) the PARSEGF completion report; (v) the PASE Appraisal Report; (vi) the 2013 PEFA Report; (vii) the 2014-2016 Public Finance Management Reform Strategy; and (viii) the various 2012-2013 IMF technical assistance reports.

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28 As part of PARSE’s appraisal, the IMF forwarded an Assessment Letter to AfDB Management dated 9 July 2014 wherein it acknowledged the macro-economic stability of the Union of the Comoros (Annex 4).
The main recommendations of these studies included: (a) the need to improve management of the electricity sub-sector whose inefficiency is one of the major obstacles to economic diversification and negatively affects PFM; and (b) the need to improve PFM in order to finance expenditures that are crucial to the country’s development and guarantee its gradual emergence from fragility.

3.2. Collaboration and Coordination with Other Development Partners

There is real partnership between donors and the GC since the establishment of the Strategic Committee on Development Assistance Coordination in May 2009, placed under the authority of the General Commissariat for Planning, which is attached to the Presidency of the Union. Collaboration among donors operating in the country is effected through the forum of development partners and sector technical groups (the Bank is the lead donor in the "energy sector technical group"). The objective of this platform is to encourage the consistency of donor operations and their alignment with national priorities. Although donors did not adopt a joint approach to budget support, PARSE in particular was designed in consultation with the World Bank which provided a USD 3.8 million grant as budget support in 2014. This programme includes a pillar on performance improvement in key infrastructure sectors (including energy) and specific support to the process of preparing a recovery and development plan for MA-MWE. Hence, this operation and PARSE are complementary. Furthermore, there is real synergy between PARSE and the World Bank's energy sector recovery project funded with a USD 5 million grant, which will finance capacity-building actions pertaining to the commercial function of MA-MWE.

3.3. Outcomes and Lessons from Similar Previous Operations

3.3.1. Outcomes: over the 2012-2013 period, the Bank financed PARSEGF, which focused on: (i) improving energy sector performance and governance; and (ii) strengthening PFM. Although executed in a context plagued by limited institutional capacity, this programme met several of its targets and facilitated the conduct of an electricity sub-sector diagnosis, defined the strategic priorities of the sub-sector, and triggered within its structure a gradual process for the institution of good governance while pursuing the PFM reform initiated in 2009 (cf. Table 3). The objective of PARSE will be to build on the achievements of PARSEGF and step up the reforms it initiated in the energy sector.

<table>
<thead>
<tr>
<th>Table 3: PARSEGF Energy Sector Management Outcomes</th>
</tr>
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<tbody>
<tr>
<td>- Preparation of a plan to reorganize the commercial function of MA-MWE.</td>
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<tr>
<td>- Adoption of the national energy strategy.</td>
</tr>
<tr>
<td>- Conduct of an organisational and strategic audit of MA-MWE and preparation of the accompanying action plan.</td>
</tr>
<tr>
<td>- Operationalization of the MA-MWE Board of Directors and adoption of the company’s first official budget since its creation.</td>
</tr>
</tbody>
</table>

3.3.2. Lessons from PARSE’s design: the main lessons from the design and implementation of the previous programme are presented below.

29 SCADD 2015-2019 was prepared within this framework.
30 Technical Annex 8.
31 Discussions between the World Bank and the AfDB have started with a view to preparing a joint matrix of measures for budget support operations in the years ahead.
Table 4
Lessons from PARSEG

<table>
<thead>
<tr>
<th>Key Lessons from PARSEG</th>
<th>Reflected in PARSE’s Design</th>
</tr>
</thead>
<tbody>
<tr>
<td>In a context characterized by limited institutional capacity, reform programmes should contain a limited number of measures.</td>
<td>Although PARSEG comprised 11 reform measures, PARSE will support only 8 reform measures.</td>
</tr>
<tr>
<td>To guarantee the success of a reform programme in a fragile country, there is need to be extremely selective in the choice of areas to be supported.</td>
<td>While PARSEG supported both the energy sector and PFM, PARSE will focus solely on the energy sector.</td>
</tr>
<tr>
<td>Reform programmes must be executed concurrently with projects that provide for capacity-building activities in order to facilitate reform implementation.</td>
<td>As concerns the energy sector component, PARSEG was not supported by any project that made provision for capacity-building activities. PARSE will be supported by the World Bank's Energy Sector Recovery Project and the AfDB's PASE, both of which provide for capacity-building activities.</td>
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</table>

3.4. Linkages with the Ongoing Bank Operations

One ongoing Bank operation is linked to PARSE. Since it supports energy sector reforms, PARSE will be fully complementary with PASE, financed by two grants amounting to UA 13.38 million. This investment project seeks to enhance grid functionality and electricity production and distribution, mainly though the rehabilitation of several generators in power plants. It will help to curb the frequency of power outages and boost electricity production, thus increasing the country's electricity access rate.

3.5. Bank’s Comparative Advantage and Value-added

The Bank has built a solid partnership with Comorian authorities in the gradual implementation of structural reforms. Since resuming operations in the Comoros in 2009, the Bank has financed two budget support programmes. These operations enabled the Bank to build a solid partnership with the GoC, by encouraging the gradual implementation of structural reforms in a fragile context characterized by limited institutional capacity. Furthermore, through PARSE, the Bank, as the lead donor of the “energy sector technical group”, will carry on with gradual reform of the sector which it initiated under PARSEG.

3.6. Application of Good Practice Principles on Conditionality

The five good practice principles on conditionality were applied to PARSE’s design. Ownership is the fruit of active collaboration between GoC and the Bank during design the programme design and its alignment on GPRS 2010-2014 and SCADD 2015-2019. Furthermore, PARSE was prepared in close collaboration with the other TFPs within the context of the forum of development partners. The consideration of national needs under PARSE is evident in light of the programme's contribution to the implementation of the 2013 national energy strategy. The conditions precedent to disbursement will mostly relate to essential reforms. Moreover, the programme is aligned on the country's budget cycle.

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32 Thanks to the reforms it supports, PARSE will also help to raise the electricity access rate in the Comoros.
3.7. Application of the AfDB Policy on Non-Concessional Loans

The programme is consistent with the Bank’s principles governing concessional loans. Financed through a grant, this programme is consistent with the Bank Group Policy on Non-concessional Lending adopted in 2008 and revised in 2011\textsuperscript{33}, and with IMF requirements.

IV. PROPOSED PROGRAMME

4.1. Programme Goal and Objectives

PARSE’s overall objective is to "contribute to the creation of conditions for inclusive economic growth that is conducive to the country's gradual emergence from fragility, through the improvement of energy sector management." The limited electricity supply in the Comoros,\textsuperscript{34} which stems mainly from poor governance within MA-MWE (the main electricity company), translates into high factor costs for Comorian businesses, which thus face serious difficulties in developing and diversifying their activities. Furthermore, it aggravates the vulnerability of the poorest segments of the community thus deprived of access to quality basic services. To address this situation that is one of the major constraints to economic diversification necessary for the gradual emergence of the country from fragility, it is primordial to continue with the gradual reform of the energy sector initiated under PARSEGF\textsuperscript{35} (the previous reform programme) and which complements PASE (the Bank’s investment programme to build power generation capacity). In a context characterized by low institutional capacity, the objective of this energy sector reform is precisely to gradually and sustainably establish good governance within the electricity sub-sector. Furthermore, consolidation of this reform will help to streamline PFM. Thanks to the improvement of electricity sub-sector management, the State will be able to reduce the substantial government subsidies currently paid to the energy sector and, particularly, to electricity companies that are in difficulty. This would free up additional resources to finance social spending and focus on human capital development.

4.2. Pillars, Specific Objectives and Expected Results

4.2.1. The Programme comprises a single component, i.e. "contribution to energy sector management". The specific objectives of this component are to improve: (i) the organisational framework; (ii) the control framework; and (iii) the commercial performance of the energy sector, particularly MA-MWE.

\textsuperscript{33}Ref.: ADF/BD/WP/2011/23

\textsuperscript{34}At least 50% of the Comorian population has access to electricity; power cuts are also frequent.

\textsuperscript{35}Cf. Table 3.
Component 2: Improvement of Energy Sector Management

4.2.2. **Context and Challenges (cf. Technical Annex 4):** In the Comoros where less than 50% of the population have access to electricity, power utilities (especially MA-MWE) have over the years experienced operational difficulties which prevent them from supplying the volume of electricity that the country needs for its socio-economic development. Although MA-MWE’s theoretical power generation capacity (MA-MWE is the country’s main electricity company) is estimated at 18 MW in Grande Comore, and 2 MW in Mohéli, the available output is approximately 8 MW in Grande Comore and less than 1 MW in Mohéli. Hence, MA-MWE, whose output peaks at approximately 11 MW, is unable to satisfy current demand. The EDA, whose theoretical power generation capacity is 6 MW, supplies electricity solely to Anjouan Island. Its available output ranges from 3 to 4 MW, which significantly matches peak demand. The obsolescence of most of the country’s power plants and grids, which suffer from a lack of maintenance and spare parts, results in considerable technical losses\(^{36}\), causes regular widespread brown-outs and plunges several parts of the country into total darkness. For example, in most of Grande Comore (the main island in the Union of the Comoros), electricity is available only for approximately 6 hours per day and about 5 hours every four days in the rural parts of the country.\(^ {37}\) Ultimately, over 50% of the Comorian population has no access to electricity. This situation has a negative impact on the quality of healthcare and education provided to the population, especially in rural areas. Furthermore, it obstructs diversification of the Comorian economy because private sector businesses have no access to electricity, which is necessary for the development of their activities.

4.2.3. **This situation essentially stems from the serious governance problems experienced by the electricity sub-sector for years and which prevent appropriate decision-making on operations and investments\(^ {38}\).** Specifically, these problems include: (i) the absence of corporate and regulatory bodies charged with ensuring the proper management of electricity companies; (ii) an internal organisational structure for electricity companies (especially their commercial activities) currently characterized by an unwieldy hierarchy, a fuzzy separation of tasks and inefficient operational and control mechanisms; (iii) significant political interference in the appointment of electricity company executives, which does not promote a culture of accountability and performance; (iv) poor human resource management, which leads to overstaffing\(^ {39}\) and staff deployment without consideration of profiles and needs; (v) non-payment of electricity bills by the State; and (vi) large-scale commercial fraud orchestrated by customers with the connivance of electricity company staff\(^ {40}\).

4.2.4. **Over time, these governance problems have had a severe adverse effect on the commercial performance and financial health of the energy sector and, especially, of electricity companies which structurally have poor results, a negative cash-flow and require significant government subsidies.** For example, in 2013, MA-MWE’s commercial electricity loss rate was 27%\(^ {41}\) and its deficit was estimated at KMF 4 billion. These difficulties make it difficult for them to maintain and modernise their production tools, and meet their operational costs\(^ {42}\). Furthermore, faced with this critical situation, the GoC is forced to provide financial assistance to the electricity companies, given their strategic importance to the country. Hence, in

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\(^{36}\) MA-MWE’s technical losses represent 18% of its electricity production.

\(^{37}\) In Anjouan, which is supplied by EDA, the situation is less critical with daily electricity supply of approximately 10 hours.

\(^{38}\) EDA, the country’s other electricity company, experiences less governance problems than MA-MWE.

\(^{39}\) For instance, MA-MWE has 775 employees for approximately 45,000 customers.

\(^{40}\) In 2013, MA-MWE’s billing and collection rates were 55% and 58%, respectively. Those of EDA were 65% and 93%, in that order.

\(^{41}\) MA-MWE’s total electricity losses are estimated at 45%.

\(^{42}\) In 2013, MA-MWE’s collected revenue represented approximately 30% of its operating costs.
2013 government subsidies to the energy sector represented approximately 10% of the State's operating budget; this reduced potentially available budget resources for social sectors like health, which represented 7% of the State's operating budget in 2013.

4.2.5. **Recent Government actions**: to address this situation, the GoC adopted several measures under PARSEGF: (i) preparation of a plan to reorganize MA-MWE’s commercial activities; (ii) adoption of the national energy strategy; (iii) conduct of an organisational and strategic audit of MA-MWE and preparation of the corresponding action plan; (iv) establishment of the MA-MWE Board of Directors, which the company has never had since its establishment. Although salutary, these measures are not enough and constitute no more than a starting point for reform of the energy sector and improvement of its performance. The measures mainly facilitated the conduct of an electricity sub-sector diagnosis, the definition of solutions to address priority problems and the initiation of a gradual recovery process.

4.2.6. **Programme measures**: by relying on the national energy strategy and MA-MWE’s organisational and strategic audit conducted under PARSEGF, PARSE will support several measures aimed at gradually improving energy sector management. These include: (i) setting-up the Supervisory Inter-ministerial Committee responsible for reviewing the reports of the MA-MWE Board of Directors and the company’s external audit reports, pursuant to Law No. 06-001/AU of 2 January 2006 defining the general regulations governing State-owned corporations and public establishments; (ii) the adoption of a new organisational structure (including for the Marketing Department) thus enhancing MA-MWE’s operational effectiveness; (iii) adoption of an MA-MWE staff redeployment plan; (iv) certification of MA-MWE’s financial statements for FY2014; (v) preparation of an audit report from the Audit Bench of the Supreme Court on MA-MWE and of a plan to implement the recommendations of the said report; (vi) adoption of a bill to enhance fraud control in the electricity sub-sector; (vii) adoption of a 2015 State budget bill that contains a specific and sufficient provision to pay the electricity bills of the State; and (viii) signature of a performance contract between the Ministry of Energy and MA-MWE management.

4.2.7. **Expected Outcomes**: PARSE reform measures will lead to an improvement in the management of the energy sector, especially its commercial activities and a reduction of the substantial State subsidies to electricity companies. In 2015, these measures should help to: (i) reduce MA-MWE’s commercial electricity losses, which should stand at 22% compared to 27% in 2013; and (ii) reduce the energy sector State subsidies/State operating budget ratio, which should stand at 6.5% compared to 10% in 2013.

4.3. **Financing Needs and Arrangements**
The current sector budget support operation is an integral part of the external financing sources that will help to fill the deficit (net of grants), which stood at 15.8% and 12.6% of GDP.

<table>
<thead>
<tr>
<th>Table 5: Financing Needs</th>
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<tbody>
<tr>
<td><strong>As % of GDP</strong></td>
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<tr>
<td>Total revenue and grants</td>
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<tr>
<td>Total expenditure</td>
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<tr>
<td>Total deficit on cash basis (net of grants)</td>
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<tr>
<td>Total deficit on cash basis (including grants)</td>
</tr>
<tr>
<td>Total financing</td>
</tr>
<tr>
<td>Domestic financing</td>
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<tr>
<td>External financing including</td>
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<tr>
<td>Budget support</td>
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<tr>
<td>TAF budget support</td>
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<tr>
<td>Financing gap</td>
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</tbody>
</table>

**Source**: Comorian Authorities and IMF (July 2014)

N.B.: The GDP for 2014 and 2015 is KMF 261 billion and KMF 280.7 billion, respectively

43 In 2013, over 96% of total government subsidies to the energy sector were paid to MA-MWE.
44 This committee will comprise representatives of the Ministry of Energy, the Ministry of Finance and the autonomous islands. The presence of representatives from the autonomous islands will help to reinforce national cohesion and the consensus on energy sector reform.
in 2014 and 2015, respectively. To close this deficit, there is, first of all, domestic financing (bank and non-bank) which represents 1.9% and 0.5% of GDP in 2014 and 2015 respectively. Secondly, there is external financing which represents 4.1% and 2.2% of GDP in 2014 and 2015, in that order. For 2014, budget support accounts for 23.6% of external financing. Through PARSE, the Bank Group will contribute UA 2 million, representing 44.6% of budget support for 2014. For 2015, budget support will account for 42.1% of external financing. Thanks to PARSE, the Bank Group will contribute UA 2 million, representing 43.3% of the budget support for 2015.

4.4. Programme Beneficiaries

Programme beneficiaries will be the Comorian population in general, who will enjoy better living conditions and access to better social services thanks to improvements in the electricity sub-sector. Furthermore, Comorian private businesses (including those managed by women) will also benefit from PARSE. Their factor costs will drop, thanks to greater access to electricity. This will also boost their competitiveness and help them to develop their activities. Other programme beneficiaries will be the two national electricity companies (especially MA-MWE), which will experience an improvement in their management frameworks, commercial and financial performance. Another PARSE beneficiary will be the GoC. The State's available budget resources will increase, thanks to the decline in government subsidies to the energy sector following the expected improvement in the commercial and financial performance of national electricity companies. The various PARSE beneficiaries were met during formal meetings, and their main concern (better quality of electricity supply) was reflected in PARSE’s design and the choice of reform measures to be supported.

4.5. Impact on the Macroeconomic Situation and on Governance

While improving governance within the electricity sub-sector and in MA-MWE in particular, PARSE-supported measures will help to eliminate one of the main obstacles to economic diversification in the Comoros. Hence, these measures will have a positive impact on economic growth, which should average 3.9% over the 2014-2016 period. Furthermore, they will create the conditions for structural economic transformation by encouraging the development of industrial and tertiary activities. The measures will also help to improve PFM by easing the heavy burden of energy sector subsidies on the State's operating budget. This will increase the budget space for pro-poor expenditure and consequently create a more favourable context for poverty reduction.

4.6. Impact on Private Sector Development

PARSE-supported measures will contribute to private sector development. Improved access to energy will cut the operating costs of private businesses which currently must procure and operate power generators at great expense in order to conquer new markets. Furthermore, greater access to energy will encourage the creation of new private companies in sectors with high growth and employment potential (e.g. tourism and fishing), which need sufficient and regular electricity supply. The emergence of such new businesses will help to create ideal conditions for the structural transformation of the Comorian economy.
4.7. Social Impact

PARSE-supported reforms will contribute to improving the living conditions for the Comorian population. Since most of the country's health centres cannot afford stand-alone power generators, they cannot function normally during the frequent power outages experienced by the country. This situation negatively affects their capacity to sterilize medical equipment, handle night deliveries and store vaccines. Consequently, greater access to electricity will improve the quality of services provided by Comorian health centres, which will in turn positively impact life expectancy.

4.8. Impact on Gender (cf. Technical Annex 6)

Although there are no specific gender-related reforms under PARSE, this programme is expected to have a positive impact on gender. Improved access to energy should boost the development of trade in frozen fish and the modernisation of agriculture and handicrafts, which are all sectors that employ a lot of women. The development of these activities will increase women's income and promote their economic empowerment. Besides, increased access to energy will have a positive impact on the schooling of girls in rural areas (after returning from school, girls perform household chores before they can study in the evening, often without electricity).

4.9. Impact on the Environment

PARSE is sector budget support and will have no negative impact on the environment. On the contrary, by supporting the implementation of the national energy strategy, which includes environmental concerns, PARSE should indirectly have a positive impact on the environment. In accordance with the Bank's environmental and social impact assessments procedures, this programme was classified under Category III.

V. IMPLEMENTATION, MONITORING AND EVALUATION

5.1. Implementation Arrangements

5.1.1. Institutional framework for implementation: the Permanent Technical Unit for Monitoring Economic and Financial Reforms (CREF) in the Ministry of Finance is charged with managing and monitoring donor-supported reform programmes. This structure managed the last programme with the IMF as well as previous World Bank and AfDB budget support operations. It will coordinate works undertaken by agencies responsible for implementing PARSE-supported reforms, especially MA-MWE. Furthermore, under PARSE, MA-MWE, which has limited operational capacity, will benefit from the World Bank's Energy Sector Recovery Programme and from capacity-building programmes that will facilitate the implementation of PARSE-supported reforms.

5.1.2. Disbursements: the proposed programme will be financed with a UA 4 million grant from TAF Pillar I resources. This grant will be disbursed in two tranches: UA 2 million in 2014 and UA 2 million in 2015. The disbursement of the two tranches will be subject to conditions set out in paragraph 6.2. This approach will help to create a solid platform for encouraging dialogue on the implementation of energy sector reforms identified through the

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45 Electricity access was estimated at approximately 50% of the total population in 2013. Since women represent roughly 50.4% of the total population and energy sector reforms and ongoing projects are expected to raise the electricity access rate for the entire population to at least 60% in 2016, the electricity access rate for women is projected at 60% in 2016.

46 Cf. Last sentence of § 2.1.8.
various diagnostic studies conducted under PARSEGF. Furthermore, it will provide GoC with budget resources for 2014-2015; this will improve the predictability of aid to the Comoros, which received a D score in the 2013 PEFA assessment\(^{47}\). Grant resources will be transferred into a special account that GoC will open at BCC\(^{48}\). The account will be used solely to receive grant resources. Later on, grant resources will be transferred from this special account to the general Treasury account opened in BCC.

5.1.3. **Procurements: PARSE is a sector budget support. Its implementation does not raise any issues directly related to the procurement of goods and services.** During the programme appraisal mission, the Bank reviewed the national procurements system\(^{49}\). The mission concluded that the legal and regulatory framework for public procurements is generally consistent with international procurement standards. However, significant effort must be made to ensure the full operationalization of the institutional mechanism for public procurements. The measures for achieving this end were identified and will be specifically monitored by the Bank during supervision missions.

5.1.4. **Financial Management and Audit: PARSE resources will be used through the national PFM system.** Thanks to various capacity-building projects financed by donors (including the Bank), this system has made progress in recent years and is on an upward trajectory, according to the June 2014 fiduciary risk analysis conducted by the Bank\(^{50}\). External audit of programme resources expenditure will be conducted by the Audit Bench of the Supreme Court, based on a review of budget execution reports and budget review bills for 2014 and 2015. The results of the review conducted by the Audit Bench of the Supreme Court will be forwarded to the Bank. Moreover, financial flows will be audited annually by an independent firm recruited according to terms of reference approved beforehand by the Bank\(^{51}\).

5.2. **Monitoring and Evaluation Arrangements**

**Institution in charge of monitoring/evaluation: reform programmes financed through budget support by TFPs are managed on a daily basis by the Permanent Technical Unit for Monitoring Economic and Financial Reforms (CREF) in the Ministry of Finance.** Hence, CREF will be responsible for data collection and programme monitoring/evaluation, with a view to forwarding quarterly progress reports on the programme status to the Bank. Furthermore, CREF will transmit the budget execution reports and budget review laws to the Bank. For its part, in consultation with the main TFPs and with the support of the East Africa Regional Resource Centre, the Bank will conduct supervision missions to evaluate the progress made towards the attainment of PARSE goals. During these missions, formal meetings will be organized with various PARSE beneficiaries, who will forward recommendations on programme implementation to the Bank. At the end of PARSE, the Bank will prepare a completion report in collaboration with local authorities.

\(^{47}\) The previous PEFA assessment (2007) also yielded a score of D.

\(^{48}\) Opening of this account will be a condition precedent to disbursement of the first tranche of the grant.


\(^{50}\) Cf. Technical Annex 10.

\(^{51}\) This firm will be recruited according to the procurement rules and procedures of the Union of the Comoros and with GoC resources.
VI. LEGAL FRAMEWORK

6.1. Legal Instrument

A TSF grant is the financing instrument proposed for this programme. A Protocol of Agreement will be signed between the Union of the Comoros ("Donee"), on the one hand, and the African Development Bank (the "Bank") and the African Development Fund (the "Fund"), on the other hand, jointly referred to as the "Bank", on behalf of TSF. The General Conditions Applicable to Protocols of Agreement for Grants of the African Development Fund shall constitute an integral part of the Protocol of Agreement.

6.2. Conditions Precedent to Bank Intervention


6.2.2. Conditions precedent to disbursement of the two tranches: maintenance of a stable macro-economic framework based on IMF assessments and publications will be a condition precedent to disbursement of the two tranches: Proof: Press release on the macro-economic framework assessment or an IMF Assessment Letter.

6.2.3. Conditions precedent to disbursement of the first tranche of UA 2 million: In addition to effectiveness of the Protocol of Agreement as stated in Section 6.2.1 above, disbursement of the first tranche of UA 2 million shall be subject to fulfilment of the following conditions by the Donee, to the Bank’s satisfaction:

1) Provide the Bank with proof of opening a special account bearing the programme’s name at BCC to receive grant resources. Proof: Letter from the Ministry of Finance forwarding a correspondence of the BCC stating that the account bearing the programme’s name has been opened and providing the banking details of said account;

2) Provide the Bank with proof of issuance of a joint inter-ministerial order by the Ministry of Finance and the Ministry of Energy appointing members of the inter-ministerial committee responsible for MA-MWE’s supervision. Proof: Letter from the Ministry of Finance forwarding a copy of the inter-ministerial order appointing members of the inter-ministerial committee responsible for MA-MWE’s supervision; and

3) Provide the Bank with proof of adoption of the bill to enhance fraud control in the electricity sub-sector by the Government Council. Proof: Letter from the Ministry of Finance forwarding a copy of the minutes of the Government Council adopting the bill to enhance fraud control in the electricity sub-sector, accompanied by a copy of the said bill.
6.2.4. **Conditions precedent to disbursement of the second tranche of UA 2 million**: apart from satisfactory implementation of the programme to the Bank’s satisfaction, disbursement of the second tranche of UA 2 million will be subject to fulfilment of the following conditions by the Donee, to the Bank’s satisfaction:

1) Provide the Bank with proof of the adoption of a performance contract between the Ministry of Energy and MA-MWE management. **Proof**: *Letter from the Ministry of Finance forwarding a copy of the performance contract signed between the Ministry of Energy and MA-MWE management; and*

2) Provide the Bank with proof of adoption of a new organisation chart by the MA-MWE Board of Directors, to enhance the company’s operational effectiveness. **Proof**: *Letter from the Ministry of Finance forwarding a copy of the minutes of the MA-MWE Board of Directors’ meeting that adopted the new organisation chart which enhances the company's operational effectiveness, and a copy of the new organisation chart.*

6.3. **Compliance with Bank Group Policies**

This programme complies with applicable Bank Group policies and guidelines, especially the policy on programme-based support operations. No exemption or waiver of these policies and guidelines is requested in respect of this proposal.

VI. **RISK MANAGEMENT**

The attainment of PARSE goals could be undermined by several risks. The following mitigation measures were identified to mitigate these risks.

**Table 6**

<table>
<thead>
<tr>
<th>Risks</th>
<th>Mitigation Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Slackening of reform momentum</td>
<td>Government’s commitment to pursue structural reforms is visible through preparation of SCADD 2015-2019.</td>
</tr>
<tr>
<td>Limited institutional capacity to</td>
<td>The World Bank's Energy Sector Recovery Project and AfDB’s PASE will help to build institutional capacity for the implementation of energy sector reform.</td>
</tr>
<tr>
<td>implement energy sector reform</td>
<td></td>
</tr>
<tr>
<td>Fiduciary risk</td>
<td>Implementation of the 2014-2016 Public Finance Management Reform Strategy which is based on public finance capacity-building projects financed by the World Bank and AfDB, will help to mitigate the fiduciary risk. Dialogue between the various technical and financial partners, including the IMF and AfDB, will also be a key factor in mitigating the fiduciary risk.</td>
</tr>
<tr>
<td>Risk of political instability</td>
<td>The support of regional and international organisations to the process of strengthening national cohesion and improving governance will help to maintain relative political stability.</td>
</tr>
</tbody>
</table>

VII. **RECOMMENDATION**

In light of the foregoing, Management recommends that the Boards of Directors approve the proposed sector budget support operation of UA 4 million in 2 (two) tranches, spread over 2 (two) years (2014-2015) on TSF resources for the purposes and subject to the conditions set out in this report.
Annex 1:
PARSE Letter of Development Policy

PARSE Letter of Development Policy
Union of the Comoros

VICE-PRESIDENCY, IN CHARGE OF THE MINISTRY OF FINANCE, ECONOMY, BUDGET, INVESTMENT AND EXTERNAL TRADE, RESPONSIBLE FOR PRIVATISATION

The Vice-President
No. 14-154/VP-MFEBICEP/CAB
Moroni, 30 Sept. 2014
To
Dr. Donald KABERUKA
President of the African Development Bank (AfDB)
Abidjan

Subject: Letter of Development Policy

Mr. President,

1. In 2009, the authorities of the Comoros adopted a Growth and Poverty Reduction Strategy Paper (GPRSP) for 2010-2014. The implementation of GPRS 2010-2014 enabled the Government to strengthen democracy, peace and national cohesion. The restoration of relative political stability created an ideal framework for implementing structural reforms and the resumption of international cooperation. These efforts led to an improvement in the macroeconomic framework (with positive growth rates), and a reduction of the external debt, following attainment of the completion point of the Heavily Indebted Poor Countries Initiative (HIPC), which opened up new opportunities to develop the growth potential and take up the challenge of development. However, the growth rate did not reach the expected level needed to substantially reduce poverty.

2. Consequently, national authorities are currently providing the country with a new development strategy framework known as the “Accelerated Growth and Sustainable Development Strategy” (SCA2D) for 2015-2019. Hence, the authorities are confirming their determination to focus the country’s development strategy on sustainable wealth creation and hope to rely on job creation (especially in the private sector) to effect a redistribution of the benefits of growth.

3. SCA2D also reaffirms the determination of the authorities to forge towards attainment of all the Millennium Development Goals (MDGs). It is prepared through a participatory, dynamic process open to all stakeholders and with the full involvement of the government, civil society, private sector and development partners.

4. Lastly, SCA2D provides a medium-term development framework to lay the groundwork for the implementation of the Government’s vision, which is “to transform the Comoros into an emerging economy that is respectful of human rights, gender equality and rule of law by 2040”. Hence, the general objectives retained under SCA2D are to:

   - strengthen the foundation for robust, viable, equitable and inclusive economic growth;
- improve the quality of life for the population and guarantee equitable access to basic social services;
- promote the natural and cultural heritage, and optimum natural resource utilisation;
- promote good governance.

5. This letter of development policy sums up the economic and social progress made by the Comoros in recent years. This is followed by the reform policies that the Government intends to pursue in the medium term, especially through the Energy Sector Reform Support Programme (PARSE) for which the financial and technical support of the Bank Group is sought.

I. RECENT ECONOMIC AND SOCIAL TRENDS

1.1 Economic Situation

Real Sector

6. Since 2009, macroeconomic management has steadily improved, making it possible to resist the harmful effects of internal and external shocks while attracting increased support from development partners. Indeed, economic activity grew steadily and real GDP growth reached 3.5% in 2013, compared to 1.8% in 2009. This represents an average rate of 2.8% from 2010 to 2013. However, the GDP growth rate remains insufficient and below the average target of 4% set in the GPRSP. As regards contributions to the growth of the various sectors of activity, the growth rates in 2013 were 4.1% for the primary sector, 3.1% for the secondary sector and 2.9% for the tertiary sector. Hence, despite Government’s efforts, economic growth sources remain fragile.

7. These insufficient growth levels mainly stem from low investment rates. The total gross domestic investment rate grew from 12.4% in 2009 to 19.7% in 2013, representing an annual growth rate of 0.96%. The public investment rate also remains low, rising from 4.7% in 2009 to 9.8% in 2013, representing an average growth rate of 0.88%.

8. Price increase was relatively well controlled with the inflation rate at 2.3% (year-on-year) in 2013, despite peaking 6.8% in 2011. In recent years, inflation was mainly driven by the spike in world market prices of foodstuffs and petroleum products.

External Sector

9. The analysis of external accounts shows that balances remain fragile due to the magnitude of exogenous shocks. The trade balance of the Comoros shows a structural deficit that represented -37.2% of GDP in 2013, compared to 39.6% in 2012. This deterioration stems from the combined effects of a stagnation in exports of key commodities (vanilla, cloves and ylang-ylang oil) and an increase in imports. The current account deficit (net of transfers) represented 36.4% of GDP, on average, during the 2010-2013 period while gross international reserves represented 6.5 months of goods and services imports.
10. Since 2009, the Government has initiated efforts to streamline public finance mainly through the implementation of a public finance management reform strategy. In this regard, a modern public procurements code was promulgated. Furthermore, computer software known as “Computerized Management of Structures and Staff (GISE)” was rolled out for managing public service staff whose census had been completed. Furthermore, to enhance budget audit, the Audit Bench of the Supreme Court was established and a harmonized budget nomenclature was adopted between the Union and autonomous islands.

11. Government-supported reforms also had a positive impact on domestic resource mobilisation. Hence, tax revenue surged from 11.8% of GDP in 2012 to 21.1% in 2013. However, it is still too low to sustain the Government’s development programme. The insufficient taxation of petroleum products, institutional weaknesses in managing Moroni Port and the limited performance of the tax and customs services are the main causes of this poor output.

12. As regards expenditure, Government efforts led to relative control of recurrent expenditure which declined from 16.6% of GDP in 2011 to 14.8% in 2013. However, total public spending continued to expand, rising from 22% in 2011 to 24.6% in 2013 as a result of increased investment spending to address the basic economic infrastructure shortage in the country.

13. Thanks to the overall improvement in public finance management, the total budget balance (cash basis) has been positive over the last two years (2.9% of GDP in 2012 and 17.8% in 201352). This improvement also led to a reduction of the public debt stock thanks to the debt relief obtained in 2012 under HIPC and MDRI (USD 176 million).

14. Nevertheless, this progress remains relatively fragile since the Government is highly dependent on non-tax revenue, especially revenue from the Economic Citizenship Programme which accounted for 5.6% of the GDP in 2012 and is likely to decline in the years ahead.

15. Aware of this situation, the Government is intent on continuing with the budget consolidation process and intensifying the implementation of structural reforms that will sustainably strengthen public finance viability. In this regard, and thanks to support from the IMF and other technical and financial partners, a new public finance management reform strategy was adopted for 2014-2016. It mainly seeks to enhance the transparency and performance of the public finance management system.

1.2 Social Situation (achievement of the MDGs)

16. Of the 20 (twenty) indicators adopted in the 2013 national report on achieving the MDGs, 5 (five) will probably not be achieved by 2015; 12 (twelve) will apparently not be achieved; and 3 (three) could potentially be achieved. This performance is inadequate. For instance, the poverty rate, which is an indicator related to MDG 1 (“Eradicate extreme poverty and hunger”) that stood at 44.8% in 2004, was estimated at 45.6% in 2012. This stems from difficulties – especially financial difficulties – encountered in GPRS implementation.

52 Including external debt relief granted under HIPC and MDRI
17. However, certain social indicators on education, health and gender have improved in recent years thanks to Government programmes financed with international aid. Hence, the net enrolment ratio rose from 62% in 1990 to 79.4% in 2011, the boy/girl ratio in first cycle secondary education increased marginally from 0.8 to 0.9 in 2011, the under-five mortality rate dropped sharply from 122 per 1000 live births in 1990 to 50 per 1000 live births in 2012 and the maternal mortality rate tumbled from 517 deaths per 100,000 live births in 1990 to 172 per 100,000 live births in 2012. In an attempt to substantially intensify these efforts to improve the living conditions of the Comorian population in general and of the poorest segments in particular, the Government intends to focus on the provision of basic services in its 2014-2015 reform programme. To that end, special attention will be paid to electricity access services, the weaknesses and poor performance of which significantly undermine the quality of education and health services provided to the population.

II. GOVERNMENT REFORM PROGRAMME 2014-2015

18. Through GPRS 2010-2014 and SCA2D 2015-2019 over the 2014-2015 period, and in a bid to lay the foundation for inclusive and robust growth that yields an improvement of the living conditions of its citizens, the Government’s overall reform programme particularly seeks to: (i) boost electricity sub-sector performance and development; (ii) rapidly revive investments in key sectors with growth potential such as agriculture, fishing and tourism; (iii) reduce the weight of the State within the economy by promoting private initiative; and (iv) improve governance and economic management. It is within this general reform framework that the Government intends to implement PARSE, which will also contribute to the operationalization of the national energy sector strategy adopted in 2013 with the support of development partners, including the Bank.

19. This two-year programme (2014 and 2015) will focus solely on improving management of the energy sector and particularly of the electricity sub-sector whose weaknesses (highly insufficient and irregular electricity supply) increasingly undermine the quality of social services and hinder the development of private businesses. PARSE will make it possible to continue with the energy sector reform initiated by the Energy Sector Reform and Financial Governance Support Programme (PARSEGF) which ended in 2013 and supported by the ongoing Energy Sector Support Project (PASE). These two operations are financed by the African Development Bank Group, which is a key energy sector partner in the Comoros.

2.2 PARSE’s Description and Goals

20. PARSE provides for the implementation of reforms aimed at improving the institutional and organisational governance of the electricity sub-sector, and especially of MA-MWE - the largest and most disadvantaged of the two national electricity companies. Poor governance in the electricity sub-sector is mainly responsible for the sub-sector’s incapacity to satisfy the country’s energy needs since it renders the taking of suitable operational and investment decisions impossible. Such poor governance is essentially characterized by inefficient organisation, inadequate control mechanisms and large-scale commercial fraud, all of which undermines the financial viability of national electricity companies and forces the government to grant them substantial subsidies. Such subsidies have a negative impact on public finance sustainability and reduce budget allocations to the priority sectors identified by GPRS 2010-2014 and SCA2D 2015-2019.
In light of the foregoing, the specific objectives of PARSE will be to improve electricity sub-sector organisation, strengthen its control mechanism and improve its commercial performance. In this regard, it will support the following measures: (i) the establishment of the Supervisory Inter-ministerial Committee responsible for reviewing the reports of MA-MWE’s Board of Directors reports and the external auditors’ reports, pursuant to Law No. 06-001/AU of 2 January 2006 defining the general regulations governing State-owned corporations and public establishments; (ii) the adoption of a new organisational structure (including for the Marketing Department), thus enhancing MA-MWE’s operational effectiveness; (iii) adoption of an MA-MWE staff redeployment plan; (iv) certification of MA-MWE financial statements for FY2014; (v) preparation of an audit report from the Audit Bench of the Supreme Court on MA-MWE and an implementation plan for the recommendations of the said report; (vi) adoption of a bill to enhance fraud control in the electricity sub-sector; (vii) adoption of a 2015 State budget bill that contains a specific and sufficient provision to pay the electricity bills of the State; and (viii) signature of a performance contract between the Ministry of Energy and MA-MWE management.

PARSE-supported measures will contribute to the attainment of the following results: (i) effective exercise of the supervisory authority over MA-MWE; (ii) restructured organisation of MA-MWE (including commercial activities); (iii) enhanced internal and external controls of MA-MWE; (iv) intensification of electricity sub-sector control and improved commercial performance of MA-MWE; and (v) decline in the energy sector public subsidies/State operating budget ratio.

2.3 PARSE Monitoring Mechanism

The Vice-Presidency in charge of the Ministry of Finance shall be charged with PARSE’s strategic management, while its daily monitoring will be conducted by the Technical Permanent Unit for the Monitoring of Economic and Financial Reforms (CREF) in the Ministry of Finance. This structure will work in close collaboration with the ministerial departments/entities responsible for implementing the programme’s reform measures (especially MA-MWE). Furthermore, it shall prepare PARSE’s quarterly status reports and regularly consult various stakeholders, including civil society and the Bank.

The Government hereby undertakes to adopt all necessary measures to ensure the full and timely implementation of PARSE, for which the Bank Group’s financial and technical assistance is sought.

Please accept, Mr. President, the assurances of my highest consideration.

MOHAMED ALI SOILIHI
(signed)
**Annex 2:**
**PARSE Matrix of Measures**

<table>
<thead>
<tr>
<th>OBJECTIVES</th>
<th>2014 MEASURES</th>
<th>2015 MEASURES</th>
<th>INDICATORS</th>
<th>MEANS OF VERIFICATION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Component - Improvement of Energy Sector Management</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. <strong>Improved organisation of the energy sector</strong></td>
<td>Set up an Inter-ministerial Committee responsible for MA-MWE’s supervision</td>
<td>Text appointing members of the supervisory Inter-ministerial Committee responsible for reviewing the MA-MWE Board of Directors’ reports and the external auditor’s reports, minutes of the meetings of said Committee (1 in 2014, 2 in 2015)</td>
<td>Copy of the Inter-ministerial Order appointing members of the Inter-ministerial Committee, copy of the meeting minutes of said Committee</td>
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<tr>
<td></td>
<td>Adopt a new organisation chart for MA-MWE (including for the Commercial Department)</td>
<td>Adopt a new organisation chart for MA-MWE (including for the Commercial Department)</td>
<td>Copy of the minutes of the MA-MWE Board of Directors’ meeting that adopted the new organisation chart and copy of the new organisation chart.</td>
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<tr>
<td></td>
<td>Adopt an MA-MWE staff redeployment plan</td>
<td>MA-MWE staff redeployment plan</td>
<td>Copy of the minutes of the MA-MWE Board of Directors’ meeting that adopted the new staff redeployment plan and copy of the plan</td>
<td></td>
</tr>
<tr>
<td><strong>OBJECTIVES</strong></td>
<td>2014 MEASURES</td>
<td>2015 MEASURES</td>
<td>INDICATORS</td>
<td>MEANS OF VERIFICATION</td>
</tr>
<tr>
<td>2. <strong>Enhanced audit within the energy sector</strong></td>
<td>Prepare an external audit report on management of MA-MWE and a plan to implement the recommendations of the report</td>
<td>Audit report of the Audit Bench of the Supreme Court on MA-MWE, plan to implement the recommendations of the said report</td>
<td>Copy of the audit report from the Audit Bench of the Supreme Court on MA-MWE, copy of the plan to implement the recommendations of the said report</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Produce certified financial statements of MA-MWE</td>
<td>Certified financial statements of MA-MWE</td>
<td>Copy of MA-MWE's certified financial statements for FY2014</td>
<td></td>
</tr>
<tr>
<td>3. <strong>Improved commercial performance of the energy sector</strong></td>
<td>Adopt a bill to enhance fraud control in the electricity sub-sector</td>
<td>Bill to enhance fraud control in the electricity sub-sector</td>
<td>Copy of the minutes of the Government Council meeting to adopt the bill to enhance fraud control in the electricity sub-sector</td>
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<tr>
<td></td>
<td>Adopt the 2015 draft State budget, including a specific and sufficient provision to pay the electricity bills of the State and its services</td>
<td>Adopt the 2015 draft State budget, including a specific and sufficient provision to pay the electricity bills of the State and its services</td>
<td>Copy of the 2015 draft State budget adopted by the Government Council, including a specific and sufficient provision to pay the State’s electricity bills</td>
<td></td>
</tr>
</tbody>
</table>
Annex 3: Key
Macroeconomic Indicators and Prospects

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth</td>
<td>3.5</td>
<td>3.9</td>
<td>3.9</td>
<td>3.9</td>
<td>4.0</td>
</tr>
<tr>
<td>GDP deflator</td>
<td>3.1</td>
<td>3.0</td>
<td>2.9</td>
<td>2.9</td>
<td>2.9</td>
</tr>
<tr>
<td>Consumer price (period average)</td>
<td>2.3</td>
<td>3.0</td>
<td>2.9</td>
<td>2.9</td>
<td>2.9</td>
</tr>
<tr>
<td>Consumer price (end of period)</td>
<td>3.2</td>
<td>2.9</td>
<td>2.9</td>
<td>2.9</td>
<td>2.9</td>
</tr>
<tr>
<td>Credit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net foreign assets</td>
<td>-9.8</td>
<td>0.7</td>
<td>2.8</td>
<td>4.4</td>
<td>6.8</td>
</tr>
<tr>
<td>Domestic credit</td>
<td>21.0</td>
<td>15.6</td>
<td>11.6</td>
<td>10.1</td>
<td>8.3</td>
</tr>
<tr>
<td>Credits to the private sector</td>
<td>12.6</td>
<td>8.7</td>
<td>11.5</td>
<td>12.8</td>
<td>11.5</td>
</tr>
</tbody>
</table>

| Investment and Savings    |       |       |       |       |       |
| Public                    | 9.8   | 15.2  | 13.5  | 12.9  | 13.0  |
| Private                   | 10.5  | 6.1   | 8.7   | 10.2  | 11.0  |
| Gross national savings    | 12.2  | 10.0  | 9.7   | 12.8  | 12.7  |
| Public                    | 2.0   | 1.8   | 2.1   | 2.7   | 3.3   |
| Private                   | 10.2  | 8.2   | 7.6   | 10.1  | 9.4   |

| Government Services       |       |       |       |       |       |
| Total revenue and grants  | 43.8  | 24.8  | 23.7  | 23.9  | 24.4  |
| Tax revenue               | 12.1  | 12.5  | 12.5  | 12.7  | 13.1  |
| Grants                    | 28.3  | 9.7   | 8.7   | 8.7   | 8.7   |
| Total expenditure         | 24.6  | 30.0  | 26.8  | 26.8  | 26.8  |
| Recurrent expenditure     | 14.8  | 14.8  | 14.3  | 14.0  | 13.8  |
| Primary budget balance    | -1.4  | -1.7  | -1.3  | -1.1  | -0.7  |
| Variation of arrears      | -0.9  | -0.8  | -0.8  | -0.8  | -0.8  |
| External (interest)       | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |
| Domestic                  | -0.9  | -0.8  | -0.8  | -0.8  | -0.8  |
| Total budget balance (cash basis) | 17.8  | -6.0  | -3.9  | -3.7  | -3.3  |
| Net of grants             | -10.5 | -15.8 | -12.6 | -12.4 | -12.0 |
| Financing                 | -17.7 | 6.0   | 2.7   | 1.3   | 1.0   |
| External (net)            | -19.3 | 4.1   | 2.2   | 1.2   | 1.1   |
| Domestic (net)            | 1.6   | 1.9   | 0.5   | 0.1   | -0.1  |
| Errors and omissions      | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |
| Financial requirement     | 0.0   | 0.0   | 1.2   | 2.4   | 2.3   |

| External Sector           |       |       |       |       |       |
| Exports of goods and services | 15.0  | 15.3  | 15.6  | 15.7  | 15.7  |
| Imports of goods and services | 52.2  | 55.7  | 52.4  | 50.3  | 49.0  |
| Balance of payments current account balance | -5.7  | -8.2  | -8.9  | -8.7  | -9.9  |
| External debt             | 18.0  | 16.6  | 14.8  | 13.4  | 12.2  |
| External debt, as a percentage of exports of goods and services | 119.5 | 106.1 | 95.0  | 85.4  | 77.9  |
| Debt servicing, as a percentage of exports of goods and services | 2.1   | 2.2   | 2.1   | 3.4   | 3.5   |
| Overall balance of payments (USD million) | -32.2 | -2.3  | -16.1 | -18.4 | -16.2 |
| Gross international reserves (end of period, in import months of goods and services) | 5.9   | 5.1   | 5.2   | 5.3   | 5.3   |

**Source:** Comorian Authorities and IMF (July 2014)
Annex 4:

Union of the Comoros—Assessment Letter for the African Development Bank
July 9, 2014

This letter provides the IMF staff’s assessment of the Union of Comoros’ (Comoros’) recent macroeconomic performance and outlook, based on information available through end-March, 2014. The sixth and final review under the three-year Extended Credit Facility (ECF) arrangement with the IMF was completed in December 2013. (See IMF Country Report 13/371). An IMF team visited Comoros during February 25-March 11, 2014 to review developments in the last quarter of 2013 and assess short and medium-term prospects.

Recent Economic Developments

**Growth remained strong, with inflation contained.** Following 3 percent real growth in 2012, available data point to an acceleration of growth to 3.5 percent in 2013, with strong agricultural performance helped by favorable rains, a pickup in construction, as well as a continued expansion in aggregate demand supported by resilient remittances and an increase in private sector credit. Year-on-year inflation in December 2013 was 3.2 percent but dropped to 0.6 percent in May 2014.

**The fiscal primary balance deteriorated in 2013.** Comoros recorded a primary deficit of 1.4 percent of GDP compared to a surplus of 3 percent of GDP in 2012, slightly worse than expected. Tax revenues increased moderately due to better tax collection efforts but this was more than offset by lower non-tax revenues due to the temporary suspension of the Economic Citizenship Program. While current expenditures were contained, an unexpected increase in domestically financed capital spending impacted the fiscal position. Overall capital expenditures grew by about 3 percent of GDP, with a substantial part of these continuing to be financed by grants from Comoros’ partners. Capital spending focused on infrastructure such as roads, schools, and hospitals. Overall grant financing jumped in 2013, reflecting the effect of the debt relief that Comoros received following the achievement of the completion point under the HIPC Initiative in December 2012.

**Credit to the economy continued to expand, although at a slower pace than in the previous year.** Credit to the private sector expanded by 12.6 percent, while overall credit expanded by about 21 percent. The bulk of credit to the private sector is in the form of import financing. The banking system remained broadly sound, but some vulnerability exists with respect to one undercapitalized institution. Non-performing loans remained steady at about 17 percent.

**The current account deficit widened and international reserves declined in 2013.** Exports grew by nearly 25 percent in volume terms, albeit from a very small base, which was not sufficient to offset a reduction in remittances of 2 percent of GDP (to around 23 percent of GDP) and a drop in external receipts under the Economic Citizenship Program. The current account deficit widened to 5.7 percent of GDP in 2013, compared to 3.8 percent of GDP in 2012. Reflecting these developments, international reserves dropped to a coverage of just under 6 months of imports.
Outlook for 2014 and Challenges Ahead

The outlook for 2014 generally remains positive. Barring unforeseen developments, economic growth is expected to further strengthen to around 4 percent and inflation to remain moderate at around 3 percent. The approved 2014 budget targets a further small increase in tax revenues (based on continuing administrative improvements) and an increase in capital spending, while containing the primary deficit at around 1.7 percent of GDP. The external current account deficit is projected to increase to about 8.2 percent of GDP, reflecting continued strong capital spending but somewhat lower budget financing from external sources than in the past.

However, this outlook is subject to significant uncertainty and challenges. Continued fiscal and structural reforms will be needed to create an environment conducive to sustained and accelerated growth. It is expected that a comprehensive plan for reforms will be developed in the context of a second poverty reduction strategy that is under preparation and is expected to be completed by September 2014. Priority areas should include measures to improve the business climate and increase exports, deepening of reforms in public financial management, improvements in infrastructure, particularly the energy sector, and further strengthening of the financial sector.

Particular efforts are needed on the fiscal front. Preliminary data for the first quarter of 2014 show a substantial shortfall in tax revenues. While the situation may have improved in April and May, strong efforts will be needed to reach the revenue targets established in the budget. This needs to go hand-in-hand with further improvements in public financial management and revenue administration, which are key to achieving a sustainable fiscal position over the longer-term. In both areas, reform programs have been developed and have started to be implemented, but much remains to be done. Additional fiscal efforts will also be needed to accommodate within the existing budgetary ceilings the recent wage increase for teachers, approved after demonstrations and effective in April, and the introduction of an explicit subsidy on purchases of fuel by the electricity company, MAMWE. Furthermore, expenditures to prepare for parliamentary elections later in the year could be higher than estimated in the originally approved budget. Clarity will also be needed with respect to the timing and size of receipts from the Economic Citizenship Program, an important past source of government revenue.

Reforms started in the energy sector and supported by the African Development Bank need to be pursued vigorously and deepened to achieve a sustainable energy supply and to alleviate pressure on scarce government resources, which are currently partly channeled to subsidize directly the electricity company (see above). Improving competition in the communications sector will be needed to reduce the currently high costs for these services.

An IMF mission is scheduled to visit Comoros in September to conduct the 2014 Article IV consultation discussions and to assess how the IMF can continue to assist the authorities in their adjustment efforts.
Table 1. Comoros: Selected Economic and Financial Indicators, 2011-18

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(Annual percentage change, unless otherwise indicated)

**National income and prices**
- Real GDP: 11.1
- GDP deflator: 4.7
- Consumer price index (annual averages): 6.8
- Consumer price index (end period): 7.0

**Money and credit**
- Net foreign assets: 17.2
- Domestic credit: 4.9
- Credit to the private sector: 8.9
- Broad money: 9.6
- Velocity (GDP/end-year broad money): 2.9

**External sector**
- Exports, f.o.b.: 16.4
- Imports, f.o.b.: 7.2
- Export volume: -24.7
- Import volume: -10.4
- Terms of trade: 2.1

**Investment and savings**
- Investment: 14.9
- Public: 5.4
- Private: 9.5
- Gross national savings: -19.0
- Public: 2.2
- Private: -21.3

**Government budget**
- Total revenue and grants: 23.6
- Tax Revenue: 10.9
- Total grants: 7.5
- Total expenditure: 22.0
- Domestic primary balance: 1.6
- Change in arrears: -3.4
- External (interest): -0.8
- Domestic: -2.6
- Overall balance (cash basis): -1.9
- Excluding grants: -9.4
- Financing: 0.3
- Foreign (net): -0.2
- Domestic (net): 0.5
- Errors and omissions: -0.2
- Financing gap: 0.0

**External sector**
- Exports of goods and services: 16.2
- Imports of goods and services: 50.2
- Current account balance: -9.0
- Excl. official and private transfers: -34.1
- Remittances: 18.7
- Externl debt, in percent of GDP: 44.7
- Externl debt, in percent of exports of goods and services: 275.5
- External debt service (in percent of exports of goods and services): 10.0
- Overall balance of payments (in millions of U.S. dollars): -11.0
- Official grants and loans (percent of GDP): 7.5
- Gross international reserves (end of period): 170.1
- In millions of U.S. dollars: 6.7
- Real effective exchange rate (2000=100): 97.9
- Exchange rate: 353.6

**GDP (nominal, in billions of CF)**
- 216.0

**GDP per capita (nominal, in US Dollars)**
- 899

**Education and health expenditure (in billions of CF)**
- 14.8

Sources: Comorian authorities; and IMF staff estimates and projections.

1 Includes interim HIPC assistance (2010-12) and debt relief under HIPC and MDRI.
2 External debt ratios after full HIPC, MDRI and beyond HIPC relief from end-2012.
Annex 5:
Map of the Union of the Comoros

This map is prepared by the AfDB Group staff exclusively for the convenience of the readers of the report to which is attached. The denominations used and the boundaries shown on this map do not imply on the part of the Group and its affiliates, any judgment on the legal status of any territory or any endorsement or acceptance of such boundaries.